



**Germania Mutual
Insurance Company
Financial Statements**
For the year ended December 31, 2011

Germania Mutual Insurance Company

Financial Statements

For the year ended December 31, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Policyholders of Germania Mutual Insurance Company

We have audited the accompanying financial statements of Germania Mutual Insurance Company, which comprise the statement of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of comprehensive income, members' surplus and cash flows for the years ended December 31, 2011 and December 31, 2010, 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 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Germania Mutual Insurance Company as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

"BDO CANADA LLP"

Chartered Accountants, Licensed Public Accountants

Walkerton, Ontario
February 14, 2012

Germania Mutual Insurance Company
Statement of Financial Position

	December 31 2011	December 31 2010	January 1 2010
Assets			
Cash	\$ 1,148,260	\$ 2,149,099	\$ 1,309,654
Investments (Note 4)	22,411,713	19,089,565	15,862,736
Investment income accrued	98,147	95,979	88,684
Income taxes recoverable	49,280	41,735	-
Due from reinsurers (Note 6)	9,986	86,656	140,453
Due from policyholders	4,363,765	4,054,085	3,238,592
Due from Auto Facility Association	245,613	234,124	209,286
Reinsurers' share of provision for unpaid claims (Note 6)	3,204,395	2,440,090	2,154,251
Reinsurers' share of unearned premiums	-	736,144	645,670
Prepaid expenses	38,557	24,151	16,059
Deferred policy acquisition expenses (Note 6)	1,456,026	1,231,921	1,256,007
Property, plant & equipment (Note 5)	1,263,386	1,291,401	1,195,148
Intangible assets (Note 5)	185,411	226,553	104,383
Deferred income taxes (Note 9)	67,000	69,000	90,000
	\$ 34,541,539	\$ 31,770,503	\$ 26,310,923
Liabilities			
Accounts payable and accrued liabilities	\$ 927,231	\$ 1,539,459	\$ 1,222,570
Due to Auto Facility Association	179,731	188,621	156,666
Income taxes payable	-	-	292,674
Unearned premiums (Note 6)	8,254,751	7,788,377	6,208,828
Unearned commissions	-	242,928	213,071
Provision for unpaid claims (Note 6)	10,297,753	8,074,363	7,678,528
	19,659,466	17,833,748	15,772,337
Members' Surplus			
Unappropriated members' surplus	14,882,073	13,936,755	10,538,586
	\$ 34,541,539	\$ 31,770,503	\$ 26,310,923

Signed on behalf of the Board by:

_____ Director

_____ Director



The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Germania Mutual Insurance Company
Statement of Comprehensive Income

For the year ended December 31	2011	2010
Underwriting income		
Gross premiums written	\$ 16,279,946	\$ 15,365,861
Less reinsurance ceded	<u>2,752,500</u>	<u>3,942,904</u>
Net premiums written	13,527,446	11,422,957
Less increase in unearned premiums	<u>457,948</u>	<u>725,193</u>
Net premiums earned	13,069,498	10,697,764
Service charges	<u>147,604</u>	<u>121,528</u>
	<u>13,217,102</u>	<u>10,819,292</u>
Direct losses incurred		
Gross claims and adjustment expenses	8,244,398	3,627,972
Less reinsurers' share of claims and adjustment expenses	<u>1,375,902</u>	<u>68,692</u>
	<u>6,868,496</u>	<u>3,559,280</u>
	<u>6,348,606</u>	<u>7,260,012</u>
Expenses		
Fees, commissions and other acquisition expenses (Note 10)	2,935,251	2,337,875
Other operating and administrative expenses (Note 11)	<u>2,516,580</u>	<u>2,989,495</u>
	<u>5,451,831</u>	<u>5,327,370</u>
Net underwriting income	896,775	1,932,642
Gain on amalgamation (Note 17)	-	921,629
Writedown of capital assets (Note 5)	(246,336)	-
Investment and other income (Note 13)	<u>506,819</u>	<u>911,206</u>
Comprehensive income before taxes	1,157,258	3,765,477
Provision for income taxes (Note 9)	<u>211,940</u>	<u>367,308</u>
Total comprehensive income for the year	<u>945,318</u>	<u>3,398,169</u>



The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Germania Mutual Insurance Company
Statement of Members' Surplus

For the year ended December 31 2011 2010

Unappropriated members' surplus

Balance, beginning of year	\$13,936,755	\$ 10,538,586
Comprehensive income for the year	<u>945,318</u>	<u>3,398,169</u>
Balance, end of year	<u>\$14,882,073</u>	<u>\$ 13,936,755</u>



The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Germania Mutual Insurance Company Statement of Cash Flows

For the year ended December 31	2011	2010
Operating activities		
Comprehensive income	\$ 945,318	\$ 3,398,169
Adjustments for:		
Depreciation	89,820	99,489
Amortization of intangible assets	9,731	50,462
Gain on amalgamation (Note 17)	-	(921,629)
Writedown of capital assets	246,336	-
Interest and dividend income	(535,581)	(475,978)
Provision for income taxes	211,940	367,308
Increase (decrease) in market value of investments	238,557	(270,609)
Realized (gain) loss from disposal of investments	(31,496)	(69,545)
Realized (gain) loss from disposal of capital and intangible assets	32,717	(36,296)
	<u>262,024</u>	<u>(1,256,798)</u>
Changes in working capital		
Change in due from policyholders and reinsurers	(997,315)	117,278
Change in prepaids	(14,406)	(8,092)
Change in accounts payable and other liabilities	(612,228)	48,940
	<u>(1,623,949)</u>	<u>158,126</u>
Changes in insurance contract related balances, provisions		
Change in deferred policy acquisition expenses	(224,105)	50,504
Change in unearned premiums	1,202,518	818,452
Change in provision for unpaid claims	2,223,390	(1,184,932)
Change in provision for unearned commissions	(242,928)	(168,676)
Change in due to auto facility association	(20,379)	31,955
	<u>2,938,496</u>	<u>(452,697)</u>
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	533,414	475,979
Income taxes (paid) received	(217,485)	(599,805)
	<u>315,929</u>	<u>(123,826)</u>
Total cash inflows from operating activities	<u>2,837,818</u>	<u>1,722,974</u>
Investing activities		
Sale of investments	8,120,521	8,566,454
Purchase of investments	(11,649,731)	(10,883,545)
Sale of property plant & equipment	-	71,518
Purchase of property plant & equipment	(309,447)	(137,669)
	<u>(3,838,657)</u>	<u>(2,383,242)</u>
Total cash outflows from investing activities	<u>(3,838,657)</u>	<u>(2,383,242)</u>
Net decrease in cash and cash equivalents	<u>(1,000,839)</u>	<u>(660,268)</u>
Cash and cash equivalents, beginning of year (Note 17)	2,149,099	2,809,367
Cash and cash equivalents, end of year	<u>\$ 1,148,260</u>	<u>\$ 2,149,099</u>



The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Germania Mutual Insurance Company

Notes to Financial Statements

December 31, 2011

1. Nature of operations and summary of significant accounting policies

Reporting entity

Germania 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, automobile and farmers' accident insurance in Ontario. The company's head office is located in Ayton, 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 Farm Mutual Reinsurance Plan Inc. 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.

These financial statements have been authorized for issue by the Board of Directors on February 14, 2012.

Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB). This is the first time that the Company has prepared its financial statements in accordance with IFRS, having previously prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP). Details of how the transition from pre-changeover Canadian GAAP to IFRS has affected the financial position, financial performance and cash flows are disclosed in Note 18.

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

The Company's functional and presentation currency is the Canadian dollar.

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 a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

Germania Mutual Insurance Company

Notes to Financial Statements

December 31, 2011

1. Nature of operations and summary of significant accounting policies (cont'd)

Significant accounting policies

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 GAAP.

Balances arising from insurance contracts primarily include unearned premiums, provisions for unpaid claims and adjustment expenses, the reinsurers' share of provisions for unearned premiums and unpaid claims and adjustment expenses, deferred policy acquisition expenses, and salvage and subrogation recoverable.

(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 earns premium income evenly over the term of the insurance policy generally 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.

(b) Reinsurers' share of unearned premiums

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

(c) Deferred policy acquisition expenses

Acquisition costs are comprised of agents' commissions and premium taxes. 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.

(d) Provisions for unpaid claims and adjustment expenses

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, 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.

Germania Mutual Insurance Company

Notes to Financial Statements

December 31, 2011

1. Nature of operations and summary of significant accounting policies (cont'd)

(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 income statement initially by writing off the deferred policy acquisition expense and subsequently by recognizing an additional claims liability for claims provisions.

(f) Reinsurers' 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.

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.

(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 liability claim, it acquires rights to subrogate its claim against other parties. These claims are reflected at amounts expected to be received from the subrogated parties net of related costs.

(h) Refund from premium

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

Fire Mutuals Guarantee Fund and financial guarantee contracts

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 to their proportionate share in meeting this objective.

This exposure represents a financial guarantee contract. The Company accounts for financial guarantee contracts in accordance with IFRS 4, Insurance Contracts.

Germania Mutual Insurance Company

Notes to Financial Statements

December 31, 2011

1. Nature of operations and summary of significant accounting policies (cont'd)

Financial instruments

The Company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired or liability incurred. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

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 comprise of a note receivable, due from policyholders and due from auto facility association. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses.

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For amounts due from policyholders and reinsurers, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized in comprehensive income. On confirmation that the amounts receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Fair value through profit and loss

Financial assets that do not meet the definition of loans and receivables are classified as fair value through profit and loss and comprise of cash and investments, including investments in short-term deposits, equity instruments, debt securities, mutual funds, fire mutual guarantee fund, pooled funds, and investments in private companies. These instruments are carried at fair value with changes in fair value recognized in comprehensive income. Transaction costs on these instruments are expensed as incurred. Interest on debt securities classified as fair value through profit and loss is calculated using the effective interest method.

Other financial liabilities

Other financial liabilities include all financial liabilities and comprise accounts payables and accrued liabilities, and due to auto facility association and other short-term monetary liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carrying in the statement of financial position. Interest expense in this context includes initial transaction costs and premium's payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Germania Mutual Insurance Company Notes to Financial Statements

December 31, 2011

1. Nature of operations and summary of significant accounting policies (cont'd)

Property, plant & equipment

Property, plant & 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 comprehensive income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	25 years
Computer hardware	5 years
Furniture and fixtures	3 to 25 years
Vehicles	5 years

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

Intangible assets

Intangible assets consist of computer software, which are not integral to the computer hardware owned by the Company, goodwill and customer lists.

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 of 5 years.

Goodwill is deemed to have an indefinite life and is initially recorded at cost and subsequently measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually.

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

The amortization expense is included in other operating and administrative expenses in the statement of comprehensive income.

Impairment of non-financial assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in comprehensive income.

Germania Mutual Insurance Company

Notes to Financial Statements

December 31, 2011

1. Nature of operations and summary of significant accounting policies (cont'd)

Income taxes

Income tax expense comprises of current and deferred tax. Current tax 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.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities/assets are settled/recovered.

Pension plan

The Company participates in a multi-employer defined benefit pension 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.

Provisions

Provisions are recognized for liabilities of uncertain timing or amounts that have arisen as a result of past transactions, including legal, equitable or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

Germania Mutual Insurance Company

Notes to Financial Statements

December 31, 2011

1. Nature of operations and summary of significant accounting policies (cont'd)

Foreign currency translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in comprehensive income.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in comprehensive income.

Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to the statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

Germania Mutual Insurance Company

Notes to Financial Statements

December 31, 2011

1. Nature of operations and summary of significant accounting policies (cont'd)

Standards, amendments and interpretations not yet effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2012 or later periods that the Company has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Company are:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 retains, but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2013. The Company is in the process of evaluating the impact of the new standard.

None of the other new standards, interpretations and amendments, which are effective for the Company's accounting periods beginning after January 1, 2012 and which have not been adopted early, are expected to have a material effect on the Company's future financial statements.

There are certain new standards, amendments and interpretations which have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2012 that the Company has decided to early adopt. The Company has early adopted the amendments to IFRS 1 which replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRS'. This eliminates the need for the Company to restate derecognition transactions that occurred before the date of transition to IFRS. The amendment is effective for year-ends beginning on or after July 1, 2011. The impact of the amendment and early adoption is that the Company only applies IAS 39 derecognition requirements to transactions that occurred after the date of transition.

Germania Mutual Insurance Company

Notes to Financial Statements

December 31, 2011

2. Critical accounting estimates and judgments

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provision for unpaid claims

The estimation of the provision for unpaid claims and the related reinsurers' share are the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered by the Company in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in the estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Company's historical experience and industry experience. More details are included in Note 6.

Income taxes

The Company periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters, however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

Germania Mutual Insurance Company
Notes to Financial Statements

December 31, 2011

3. Financial instrument classification

The carrying amount of the Company's financial instruments by classification is as follows:

	Fair value through profit and loss	Loans and receivables	Other financial liabilities	Total
December 31, 2011				
Cash	\$ 1,148,260	\$ -	\$ -	\$ 1,148,260
Investments (Note 4)	22,306,713	105,000	-	22,411,713
Investment income accrued	-	98,147	-	98,147
Due from policyholders	-	4,363,765	-	4,363,765
Due from Auto Facility Association	-	245,613	-	245,613
Accounts payable and accrued liabilities	-	-	(927,231)	(927,231)
Due to Auto Facility Association	-	-	(179,731)	(179,731)
	\$ 23,454,973	\$ 4,812,525	\$ (1,106,962)	\$ 27,160,536
December 31, 2010				
Cash	\$ 2,149,099	\$ -	\$ -	\$ 2,149,099
Investments	19,084,565	5,000	-	19,089,565
Investment income accrued	-	95,979	-	95,979
Due from policyholders	-	4,054,085	-	4,054,085
Due from Auto Facility Association	-	234,124	-	234,124
Accounts payable and accrued liabilities	-	-	(1,539,459)	(1,539,459)
Due to Auto Facility Association	-	-	(188,621)	(188,621)
	\$ 21,233,664	\$ 4,389,188	\$ (1,728,080)	\$ 23,894,772
January 1, 2010				
Cash	\$ 1,309,654	\$ -	\$ -	\$ 1,309,654
Investments	15,862,736	-	-	15,862,736
Investment income accrued	-	88,684	-	88,684
Due from policyholders	-	3,238,592	-	3,238,592
Due from Auto Facility Association	-	209,286	-	209,286
Accounts payable and accrued liabilities	-	-	(1,222,570)	(1,222,570)
Due to Auto Facility Association	-	-	(156,666)	(156,666)
	\$ 17,172,390	\$ 3,536,562	\$ (1,379,236)	\$ 19,329,716

Germania Mutual Insurance Company Notes to Financial Statements

December 31, 2011

4. Investments

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, 2011		December 31, 2010		January 1, 2010	
	Cost	Fair value	Cost	Fair value	Cost	Fair value
Short term deposits	\$ 1,848,494	\$ 1,848,494	\$ 1,883,058	\$ 1,883,058	\$ 1,065,631	\$ 1,065,631
Bonds issued by						
Federal	5,374,919	5,576,502	6,056,831	6,140,308	5,098,833	5,199,421
Provincial	3,789,467	4,093,265	2,143,708	2,273,568	2,143,708	2,263,322
Corporate						
A or better	3,191,805	3,284,917	2,528,515	2,565,331	2,151,443	2,226,058
B to BBB	100,140	103,861	100,140	100,282	-	-
Not rated	-	-	-	-	-	-
	<u>12,456,331</u>	<u>13,058,545</u>	<u>10,829,194</u>	<u>11,079,489</u>	<u>9,393,984</u>	<u>9,688,801</u>
Equity investments						
Canadian	2,591,513	2,866,099	2,496,736	3,261,117	2,318,496	2,830,804
US	97,229	105,333	97,229	97,729	97,229	92,564
	<u>2,688,742</u>	<u>2,971,432</u>	<u>2,593,965</u>	<u>3,358,846</u>	<u>2,415,725</u>	<u>2,923,368</u>
Mutual funds	-	-	68,166	84,967	-	-
Farm mutual pooled funds						
Canadian fixed income	3,581,370	3,540,712	2,259,766	2,223,162	1,813,584	1,790,735
Canadian equity	999,792	857,977	449,796	426,422	449,679	367,494
	<u>4,581,162</u>	<u>4,398,689</u>	<u>2,709,562</u>	<u>2,649,584</u>	<u>2,263,263</u>	<u>2,158,229</u>
Other investments						
Fire Mutuals guarantee fund	29,553	29,553	28,621	28,621	26,707	26,707
Note receivable	105,000	105,000	5,000	5,000	-	-
	<u>134,553</u>	<u>134,553</u>	<u>33,621</u>	<u>33,621</u>	<u>26,707</u>	<u>26,707</u>
Total investments	<u>\$21,709,282</u>	<u>\$22,411,713</u>	<u>\$ 18,117,566</u>	<u>\$ 19,089,565</u>	<u>\$ 15,165,310</u>	<u>\$ 15,862,736</u>

Germania Mutual Insurance Company
Notes to Financial Statements

December 31, 2011

4. Investments (cont'd)

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 using the last bid price;
- 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).

	Level 1	Level 2	Level 3	Total
December 31, 2011				
Short term deposits	\$ 1,848,494	\$ -	\$ -	\$ 1,848,494
Bonds	13,058,545	-	-	13,058,545
Equities	2,970,357	-	1,075	2,971,432
Farm mutual pooled funds	-	4,398,689	-	4,398,689
Other investments	-	29,553	105,000	134,553
Total	\$ 17,877,396	\$ 4,428,242	\$ 106,075	\$ 22,411,713
December 31, 2010				
Short term deposits	\$ 1,883,058	\$ -	\$ -	\$ 1,883,058
Bonds	11,079,489	-	-	11,079,489
Equities	3,357,771	-	1,075	3,358,846
Mutual funds	-	84,967	-	84,967
Farm mutual pooled funds	-	2,649,584	-	2,649,584
Other investments	-	28,621	5,000	33,621
Total	\$ 16,320,318	\$ 2,763,172	\$ 6,075	\$ 19,089,565
January 1, 2010				
Short term deposits	\$ 1,065,631	\$ -	\$ -	\$ 1,065,631
Bonds	9,688,801	-	-	9,688,801
Equities	2,923,368	-	-	2,923,368
Farm mutual pooled funds	-	2,158,229	-	2,158,229
Other investments	-	26,707	-	26,707
Total	\$ 13,677,800	\$ 2,184,936	\$ -	\$ 15,862,736

Germania Mutual Insurance Company
Notes to Financial Statements

December 31, 2011

4. Investments (cont'd)

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2010 and 2011. The following table presents a reconciliation of the other investments which are the only Level 3 investments:

	2011	2010
Balance, beginning of the year	\$ 6,075	\$ -
Purchases	100,000	6,075
	\$ 106,075	\$ 6,075
Balance, end of the year	\$ 106,075	\$ 6,075

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, 2011	\$ 1,222,744	\$ 8,561,854	\$ 3,273,947	\$ -	\$13,058,545
Percent of Total	9 %	66 %	25 %	-	
December 31, 2010	\$ 1,679,371	\$ 7,740,302	\$ 1,659,816	\$ -	\$11,079,489
Percent of Total	15 %	70 %	15 %	-	
January 1, 2010	\$ 868,980	\$ 6,922,075	\$ 1,897,746	\$ -	\$ 9,688,801
Percent of Total	9 %	71 %	20 %	-	

The effective interest rate at of the bonds portfolio held is 3.68%, 3.50% and 3.90% at December 31, 2011, 2010 and January 1, 2010 respectively.

Germania Mutual Insurance Company
Notes to Financial Statement

December 31, 2011

5. Property, plant & equipment and intangible assets

	Property, plant and equipment					
	Land	Buildings	Computer hardware	Furniture and fixtures	Vehicles	Total
Cost						
Balance - January 1, 2010	\$ 83,978	\$ 1,157,810	\$ 91,603	\$ 168,998	\$ 96,148	\$ 1,598,537
Additions	35,427	59,574	47,273	33,775	64,485	240,534
Disposals	43,978	150,277	4,946	919	34,733	234,853
<hr/>						
Balance - December 31, 2010	\$ 75,427	\$ 1,067,107	\$ 133,930	\$ 201,854	\$ 125,900	\$ 1,604,218
Additions	281,336	6,834	16,019	4,429	-	308,618
Disposals	-	-	2,286	5,753	-	8,039
Writedown of capital assets	246,336	-	-	-	-	246,336
<hr/>						
Balance - December 31, 2011	\$ 110,427	\$ 1,073,941	\$ 147,663	\$ 200,530	\$ 125,900	\$ 1,658,461
<hr/>						
Accumulated depreciation						
Balance - January 1, 2010	\$ -	\$ 198,724	\$ 59,977	\$ 81,344	\$ 63,344	\$ 403,389
Depreciation expense	-	34,287	15,673	31,095	18,433	99,488
Disposals	-	149,462	4,946	919	34,733	190,060
<hr/>						
Balance - December 31, 2010	\$ -	\$ 83,549	\$ 70,704	\$ 111,520	\$ 47,044	\$ 312,817
Depreciation expense	-	15,659	19,259	32,246	22,656	89,820
Disposals	-	-	1,906	5,656	-	7,562
<hr/>						
Balance - December 31, 2011	\$ -	\$ 99,208	\$ 88,057	\$ 138,110	\$ 69,700	\$ 395,075
<hr/>						
Net book value						
January 1, 2010	\$ 83,978	\$ 959,086	\$ 31,626	\$ 87,654	\$ 32,804	\$ 1,195,148
<hr/>						
December 31, 2010	\$ 75,427	\$ 983,558	\$ 63,226	\$ 90,334	\$ 78,856	\$ 1,291,401
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December 31, 2011	\$ 110,427	\$ 974,733	\$ 59,606	\$ 62,420	\$ 56,200	\$ 1,263,386

During the course of the year the company incurred cleanup costs on land held, totaling \$281,336. The land was then written down by \$246,336 to get to its estimated recoverable amount of \$35,000 which was taken from a real estate appraisal dated February 5, 2010.

Germania Mutual Insurance Company
Notes to Financial Statement

December 31, 2011

5. Property, plant & equipment and intangible assets (cont'd)

	Intangible assets			
	Computer software	Goodwill	Customer lists	Total
Cost				
Balance - January 1, 2010	\$ 79,396	\$ 72,925	\$ 55,575	\$ 207,896
Additions	1,742	85,463	85,463	172,668
Disposals	66,947	-	-	66,947
<hr/>				
Balance - December 31, 2010	\$ 14,191	\$ 158,388	\$ 141,038	\$ 313,617
Additions	-	-	-	-
Disposals	-	16,532	16,532	33,064
<hr/>				
Balance - December 31, 2011	\$ 14,191	\$ 141,856	\$ 124,506	\$ 280,553
<hr/>				
Accumulated depreciation				
Balance - January 1, 2010	\$ 69,483	\$ -	\$ 34,030	\$ 103,513
Depreciation expense	3,057	-	47,441	50,498
Disposals	66,947	-	-	66,947
<hr/>				
Balance - December 31, 2010	\$ 5,593	\$ -	\$ 81,471	\$ 87,064
Depreciation expense	2,838	-	6,893	9,731
Disposals	-	-	1,653	1,653
<hr/>				
Balance - December 31, 2011	\$ 8,431	\$ -	\$ 86,711	\$ 95,142
<hr/>				
Net book value				
January 1, 2010	\$ 9,913	\$ 72,925	\$ 21,545	\$ 104,383
<hr/>				
December 31, 2010	\$ 8,598	\$ 158,388	\$ 59,567	\$ 226,553
<hr/>				
December 31, 2011	\$ 5,760	\$ 141,856	\$ 37,795	\$ 185,411
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Germania Mutual Insurance Company
Notes to Financial Statements

December 31, 2011

6. Insurance contracts

Due from reinsurers	<u>2011</u>	<u>2010</u>
Balance, beginning of the year	\$ 86,656	\$ 140,453
Submitted to reinsurer	612,170	1,132,639
Received from reinsurer	<u>(688,840)</u>	<u>(1,186,436)</u>
Balance, end of the year	<u>\$ 9,986</u>	<u>\$ 86,656</u>
Expected settlement		
Within one year	<u>\$ 9,986</u>	<u>\$ 86,656</u>
More than one year	<u>\$ -</u>	<u>\$ -</u>

At year-end, the Company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

Reinsurers share of provision for unpaid claims	<u>2011</u>	<u>2010</u>
Balance, beginning of the year	\$ 2,440,090	\$ 2,154,251
Balance transferred on amalgamation (Note 17)	-	1,349,787
New claims reserve	1,240,841	458,603
Change in prior years reserve	135,634	(389,912)
Submitted to reinsurer	<u>(612,170)</u>	<u>(1,132,639)</u>
Balance, end of the year	<u>\$ 3,204,395</u>	<u>\$ 2,440,090</u>
Expected settlement		
Within one year	<u>\$ 1,129,128</u>	<u>\$ 693,569</u>
More than one year	<u>\$ 2,075,267</u>	<u>\$ 1,746,521</u>

Germania Mutual Insurance Company
Notes to Financial Statements

December 31, 2011

6. Insurance contracts (cont'd)

Deferred policy acquisition expenses	2011	2010
Balance, beginning of the year	\$ 1,231,921	\$ 1,256,007
Balance transferred on amalgamation (Note 17)	-	26,418
Acquisition costs incurred	3,159,356	2,287,371
Expensed during the year	(2,935,251)	(2,337,875)
Balance, end of the year	\$ 1,456,026	\$ 1,231,921

Deferred policy acquisition expenses will be recognized as an expense within one year.

Unearned premiums (UEP)	2011	2010
Balance, beginning of the year	\$ 7,788,377	\$ 6,208,828
Balance transferred on amalgamation (Note 17)	-	760,929
Premiums written	16,279,946	15,365,861
Premiums earned during year	(15,355,624)	(13,822,048)
Changes in UEP recognized in income	(457,948)	(725,193)
Balance, end of the year	\$ 8,254,751	\$ 7,788,377

Germania Mutual Insurance Company
Notes to Financial Statement

December 31, 2011

6. Insurance contracts (cont'd)

The following is a summary of the insurance contract provisions and related reinsurance assets.

	December 31, 2011			December 31, 2010			January 1, 2010		
	Gross	Re- insurance	Net	Gross	Re- insurance	Net	Gross	Re- insurance	Net
Outstanding claims provision									
Long term	\$ 1,831,663	\$ 915,267	\$ 916,396	\$ 1,420,499	\$ 586,521	\$ 833,978	\$ 1,425,355	\$ 487,417	\$ 937,938
Short	4,121,014	1,129,128	2,991,886	2,569,305	693,569	1,875,736	3,380,464	721,834	2,658,630
Facility Association and other pools	295,076	-	295,076	284,559	-	284,559	227,709	-	227,709
	6,247,753	2,044,395	4,203,358	4,274,363	1,280,090	2,994,273	5,033,528	1,209,251	3,824,277
Provision for claims incurred but not reported	4,050,000	1,160,000	2,890,000	3,800,000	1,160,000	2,640,000	2,645,000	945,000	1,700,000
	\$10,297,753	\$ 3,204,395	\$ 7,093,358	\$ 8,074,363	\$ 2,440,090	\$ 5,634,273	\$ 7,678,528	\$ 2,154,251	\$ 5,524,277

Germania Mutual Insurance Company Notes to Financial Statements

December 31, 2011

6. Insurance contracts (cont'd)

Comments and assumptions for specific claims categories

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 have created 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 liabilities provided by the actuaries of the pools.

Claims and adjustment expenses

Changes in claim liabilities recorded in the statement of financial position for the years-ended December 31, 2011 and 2010 and their impact on claims and adjustment expenses for the two years follow:

	2011	2010
Unpaid claim liabilities - beginning of year - net of reinsurance	\$ 5,634,273	\$ 5,524,277
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	(438,222)	(1,275,164)
Provision for losses and expenses on claims occurring in the current year	7,127,644	4,936,375
Payment on claims:		
Current year	(4,150,174)	(2,573,685)
Prior years	(1,080,163)	(977,530)
	7,093,358	5,634,273
Unpaid claims - end of year - net	7,093,358	5,634,273
Reinsurer's share and subrogation recoverable	3,204,395	2,440,090
	\$10,297,753	\$ 8,074,363

The change in estimate of losses occurring in prior years is due to changes arising from new information received.

Germania Mutual Insurance Company Notes to Financial Statements

December 31, 2011

6. Insurance contracts (cont'd)

Provision for unpaid claims and adjustment expenses

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurers' share requires the estimation of three major variables which are the development of claims, reinsurance recoveries, and future investment income.

The Superintendent of the Financial Services Commission of Ontario has required that consideration of future investment income be disregarded except in the evaluation of automobile accident benefit claims.

Claim development

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 historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims the more variable the estimates. Short-term settlement 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 years 2007 to 2011. 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 2011, the year of adoption of IFRS, only information from periods beginning on or after January 1, 2007 is required to be disclosed. This will be increased in each succeeding additional year, until ten years of information is included.

Germania Mutual Insurance Company
Notes to Financial Statement

December 31, 2011

6. Insurance contracts (cont'd)

Gross claims	2007	2008	2009	2010	2011	Total
Gross estimate of cumulative claims cost						
At the end year of claim	\$ 5,617,892	\$ 9,425,318	\$ 6,310,895	\$ 6,681,472	\$ 10,527,012	
One year later	5,399,591	9,095,295	5,375,549	5,531,957		
Two years later	4,872,493	8,167,368	4,624,383			
Three years later	4,276,645	7,467,353				
Four years later	4,406,590					
Current estimate of cumulative claims cost	4,406,590	7,467,353	4,624,383	5,531,957	10,527,012	32,557,295
Cumulative payments	4,371,590	7,433,995	3,151,602	3,585,705	4,194,311	22,737,203
Outstanding claims	\$ 35,000	\$ 33,358	\$ 1,472,781	\$ 1,946,252	\$ 6,332,701	9,820,092
Outstanding claims 2006 and prior						182,584
Facility and Risk sharing pool outstanding claims						295,077
Total gross outstanding claims and claims handling expense						\$ 10,297,753

Germania Mutual Insurance Company
Notes to Financial Statement

December 31, 2011

6. Insurance contracts (cont'd)

Net of Reinsurance	2007	2008	2009	2010	2011	Total
Net estimate of cumulative claims cost						
At the end year of claim	\$ 4,076,367	\$ 6,511,528	\$ 4,875,086	\$ 5,486,869	\$ 8,590,171	
One year later	3,798,122	6,391,702	4,240,151	4,635,097		
Two years later	3,486,346	5,676,198	3,572,637			
Three years later	3,096,959	5,238,286				
Four years later	3,131,257					
Current estimate of cumulative claims cost	3,131,257	5,238,286	3,572,637	4,635,097	8,590,171	25,167,448
Cumulative payments	3,096,257	5,237,452	2,795,502	3,230,868	4,150,173	18,510,252
Outstanding claims	\$ 35,000	\$ 834	\$ 777,135	\$ 1,404,229	\$ 4,439,998	6,657,196
Outstanding claims 2006 and prior						141,086
Facility and Risk sharing pool outstanding claims						295,076
Total net outstanding claims and claims handling expense						\$ 7,093,358

Germania Mutual Insurance Company Notes to Financial Statements

December 31, 2011

7. Other provisions and contingent liabilities

In common with the insurance industry in general, the Company is subject to litigation arising in the normal course of conducting its insurance business which is taken into account in establishing the provision for unpaid claims and adjustment expenses. The amount provided for as other provisions represents management's best estimate of the Company's liability related to legal disputes unrelated to their insurance business for which it is probable that an amount will be paid. No amount has been provided for disputes for which it is not probable that an amount will be paid. Uncertainty relates to whether the claim will be settled in or out of court or if the Company will be successful in defending the action. Because of the nature of disputes, the Company has not disclosed any additional information on the basis that they believe this would be seriously prejudicial to the Company's position in defending the cases brought against it.

8. Pension Plan

The Company makes contributions to the Ontario Mutual Insurance Association Pension Plan, which is a multi-employer plan, on behalf of members of its staff. The plan is a money purchase plan, with a defined benefit option at retirement available to some 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. However, the plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The Company is only one of a number of employers that participates in the plan and the financial information provided to the Company on the basis of the contractual agreements is usually insufficient to reliably measure the Company's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

The amount contributed to the plan for 2011 was \$94,469 (2010 - \$81,414). The contributions were made for current service and these have been recognized in comprehensive income.

A payment of \$86,307 was also made in 2011 for the Company's share of the pension plan deficit that existed for the year ended December 31, 2010 based on an actuarial valuation. The next actuarial valuation is planned for the three years ending December 31, 2013.

Germania Mutual Insurance Company
Notes to Financial Statements

December 31, 2011

9. Income taxes

The Company is subject to income taxes on that portion of its income derived from insuring other than farm related risks.

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

	2011	2010
Current tax expense		
Based on current year taxable income	\$ 209,940	\$ 283,617
Adjustments for (over)/under provision in prior periods	-	(30,443)
	\$ 209,940	\$ 253,174
Deferred tax expense		
Origination and reversal of temporary differences	\$ 3,000	\$ 114,134
Reduction in tax rate	(1,000)	-
	\$ 2,000	\$ 114,134
Total income tax expense (recovery)	\$ 211,940	\$ 367,308

Germania Mutual Insurance Company
Notes to Financial Statements

December 31, 2011

9. Income taxes (cont'd)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 28% (2010 - 30%) are as follows:

	2011	2010
Comprehensive income before taxes	<u>\$ 1,157,258</u>	<u>\$ 3,765,477</u>
Expected taxes based on the statutory rate of 28% (2010 - 30%)	324,032	1,129,643
Non-taxable income from insuring farm related risks	(139,859)	(195,933)
Non-taxable gain on amalgamation	-	(276,489)
Writedown on assets	68,974	-
Non-taxable dividend income	(23,121)	(22,704)
Ontario small business deduction	(36,240)	(11,379)
General tax rate reduction on farm income	-	(65,311)
Over (under) provision in prior years	1,000	(30,443)
Other non deductible expenses	12,254	4,109
Loss carry forwards picked up on amalgamation	-	(165,393)
Other	4,900	1,208
	<u>\$ 211,940</u>	<u>\$ 367,308</u>
Total income tax expense (recovery)	<u>\$ 211,940</u>	<u>\$ 367,308</u>

Changes to the federal and provincial tax rates were announced in 2011 and 2010 which resulted in an adjustment to the opening carrying value of temporary differences. The reduction in deferred income tax asset is reflected in deferred income taxes.

Germania Mutual Insurance Company
Notes to Financial Statement

December 31, 2011

9. Income taxes (cont'd)

The movement in 2011 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2011	Recognize in comprehensive income	Closing Balance at Dec 31, 2011
2011			
Deferred tax assets			
Property, plant & equipment and intangible assets	\$ 15,000	\$ (6,000)	\$ 9,000
Investments	6,000	-	6,000
Claims liabilities	48,000	4,000	52,000
Deferred tax asset	\$ 69,000	\$ (2,000)	\$ 67,000
2011 net deferred tax liability movement	\$ (69,000)	\$ 2,000	\$ (67,000)

Germania Mutual Insurance Company
Notes to Financial Statement

December 31, 2011

9. Income taxes (cont'd)

The movement in 2010 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2010	Transferred in on Amalgamation	Recognize in comprehensive income	Closing Balance at Dec 31, 2010
2010				
<i>Deferred tax assets</i>				
Property, plant & equipment and intangible assets	\$ -	\$ 6,000	\$ 9,000	\$ 15,000
Investments	20,000	-	(14,000)	6,000
Claims liabilities	70,000	1,681	(23,681)	48,000
Losses carried forward	-	85,453	(85,453)	-
Deferred tax asset	<u>\$ 90,000</u>	<u>\$ 93,134</u>	<u>\$ (114,134)</u>	<u>\$ 69,000</u>
2010 net deferred tax liability movement	<u>\$ (90,000)</u>	<u>\$ (93,134)</u>	<u>\$ 114,134</u>	<u>\$ (69,000)</u>

Germania Mutual Insurance Company
Notes to Financial Statements

December 31, 2011

9. Income taxes (cont'd)

	<u>2011</u>	<u>2010</u>
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	\$ 42,000	\$ 38,000
Deferred tax assets to be recovered after more than 12 months	25,000	31,000
	<u>\$ 67,000</u>	<u>\$ 69,000</u>
Net deferred tax liability (asset)	<u>\$ (67,000)</u>	<u>\$ (69,000)</u>

10. Fees, commissions and other acquisition expenses

	<u>2011</u>	<u>2010</u>
Commissions	\$ 2,888,012	\$ 2,294,471
Premium taxes	47,239	43,404
	<u>\$ 2,935,251</u>	<u>\$ 2,337,875</u>

Germania Mutual Insurance Company
Notes to Financial Statements

December 31, 2011

11. Other operating and administrative expenses

	2011	2010
Advertising	\$ 114,806	\$ 158,588
Association fees and dues	151,342	187,091
Amortization of intangible assets	9,731	50,462
Depreciation	89,820	99,489
Computer services	159,005	182,367
Employee benefits	363,608	473,166
Inspection of risks and fire prevention	90,396	65,962
Occupancy costs	115,991	143,956
Postage and telephone	76,623	73,410
Printing, stationary and office	42,855	96,270
Professional fees	53,059	57,174
Salaries, benefits and directors fees	1,154,937	1,295,229
Travel	94,407	106,331
	\$ 2,516,580	\$ 2,989,495

12. Salaries, benefits and directors fees

	2011	2010
Underwriter salaries and benefits (Note 11)	\$ 558,827	\$ 686,189
Other salaries, benefits and directors fees (Note 11)	959,718	1,082,206
	\$ 1,518,545	\$ 1,768,395

13. Investment and other income

	2011	2010
Interest income	\$ 450,770	\$ 398,337
Dividend and other income	84,811	77,641
Realized gains (losses) on disposal of investments	31,496	73,253
Realized gains (losses) on disposal of fixed assets and intangibles	(32,717)	36,296
Investment expenses	(60,588)	(91,892)
Pooled fund distributions	271,604	146,962
Increase (decrease) in market value of investments	(238,557)	270,609
	\$ 506,819	\$ 911,206

Germania Mutual Insurance Company Notes to Financial Statements

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14. 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:

	2011	2010
Compensation		
Short term employee benefits and director's fees	\$ 484,867	\$ 445,516
Total pension and other post-employment benefits	31,796	27,682
	\$ 516,663	\$ 473,198
Premiums	\$ 118,748	\$ 113,525
Claims paid	\$ 11,564	\$ 15,160

Amounts owing to and from key management personnel at December 31, 2011 are \$10,528 (2010 - \$27,541, January 1, 2010 - \$15,466) and \$10,731 (2010 - \$10,763, January 1, 2010 - \$5,170) respectively. The amounts are included in due from policyholders and accounts payable and accrued liabilities on the statement of financial position.

Germania Mutual Insurance Company

Notes to Financial Statements

December 31, 2011

15. 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.

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%. 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.

The Company uses Gross Risk Ratio (gross premiums written to unappropriated members' surplus) to monitor capital adequacy. The Company benchmarks an adequate Gross Risk Ratio to be under 2:1 (200%) and is striving for a 1:1 (100%) Gross Risk Ratio. The Company's Gross Risk Ratio at December 31, 2011 was 109% (2010, 110%).

16. Financial instrument and Insurance risk management

Insurance risk management

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 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 Company purchases reinsurance as part of its risks mitigation program. Retention limits for the excess-of-loss reinsurance vary by product line.

Amounts recoverable from reinsurers 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 any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

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.

Germania Mutual Insurance Company Notes to Financial Statements

December 31, 2011

16. Financial instrument and Insurance risk management (cont'd)

The Company manages this risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposures are limited by having documented underwriting limits and criteria. 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 with exposed risk. Automobile premiums are subject to approval by the Financial Services Commission of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk; in this case the Company has policies regarding renewal and new business accepted. Reinsurance is purchased to mitigate the effect of the potential loss to the Company. Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer.

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 \$250,000 in the event of a property claim, an amount of \$175,000 in the event of an automobile claim and \$250,000 in the event of a liability claim. For amounts over the respective limits there is a 90% retention to a specified maximum. The Company also obtained reinsurance which limits the Company's liability to \$750,000 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 100% for automobile and liability.

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, 2011 and 2010.

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 occurrence, expected loss ratios and claims development as described in Note 6.

Results of sensitivity testing based on expected loss ratios are as follows, shown gross and net of reinsurance as impact on comprehensive income before taxes:

	Property claims		Auto claims		Liability claims	
	2011	2010	2011	2010	2011	2010
5% increase in loss ratios						
Gross	\$ 469,330	\$ 431,841	\$ 218,654	\$ 151,713	\$ 91,877	\$ 62,689
Net	\$ 413,010	\$ 414,567	\$ 166,177	\$ 113,785	\$ 52,370	\$ 47,017
5% decrease in loss ratios						
Gross	\$ (469,330)	\$ (431,841)	\$ (218,654)	\$ (151,713)	\$ (91,877)	\$ (62,689)
Net	\$ (413,010)	\$ (414,567)	\$ (166,177)	\$ (113,785)	\$ (52,370)	\$ (47,017)

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.

Germania Mutual Insurance Company Notes to Financial Statements

December 31, 2011

16. Financial instrument and Insurance risk management (cont'd)

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 includes 99% (December 31, 2010 - 99%, January 1, 2010 - 100%) of bonds rated A or better.

The Company's investment policy limits investment in bonds and debentures to limits ranging from 50% to 100% of the Company's total investment portfolio. Funds should be invested in bonds and debentures of Federal, Provincial or Municipal Governments and corporations rated A or better. Investments in any one single issuer are not to exceed 2.5% of the fixed income portfolio for A rated bonds, 1% for BBB rated bonds and 5% for AA or better rated bonds. These limits do not apply to all Federal bonds or Provincial bonds with a A- rating or higher. Corporate bonds should not exceed 40% of the fixed income portfolio. 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 creditworthiness 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 receivable are short-term in nature consisting of a large number of policyholders, and are not subject to material credit risk. Regular review of outstanding receivables is performed to ensure credit worthiness.

The maximum exposure to investment credit risk is outlined in Note 4.

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.

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.

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 Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the equity investment in any one Canadian issuer to a maximum of 5% book value and 7.5% of market value of the equity portfolio. Holdings of equities are to be diversified within four defined economic sectors and are to be maintained within 50% to 150% of the Toronto stock exchange composite index.

Germania Mutual Insurance Company Notes to Financial Statements

December 31, 2011

16. Financial instrument and Insurance risk management (cont'd)

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.

The Company's foreign exchange risk is related to stock holdings which are limited to United States equities in sectors which are not readily available in Canada. The Company limits its holdings in foreign equity to 5% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when 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 the risk.

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 (Bankers Acceptance, T-Bills, GICs, and 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 gains or losses in 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.

At December 31, 2011, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by \$475,453 (2010 - \$328,608). Also, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income pooled fund by \$213,151 (2010 - \$144,728). These changes would be recognized in net income.

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.

Germania Mutual Insurance Company Notes to Financial Statements

December 31, 2011

16. Financial instrument and Insurance risk management (cont'd)

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 includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index. At December 31, 2011, 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 equities of \$297,036 (2010 - \$344,274) and the equity pooled fund of \$85,798 (2010 - \$42,642). This change would be recognized in comprehensive income for the year.

The Company's investment policy limits investment in preferred and common shares to a maximum of 25% of the market value of the portfolio.

Equities are monitored by the board of directors and holdings are adjusted following each quarter when the investments are offside of the investment policy.

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. 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 10% 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.

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.

Germania Mutual Insurance Company Notes to Financial Statements

December 31, 2011

17. 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 \$921,629. The revenue and comprehensive 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 separately.

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	(267,948)
Unpaid claims	(1,580,768)
Unearned commissions	(198,533)
Unearned premiums	(761,097)
Income taxes payable	<u>(12,222)</u>
	921,629
Gain on amalgamation	<u>921,629</u>
Cash consideration	<u>\$ -</u>

Germania Mutual Insurance Company Notes to Financial Statements

December 31, 2011

17. Amalgamation (continued)

Following transition to IFRS, the statement of financial position on January 1, 2010 after the amalgamation is as follows:

Cash and cash equivalents	\$ 2,809,367
Future income tax asset	183,134
Accounts receivable	7,764,356
Prepaid expenses	16,059
Long-term investments	16,432,320
Deferred policy acquisition expenses	1,282,425
Capital assets	1,290,149
Goodwill and other intangible assets	<u>275,309</u>
Total assets	<u>\$ 30,053,119</u>
Accounts payable and accrued liabilities	\$ 1,490,519
Due to auto facility association	156,666
Unpaid claims	9,259,295
Unearned commissions	411,604
Unearned premiums	6,969,925
Income taxes payable	<u>304,896</u>
Total liabilities	<u>18,592,905</u>
Unappropriated members' surplus - Germania Mutual	10,538,586
Gain on amalgamation - Culross Mutual	<u>921,628</u>
Total liabilities and surplus	<u>\$ 30,053,119</u>

18. First time adoption of international financial reporting standards

IFRS 1, First Time Adoption of International Financial Reporting Standards, requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company is December 31, 2011. Therefore, the financial statements for the year-ended December 31, 2011, the comparative information presented in these financial statements for the year-ended December 31, 2010 and the opening IFRS statement of financial position at January 1, 2010 are prepared in accordance with IFRS standards effective at the reporting date. However, IFRS also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

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

Germania Mutual Insurance Company

Notes to Financial Statements

December 31, 2011

18 First time adoption of international financial reporting standards (cont'd)

IFRS 1 exemptions and exceptions

The IFRS 1 applicable exemptions and exceptions applied in the conversion from pre-changeover Canadian GAAP to IFRS are as follows:

Optional exemptions

Business combinations

The Company elected not to retrospectively apply IFRS 3, Business Combinations, to business combinations that occurred prior to its Transition Date and such business combinations have not been restated.

Insurance contracts

The Company has elected to apply the transitional provisions of IFRS 4, Insurance Contracts. IFRS 4 restricts the changes in accounting policies for insurance contracts.

Borrowing costs

The Company has elected to apply the transitional provisions of IAS 23, Borrowing Costs which permits prospective capitalization of borrowing costs on qualifying assets from the Transition Date.

Designation of previously recognized financial instruments

The Company has elected to designate certain previously recognized financial instruments as fair value through profit and loss at the Transition Date. These designations differ from the financial instrument designations under pre-changeover Canadian GAAP.

Mandatory exceptions

Derecognition of financial assets and liabilities

The Company has applied the derecognition requirements in IAS 39, Financial Instruments: Recognition and Measurement, prospectively from the Transition Date. As a result any non-derivative financial assets or non-derivative financial liabilities derecognized prior to the Transition Date in accordance with pre-changeover Canadian GAAP have not been reviewed for compliance with IAS 39.

Estimates

The estimates previously made by the Company under pre-changeover Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result the Company has not used hindsight to revise estimates.

Germania Mutual Insurance Company Notes to Financial Statements

December 31, 2011

18. First time adoption of international financial reporting standards (cont'd)

Reconciliation of members' surplus and comprehensive income

In preparing these financial statements, management has amended certain accounting policies previously applied in the pre-changeover Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these adjustments. The following reconciliation's and explanatory notes provide a description of the effect of the transition from pre-changeover Canadian GAAP to IFRS on members' surplus and comprehensive income:

Statement of Financial Position for the year-ended January 1, 2010 - Transition Date

	Sub-note	Pre-changeover Canadian GAAP	Adjustments	IFRS
Assets				
Cash	(i)	\$ 2,375,285	\$ (1,065,631)	\$ 1,309,654
Investment income accrued		88,684	-	88,684
Due from agent's and policyholders		3,238,592	-	3,238,592
Reinsurers' share of provision for unpaid claims		2,154,251	-	2,154,251
Due from reinsurers		140,453	-	140,453
Due from reinsurer - unearned premiums		645,670	-	645,670
Recoverable from Auto Facility Association		209,286	-	209,286
Investments	(i)	14,797,104	1,065,631	15,862,735
Property, plant & equipment	(ii)	1,205,061	(9,913)	1,195,148
Deferred policy acquisition expenses		1,256,007	-	1,256,007
Prepaid expenses		16,059	-	16,059
Future income tax asset		90,000	-	90,000
Intangible assets	(ii)	94,470	9,913	104,383
		<u>\$ 26,310,922</u>	<u>\$ -</u>	<u>\$ 26,310,922</u>
Liabilities				
Accounts payable and accrued liabilities		\$ 1,222,570	\$ -	\$ 1,222,570
Income taxes payable		292,674	-	292,674
Unearned premiums		6,208,828	-	6,208,828
Provision for unpaid claims		7,678,527	-	7,678,527
Due to auto facility association		156,666	-	156,666
Unearned commissions		213,071	-	213,071
		<u>15,772,336</u>	<u>-</u>	<u>15,772,336</u>
Members Surplus				
Unappropriated members' surplus	(i), (iii)	9,956,135	582,451	10,538,586
Accumulated other comprehensive income	(i), (iii)	582,451	(582,451)	-
		<u>10,538,586</u>	<u>-</u>	<u>10,538,586</u>
		<u>\$ 26,310,922</u>	<u>\$ -</u>	<u>\$ 26,310,922</u>

Germania Mutual Insurance Company Notes to Financial Statements

December 31, 2011

18. First time adoption of international financial reporting standards (cont'd)

Statement of Financial Position for the year-ended December 31, 2010

	Sub-note	Pre- changeover Canadian GAAP	Adjustments	IFRS
Assets				
Cash	(i)	\$ 3,582,157	\$ (1,433,058)	\$ 2,149,099
Investments	(i)	17,656,507	1,433,058	19,089,565
Investment income accrued		95,979	-	95,979
Due from agent's and policyholders		4,054,085	-	4,054,085
Reinsurers' share of provision for unpaid claims		2,440,090	-	2,440,090
Due from reinsurers		86,656	-	86,656
Due from reinsurer - unearned premiums		736,144	-	736,144
Recoverable from auto facility association		234,124	-	234,124
Deferred policy acquisition expenses		1,231,921	-	1,231,921
Prepays		24,151	-	24,151
Property, plant & equipment	(ii)	1,299,999	(8,598)	1,291,401
Intangible assets	(ii)	217,955	8,598	226,553
Income taxes recoverable		41,735	-	41,735
Future income tax asset		69,000	-	69,000
		<u>\$ 31,770,503</u>	<u>\$ -</u>	<u>\$ 31,770,503</u>
Liabilities				
Accounts payable and accrued liabilities		\$ 1,539,459	\$ -	\$ 1,539,459
Due to auto facility association		188,621	-	188,621
Unearned premiums		7,788,377	-	7,788,377
Provision for unpaid claims		8,074,363	-	8,074,363
Unearned commissions		242,928	-	242,928
		<u>17,833,748</u>	<u>-</u>	<u>17,833,748</u>
Members Surplus				
Unappropriated members' surplus	(i), (iii)	13,119,182	817,573	13,936,755
Accumulated other comprehensive income	(i), (iii)	817,573	(817,573)	-
		<u>13,936,755</u>	<u>-</u>	<u>13,936,755</u>
		<u>\$ 31,770,503</u>	<u>\$ -</u>	<u>\$ 31,770,503</u>

Germania Mutual Insurance Company

Notes to Financial Statements

December 31, 2011

18. First time adoption of international financial reporting standards (cont'd)

Statement of Comprehensive Income for the year-ended December 31, 2010

	Sub-note	Pre-changeover Canadian GAAP	Adjustments	IFRS
Underwriting income				
Gross premiums written		\$ 15,365,861	\$ -	\$ 15,365,861
Less reinsurance ceded		3,942,904	-	3,942,904
Net premiums written		11,422,957	-	11,422,957
Less increase in unearned premiums		725,193	-	725,193
Net premiums earned		10,697,764	-	10,697,764
Service Charges		121,528	-	121,528
		10,819,292	-	10,819,292
Direct losses incurred				
Gross claims and adjustment expenses		3,627,972	-	3,627,972
Less reinsurers' share of claims and adjustment expenses		(68,692)	-	(68,692)
		3,559,280	-	3,559,280
Underwriting income		7,260,012	-	7,260,012
Expenses				
Fees, commissions and other acquisition expenses		2,337,875	-	2,337,875
Other operating and administrative expenses		2,989,495	-	2,989,495
		5,327,370	-	5,327,370
Net underwriting income		1,932,642	-	1,932,642
Gain on amalgamation (Note 17)		912,387	9,242	921,629
Investment income	(i)	640,597	270,609	911,206
Income before taxes		3,485,626	279,851	3,765,477
Provision (recovery) for income taxes	(i)	322,580	44,728	367,308
Net Income		3,163,046	235,123	3,398,169
Other comprehensive Income (net of tax)				
Change in unrealized gain / losses on available-for-sale investments	(i)	350,387	(350,387)	-
Reclassification of realized gains / losses on available-for-sale investments	(i)	(79,778)	79,778	-
		270,609	(270,609)	-
Income tax effect		(44,728)	44,728	-
		225,881	(225,881)	-
Comprehensive income		\$ 3,388,927	\$ 9,242	\$ 3,398,169

Germania Mutual Insurance Company Notes to Financial Statements

December 31, 2011

18. First time adoption of international financial reporting standards (cont'd)

Statement of Cash Flows for the year-ended December 31, 2010

The transition to IFRS had no impact on total operating or financing activities on the statement of cash flows. The change in comprehensive income for year-ended December 31, 2010 has been offset by adjustments to operating activities.

Explanations for the adjustments are as follows:

(i) Investments

Under pre-changeover Canadian GAAP the Company classified all investments as available-for-sale. At the Transition date the Company elected to designate investments which were previously accounted for as available-for-sale to become classified as fair value through profit and loss. The change in classification of these investments has no impact on the amount recognized on the statement of financial position, however, unrealized gains/losses of \$582,451 at January 1, 2010 have been reclassified from accumulated other comprehensive income to unappropriated members surplus. For the year-ended December 31, 2010 the change in unrealized gain/loss on available-for-sale investments and the reclassification of realized gains/losses on available-for-sale investments have been adjusted by \$350,387 and (\$79,778) respectively, with corresponding adjustments of \$270,609 to investment income and \$44,728 to the provision for income taxes as a result of the change in classification of these financial instruments.

Short term deposits and GICs have been reclassified from cash and cash equivalents under pre-changeover Canadian GAAP to investments under IFRS.

(ii) Property, plant and equipment and intangible assets

The Company reclassified computer software from capital assets to intangible assets on the transition to IFRS.

(iii) Unappropriated members surplus

The following table outlines the adjustments to unappropriated members' surplus:

	2011	2010
Reclassification of available-for-sale investments to fair value through profit and loss (i)	\$ 235,122	\$ 582,451