

Germania Farmers' Mutual
Fire Insurance Company
Financial Statements
For the year ended December 31, 2009

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Auditors' Report

To the Policyholders of
Germania Farmers' Mutual Fire Insurance Company

We have audited the balance sheet of Germania Farmers' Mutual Fire Insurance Company as at December 31, 2009 and the statements of operations and unappropriated members' surplus, comprehensive income, accumulated other comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2009 and the results of its operations and 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
January 25, 2010

Germania Farmers' Mutual Fire Insurance Company

Balance Sheet

December 31 2009 2008

Assets

Cash and cash equivalents	\$ 2,373,623	\$ 2,341,715
Accounts receivable (Note 2)	6,478,598	6,167,129
Income taxes recoverable	-	383,957
Prepaid expenses	16,059	18,895
Long-term investments (Note 3)	14,797,104	12,329,498
Deferred policy acquisition expenses	1,256,007	1,131,778
Capital assets (Note 4)	1,205,061	1,154,274
Goodwill and other intangible assets (Note 5)	94,470	106,000
Future income tax asset (Note 9)	90,000	45,000
	\$26,310,922	\$ 23,678,246

Liabilities and Surplus

Accounts payable and accrued liabilities	\$ 1,222,571	\$ 786,047
Due to auto facility association	156,666	190,573
Unpaid claims (Note 8)	7,678,527	7,973,654
Unearned commissions	213,071	178,647
Income taxes payable	292,674	-
Unearned premiums	6,208,828	5,523,201
	15,772,337	14,652,122

Surplus

Unappropriated members' surplus	9,956,134	8,949,551
Accumulated other comprehensive income	582,451	76,573
	10,538,585	9,026,124
	\$26,310,922	\$ 23,678,246

On behalf of the Board:

_____ Director

_____ Director



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

Germania Farmers' Mutual Fire Insurance Company

Statement of Operations and Unappropriated Members' Surplus

For the year ended December 31	2009	2008
Revenue (Page 6)	\$ 8,687,050	\$ 7,700,668
Expenses (Page 6)	<u>7,860,296</u>	<u>8,929,560</u>
Underwriting income (loss)	826,754	(1,228,892)
Investment income	<u>358,214</u>	<u>381,008</u>
Income (loss) before taxes	1,184,968	(847,884)
Income tax expense (recovery) (Note 9)	<u>178,385</u>	<u>(181,475)</u>
Net income (loss) for the year	1,006,583	(666,409)
Unappropriated members' surplus, beginning of year	<u>8,949,551</u>	<u>9,615,960</u>
Unappropriated members' surplus, end of year	<u>\$ 9,956,134</u>	<u>\$ 8,949,551</u>



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

Germania Farmers' Mutual Fire Insurance Company Statement of Comprehensive Income

For the year ended December 31	2009	2008
Net Income (loss)	\$ 1,006,583	\$ (666,409)
Other comprehensive income (loss)		
Change in unrealized gain (loss) on available for sale securities	596,530	(598,556)
Net loss (gain) reclassified to income	5,248	(71,579)
	601,778	(670,135)
Income tax effect	(95,900)	108,500
	505,878	(561,635)
Comprehensive income (loss)	\$ 1,512,461	\$ (1,228,044)

Germania Farmers' Mutual Fire Insurance Company Statement of Accumulated Other Comprehensive Income

December 31	2009	2008
Accumulated other comprehensive income, beginning of year	\$ 76,573	\$ 638,208
Other comprehensive income (loss)	505,878	(561,635)
Accumulated other comprehensive income, end of year	\$ 582,451	\$ 76,573



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

Germania Farmers' Mutual Fire Insurance Company

Schedule of Revenue and Expenses

For the year ended December 31	2009	2008
Revenue		
Gross premiums written	\$12,158,466	\$ 10,984,434
Less reinsurance premiums cost	<u>3,003,104</u>	<u>2,896,028</u>
Net premiums written	9,155,362	8,088,406
Increase in provision for unearned premiums	<u>(571,931)</u>	<u>(480,074)</u>
	8,583,431	7,608,332
Service charges	<u>103,619</u>	<u>92,336</u>
	<u>\$ 8,687,050</u>	<u>\$ 7,700,668</u>
Expenses		
Net claims incurred	\$ 4,172,875	\$ 5,724,910
Commissions	1,807,334	1,542,372
Salaries and directors' fees	827,968	703,005
Inspection of risks and fire prevention	55,264	41,717
Other expenses (see below)	<u>996,855</u>	<u>917,556</u>
	<u>\$ 7,860,296</u>	<u>\$ 8,929,560</u>
Other expenses		
Advertising	\$ 89,687	\$ 84,352
Amortization of capital assets	94,973	101,450
Amortization of intangible assets	2,780	13,900
Association fees and training	111,307	108,029
Computer services	132,109	130,108
Employee benefits	175,532	166,184
Occupancy costs	81,834	76,566
Postage and telephone	64,622	52,962
Printing, stationery and office	59,839	43,335
Professional	87,175	38,910
Provincial premiums tax	34,986	31,917
Travel	<u>62,011</u>	<u>69,843</u>
	<u>\$ 996,855</u>	<u>\$ 917,556</u>



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

Germania Farmers' Mutual Fire Insurance Company

Statement of Cash Flows

For the year ended December 31	2009	2008
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	\$ 1,006,583	\$ (666,409)
Adjustments to convert earnings to cash basis		
Amortization of bond premiums	7,515	(4,413)
Amortization of capital assets	94,973	101,450
Amortization of intangible assets and software license rights	11,530	28,900
Gain on disposal of capital assets	(9,935)	(190)
(Gain) loss on disposal of investments	(63,622)	32,510
Write down on investments	50,000	68,500
Increase in accounts receivable	(311,469)	(438,617)
Decrease in prepaid expenses	2,836	10,706
Increase in deferred policy acquisition expenses	(124,229)	(120,090)
Increase in future income tax asset	(45,000)	-
Increase (decrease) in accounts payable and accrued liabilities	436,524	(56,237)
Decrease in due to auto facility association	(33,907)	(13,962)
Increase (decrease) in provision for unpaid claims	(295,127)	1,603,364
Increase in provision for unearned commissions	34,424	21,226
Increase in unearned premiums	685,627	551,014
Increase (decrease) in income taxes payable	676,631	(465,701)
Income tax effect on other comprehensive income	(95,900)	108,500
	<u>2,027,454</u>	<u>760,551</u>
Investing activities		
Proceeds on sale of investments	2,372,997	2,572,150
Purchase of investments	(4,232,718)	(2,640,346)
Acquisition of capital assets	(135,825)	(81,030)
Proceeds on disposal of capital assets	-	1,974
	<u>(1,995,546)</u>	<u>(147,252)</u>
Increase in cash and equivalents during the year	31,908	613,299
Cash and equivalents, beginning of year	<u>2,341,715</u>	<u>1,728,416</u>
Cash and equivalents, end of year	<u>\$ 2,373,623</u>	<u>\$ 2,341,715</u>



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

Germania Farmers' Mutual Fire Insurance Company

Notes to Financial Statements

December 31, 2009

1. Summary of Significant Accounting Policies

Nature of Business	The company is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write 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, premium taxes, association fees and certain identified business development costs, 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: <table><tr><td>Buildings</td><td>- straight line over 25 years</td></tr><tr><td>Computer</td><td>- straight line over 5 years</td></tr><tr><td>Equipment and fixtures</td><td>- straight line over 3 to 5 years</td></tr></table>	Buildings	- straight line over 25 years	Computer	- straight line over 5 years	Equipment and fixtures	- straight line over 3 to 5 years
Buildings	- straight line over 25 years						
Computer	- straight line over 5 years						
Equipment and fixtures	- straight line over 3 to 5 years						
Other Intangible Assets	Customer lists are recorded at cost and are amortized on a straight-line basis over 20 years.						



Germania Farmers' Mutual Fire Insurance Company

Notes to Financial Statements

December 31, 2009

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	<p>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, 2009.</p> <p>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.</p>
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.



Germania Farmers' Mutual Fire Insurance Company

Notes to Financial Statements

December 31, 2009

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.



Germania Farmers' Mutual Fire Insurance Company

Notes to Financial Statements

December 31, 2009

1. Summary of Significant Accounting Policies (continued)

Financial Instruments	<p>Other financial liabilities</p> <p>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.</p>
Revenue Recognition	<p>Gross premium revenue is recognized over the effective term of the insurance policy as the policy amount is determined and collection is reasonably assured.</p> <p>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.</p>
New Accounting Pronouncements	<p>Recent accounting pronouncements that have been issued but are not yet effective, and will have a potential implication for the company, are as follows:</p> <p>a) International financial reporting standards</p> <p>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.</p>



Germania Farmers' Mutual Fire Insurance Company

Notes to Financial Statements

December 31, 2009

2. Accounts Receivable

	2009	2008
Accrued interest	\$ 88,684	\$ 92,417
Agents' balances	836,211	749,472
Due from policyholders	2,402,381	2,048,005
Broker's margin account - cash	1,662	7,260
Amounts recoverable on unpaid claims	2,154,251	2,380,324
Amounts receivable on paid claims	140,453	122,543
Recoverable from reinsurer - unearned premiums	645,670	541,355
Recoverable from Auto Facility Association	209,286	225,753
	<u>\$ 6,478,598</u>	<u>\$ 6,167,129</u>

3. Long-term Investments

The cost, estimated fair values and carrying values of investments at December 31, 2009 (with comparative cost amounts for December 31, 2008) were as follows:

	Cost	Fair Value	2009 Carrying Value	2008 Carrying Value
Available for Sale				
Debt securities				
Federal	\$ 5,102,805	\$ 5,199,418	\$ 5,199,418	\$ 3,829,462
Provincial	2,143,708	2,263,322	2,263,322	2,052,772
Corporate	2,151,443	2,226,059	2,226,059	2,834,405
Term deposits	-	-	-	25,000
Common and preferred shares	2,415,725	2,923,368	2,923,368	1,594,437
Farm Mutual Fixed Income				
Pooled Fund	1,813,584	1,790,735	1,790,735	1,687,798
Farm Mutual Equity Pooled Fund	449,679	367,495	367,495	283,308
Fire Mutual Guarantee Fund	26,707	26,707	26,707	22,316
	<u>\$14,103,651</u>	<u>\$14,797,104</u>	<u>\$14,797,104</u>	<u>\$ 12,329,498</u>



Germania Farmers' Mutual Fire Insurance Company Notes to Financial Statements

December 31, 2009

3. Long-term Investments (continued)

Maturity profile of bonds, debentures and investment certificates at December 31, 2009:

	Within 1 year	Over 1 to 5 years	Over 5 years	Carrying Value
\$	868,980	\$ 7,628,923	\$ 1,190,896	\$ 9,688,799

The effective interest rate at December 31, 2009 for bonds, debentures and investment certificates is 3.9% (2008 - 4.3%).

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

	2009		2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land and buildings	\$ 1,241,788	\$ 198,724	\$ 1,163,381	\$ 176,396
Computer	170,999	129,460	163,160	127,410
Equipment and fixtures	265,146	144,688	256,692	125,153
	<u>\$ 1,677,933</u>	<u>\$ 472,872</u>	<u>\$ 1,583,233</u>	<u>\$ 428,959</u>
Net book value		<u>\$ 1,205,061</u>		<u>\$ 1,154,274</u>

During the year, aggregate capital assets in the amount of \$145,995 were acquired, of which \$10,170 was by way of trade, with the remaining \$135,825 paid by cash.



Germania Farmers' Mutual Fire Insurance Company

Notes to Financial Statements

December 31, 2009

5. Goodwill and other intangible assets

	2009		2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Customer lists	\$ 72,925	\$ 34,030	\$ 72,925	\$ 31,250
Software license rights	-	-	30,000	21,250
Goodwill	55,575	-	55,575	-
	<u>\$ 128,500</u>	<u>\$ 34,030</u>	<u>\$ 158,500</u>	<u>\$ 52,500</u>
Net book value		<u>\$ 94,470</u>		<u>\$ 106,000</u>

No goodwill was impaired during the year. During the year \$11,530 (2008 - \$28,900) was amortized, \$2,780 (2008 - \$13,900) to amortization of intangible assets and \$8,750 (2008 - \$15,000) to computer services.

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 \$100,000 plus 10% of the next \$900,000 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.



Germania Farmers' Mutual Fire Insurance Company

Notes to Financial Statements

December 31, 2009

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:

	2009	2008
Current income tax expense (recovery)	\$ 319,285	\$ (289,975)
Future income tax expense (recovery)	(45,000)	-
Income tax effect on other comprehensive income	(95,900)	108,500
	<u>\$ 178,385</u>	<u>\$ (181,475)</u>

The future income tax asset of \$90,000 (2008 - \$45,000) 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. 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 (2008 - \$10,500) 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 \$57,617 (2008 - \$52,217) and 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.



Germania Farmers' Mutual Fire Insurance Company

Notes to Financial Statements

December 31, 2009

11. 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.

12. Contingent Liability

The company has been named as a defendant in an action for damages and costs allegedly sustained by the plaintiffs. Management expects such actions to be resolved with minimal damages or expense in excess of the amounts accrued, which is not reasonably determinable.

13. Capital Management

Germania Farmers' Mutual Fire 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 Farmers' Mutual Fire Insurance Company's exposure to \$600,000 plus 5% of the remaining loss. The \$600,000 net retained amount represents approximately 6% 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, 2009 was in excess of 500%.



Germania Farmers' Mutual Fire Insurance Company

Notes to Financial Statements

December 31, 2009

14. 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 97% 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.



Germania Farmers' Mutual Fire Insurance Company Notes to Financial Statements

December 31, 2009

14 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 \$926 which would be reflected in net income or OCI.

There have been no significant changes from the previous period in the exposure to risk or policies procedures and methods to used 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, 2009, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by \$431,526. 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.



Germania Farmers' Mutual Fire Insurance Company

Notes to Financial Statements

December 31, 2009

14. 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 \$329,086. 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.

15. Subsequent Events

On January 1, 2010 Germania Farmers' Mutual Fire Insurance Company amalgamated with Culross Mutual Insurance Company and will operate as Germania Mutual Insurance Company.

16. Statement of Cash Flows Information

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

	2009	2008
Income taxes recovered	\$ 357,632	\$ -
Income and premium taxes paid	\$ 34,017	\$ 207,838

