FUNDY MUTUAL INSURANCE COMPANY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

INDEX

AC Stevenson & Partners
CHARTERED ACCOUNTANTS

AC Stevenson & Partners PC Inc.
567 Coverdale Road
Riverview, N.B., Canada
E1B 3K7
506-387-4044 Tel
506-387-7270 Fax
sp@partnersnb.com

INDEPENDENT AUDITORS' REPORT

To the policyholders of Fundy Mutual Insurance Company:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statement of financial position of Fundy Mutual Insurance Company and its subsidiary as at December 31, 2012, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Fundy Mutual Insurance Company and its subsidiary as at December 31, 2012, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters

In accordance with section 78 of the Insurance Act of New Brunswick, we confirm that, within the scope of materiality we have verified cash, bank balance and securities, we have checked the reserve of unearned premiums and it is calculated as required by the Insurance Act, we have examined the reserve for unpaid claims and in our opinion it is adequate, we have verified the balances owing by agents and other insurers, we have verified that the statement of financial position does not include as assets items prohibited by the Insurance Act, and that all transactions of the company that have come within our notice have been within its power.

Stevenson + Partners

Riverview, NB
March 26, 2013

Chartered Accountants

FUNDY MUTUAL INSURANCE COMPANY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION Statement **1**

DECEMBER 31, 2012

	2012	2011
ASSETS		
Cash	$ 342,786	$ 472,400
Investments (Note 4)	9,983,791	9,760,281
Accrued interest income	70,496	72,773
Due from agents, brokers and policyholders	579,351	603,137
Reinsurers share of		
Policy and claims liabilities (Note 5)	310,540	462,658
Unearned premiums (Note 5)	100,731	104,570
Receivable from other insurance companies	117,390	44,387
Income taxes recoverable	8,821	178,666
Investment in associate (Note 6)	3,061,889	2,916,119
Deferred premium acquisition costs (Note 5)	344,790	330,257
Investment property (Note 7)	232,943	238,592
Property and equipment (Note 8)	598,870	580,292
Intangible assets (Note 8)	4,975	17,456
Other assets	11,566	16,820
	$15,768,939	**$15,798,408**
LIABILITIES		
Reserve for policy and claims liabilities (Note 5)	$ 690,014	$ 1,015,128
Other liabilities (Note 9)	309,008	271,641
Unearned premiums (Note 5)	1,865,753	1,794,886
Deferred income taxes (Note 10)	19,420	31,525
	2,884,195	3,113,180
Contingencies (Note 13)		
EQUITY		
General reserve - Statement 2	12,806,481	12,622,799
Accumulated other comprehensive income - Statement 2	78,263	62,429
	12,884,744	12,685,228
	$15,768,939	**$15,798,408**

APPROVED ON BEHALF OF THE BOARD:

_______________________________ Director

_______________________________ Director

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

FUNDY MUTUAL INSURANCE COMPANY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY Statement **2**

FOR THE YEAR ENDED DECEMBER 31, 2012

	2012	**2011**
General reserve		
Balance, beginning of year	$12,622,799	$12,956,391
Net income (loss) for the year - Statement 3	183,682	(333,592)
Balance, end of year - Statement 1	**$12,806,481**	**$12,622,799**
Accumulated other comprehensive income		
Balance, beginning of year	$ 62,429	$ 122,574
Total other comprehensive income (loss) - Statement 3	15,834	(60,145)
Balance end of year - Statement 1	**$ 78,263**	**$ 62,429**

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

FUNDY MUTUAL INSURANCE COMPANY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME — Statement 3

FOR THE YEAR ENDED DECEMBER 31, 2012

	2012	2011
Premiums written	$ 3,392,648	$ 3,265,949
Less: Insurance ceded	(194,763)	(207,962)
Reinsurance premiums	(798,568)	(751,948)
Increase in unearned premiums	(72,662)	(57,721)
Net premiums earned	2,326,655	2,248,318
Losses		
Claims and adjusting expenses incurred including depreciation of $Nil (2011 - $3,780)	1,350,248	1,696,249
Reinsurance recoveries	(480,688)	(554,890)
Net claims incurred	869,560	1,141,359
	1,457,095	1,106,959
Expenses		
Premium acquisition expense - Schedule 1	702,852	706,428
Operating expenses - Schedule 1	1,327,221	1,121,869
	2,030,073	1,828,297
Underwriting loss	(572,978)	(721,338)
Investment income and other items (Note 11)	735,411	231,752
Income (loss) before income taxes	162,433	(489,586)
Recovery of income taxes (Note 10)	21,249	155,994
Net income (loss) for the year - Statement 2	183,682	(333,592)
Other comprehensive income:		
Share of other comprehensive income (loss) of associate (Note 6)	15,834	(60,145)
Comprehensive income (loss) for the year	**$ 199,516**	**$ (393,737)**

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

FUNDY MUTUAL INSURANCE COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS Statement **4**

FOR THE YEAR ENDED DECEMBER 31, 2012

	2012	2011
Cash flows from operating activities:		
Net income (loss) for the year - Statement 3	$ 183,682	$ (333,592)
Items not requiring an outlay of cash:		
Depreciation and amortization	77,212	76,118
Gain on disposal of investments	(75,861)	(148,002)
Dividends received	172,872	158,587
Change in fair value through profit or loss financial instruments (Note 16)	(234,730)	349,522
Deferred income taxes (Note 10)	(12,105)	(3,594)
Amortization of premium on acquisition of voting shares of related party	2,811	2,811
Share of income of associate	(132,747)	(137,667)
Amortization of discounts on investments	23,997	24,025
	5,131	(11,792)
Changes in non-cash working capital balances related to operations (Note 17)	52,703	217,189
Cash flows from operating activities	57,834	205,397
Cash flows from investing activities:		
Additions to property, equipment, intangibles and investment property	(77,660)	(82,823)
Proceeds on sale of investments	2,966,684	2,362,279
Purchase of investments	(3,076,472)	(2,382,482)
Cash flows used for investing activities	(187,448)	(103,026)
Increase (decrease) in cash and cash equivalents	(129,614)	102,371
Cash and cash equivalents, beginning of year	472,400	370,029
Cash and cash equivalents, end of year	**$ 342,786**	**$ 472,400**

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

FUNDY MUTUAL INSURANCE COMPANY

CONSOLIDATED SCHEDULE OF OPERATING EXPENSES

Schedule **1**

FOR THE YEAR ENDED DECEMBER 31, 2012

	2012	**2011**
Premium acquisition expenses		
Commissions expense	$ 388,396	$ 362,265
Reinsurance commissions earned	(79,110)	(69,200)
Net commissions	309,286	293,065
Advertising	10,194	14,950
Computer and maintenance contracts	15,326	18,302
Depreciation	1,881	1,730
Fire Marshall's tax	21,421	20,417
Miscellaneous	3,056	1,889
Premium tax	101,779	97,979
Printing, stationery and supplies	2,126	7,694
Rental income	9,648	7,390
Salaries and benefits	204,739	217,487
Utilities	15,697	18,568
Water, sewerage and property taxes	7,699	6,957
	$ 702,852	**$ 706,428**
Operating expenses		
Advertising and donations	$ 177,324	$ 74,836
Bonding and insurance	19,505	17,430
Building and equipment maintenance	27,023	24,825
Computer and maintenance contracts	163,986	100,727
Depreciation	69,683	64,392
Directors fees and expenses	89,751	71,938
Dues, conventions and education	60,254	73,360
Executive and office expenses	1,441	521
Heat and lights	15,804	16,731
Interest and bank charges	7,541	8,403
Manager's vehicle expense	15,586	16,134
Miscellaneous	24,237	17,824
Postage	20,677	20,278
Printing, stationery and supplies	14,960	13,495
Professional services	36,947	31,015
Safety survey expenses	25,908	19,107
Salaries and employee benefits	504,652	499,715
Telephone	28,205	27,171
Water, sewerage and property taxes	23,737	23,967
	$ 1,327,221	**$ 1,121,869**

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

Description of major business activities

Fundy Mutual Insurance Company (Fundy) is incorporated under the laws of the province of New Brunswick and is subject to regulation by the provincial Superintendent of Insurance. The company is an insurer for both property and liability risks.

1. Adoption of new and revised standards and interpretations

At the date of authorization of these consolidated financial statements, the IASB and IFRS Interpretations committee (IFRIC) has issued the following new and revised standards, amendments and interpretations which are not yet effective during period covered by these consolidated financial statements.

IFRS 9 - Financial Instruments (January 1, 2013)
IFRS 10 - Consolidated financial statements (January 1, 2013)
IFRS 11 - Joint Arrangements (January 1, 2013)
IFRS 13 - Fair value measurement (January 1, 2013)
IAS 28 - Investments in associates and joint ventures (January 1, 2013)

The company anticipates that the application of these standards, amendments and interpretations will have no material impact on the results and financial position of the company.

2. Summary of significant accounting policies

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and in accordance with the regulations of the Superintendent of Insurance of New Brunswick.

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments and deemed cost of investment property. The significant accounting policies adopted by the company are set out below.

In accordance with IFRS 4 Insurance Contracts, the company has applied previous Canadian generally accepted accounting principles (GAAP) accounting policies modified as appropriate to comply with the IFRS framework. Previous Canadian GAAP accounting policies will continue to be applied for the company's insurance contracts until such time as the current project by IASB for insurance contracts is completed and subsequently adopted.

(a) **Basis of consolidation**

These consolidated financial statements include the accounts of Fundy and its wholly owned subsidiary, Dairytown Insurance Ltd. All significant intercompany transactions have been eliminated.

(b) **Financial instruments**

All financial instruments are classified as either fair value through profit or loss (FVTPL), available-for-sale, held-to-maturity, loans and receivables, or other liabilities. FVTPL and available-for-sale financial instruments are revalued to their fair value as of the financial statement reporting date. FVTPL financial instruments are recognized through net profit (loss) and available-for-sale financial instruments are recognized through other comprehensive income until the instrument is derecognized or impaired. Held-to-maturity, loans and receivables, and other liabilities are measured at amortized cost. Transactions costs are included in the carrying value of the financial instruments.

2. Summary of significant accounting policies (continued)

(b) **Financial instruments (continued)**

For information on the classification of each financial instrument of the company see Note 16.

Available-for-sale financial assets are assessed for indicators of impairment at each reporting period date. They are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. A significant or prolonged decline in fair value of an available-for-sale financial asset below its cost is considered to be objective evidence of impairment.

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets and the loss is recognized in net profit (loss) for the year.

In respect of available-for-sale financial instruments, impairment losses previously recognized through net profit (loss) are not reversed through net profit (loss) for the year. Any increase in fair value subsequent to an impairment loss is recognized directly in comprehensive income (loss) for the year.

Investments

Equities, bonds and debentures are carried at fair value based on bid prices published in financial newspapers or bid quotations received from securities dealers. Any premiums or discount on bond acquisitions is amortized, and any specific investment provisions flow through net profit (loss).

Investment income

Realized gains and losses arising from the sale of investments are the difference between the proceeds received, net of transaction costs, and its original cost or amortized cost as appropriate, using the average cost basis. Interest income is recorded on the accrual basis and dividends are recorded when the rights to receive payment have been established. Bond premiums and discounts are amortized over the life of the bond.

Unrealized gains and losses

Unrealized gains or losses on the Investments represents the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognized unrealized gains and losses in respect of disposals during the year.

2. Summary of significant accounting policies (continued)

(c) **Insurance contracts**

Deferred premium acquisition costs

Deferred premium acquisition costs consist of agents' commissions and other policy acquisition costs which relate directly to the acquisition of premiums. 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.

Reserves for policy and claims liabilities

Reserves for policy and claims liabilities includes claims and adjustment expenses which represent the estimated amounts required to settle all outstanding and unreported claims incurred to the end of the fiscal year. The valuation of the claims liabilities is determined on a non-discounted basis.

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.

Insurance ceded

Premiums, claims and premium taxes are recorded net of amounts ceded to and receivable from reinsurers. Unearned premiums and deferred policy acquisition costs are also reported net of business ceded to reinsurers.

Estimates of amounts recoverable from reinsurers on policy and claims liabilities are recorded separately from estimated amounts payable to policyholders. The recoverable amounts are estimated in a manner consistent with unpaid claim liability to the policyholder.

Earned/unearned premium revenue

Premium revenue is recognized on a daily pro rata basis over the terms of the insurance policies. Unearned premiums represent the portion of premiums written which are applicable to the unexpired terms of the policy in force.

(d) **Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, the company considers cash on hand to be balances with bank and stockbrokers, net of overdrafts, as cash or cash equivalents. Bank borrowings are considered to be financing activities.

(e) **Investment in associate**

The investment in the shares of the associate is accounted for on the equity basis whereby the carrying value of the investment is adjusted for Fundy's share of net income (loss) and other comprehensive income (loss) of the associate. Investments are written down when a decline in the value below cost is determined to be other than temporary. The premium paid on acquisition of the voting shares in this company is being amortized to income over 20 years with 2012 being the final year of amortization.

2. Summary of significant accounting policies (continued)

(f) **Property and equipment**

Property and equipment is recorded at cost less accumulated amortization and any recognized impairment loss. Depreciation is provided annually on a straight-line basis at rates calculated to write-off the cost of the property and equipment over their estimated useful lives using the following rates:

Building	15 to 40 years
Office furniture and equipment	15 years
Computer hardware	3 years
Automobiles	3 to 6 years

(g) **Intangible assets**

Intangible assets consist of computer software, which are not integral to the computer hardware owned by the company.

Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 3 years.

(h) **Investment property**

The company's investment property consists of land and building held to earn rental income. Investment property is initially recorded at cost or deemed cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated. Buildings are depreciated on a straight-line basis over their estimated useful life of 15 to 40 years.

Rent receivable is recognized in net profit/loss and is spread on a straight-line basis over the period of the lease. Where an incentive, such as a rent free period is given to a tenant, the carrying value of the investment property excludes any amount reported as a separate asset.

(i) **Impairment of tangible assets**

At the end of each reporting period, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the asset's useful life.

The recoverable amount is the higher of fair value less costs to sell and value in use. In 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increase in carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

2. Summary of significant accounting policies (continued)

(j) Income taxes

The tax expense represents the sum of current income tax payable and deferred income tax.

The income tax currently payable is based on taxable income for the year. Taxable income differs from net profit (loss) as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current income tax is calculated using income tax rates effective at the statement of financial position date.

Deferred income tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statement and the corresponding income tax bases used in the computation of taxable income. Deferred tax is accounted for as an asset or liability on the consolidated statement of financial position. Deferred income tax liabilities are generally recognized for all taxable temporary differences and deferred income tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred income tax is calculated at the tax rates that have been enacted or substantially enacted at the end of the reporting period. Deferred tax is charged or credited to the consolidated statement of comprehensive income except when it relates to items charged or credited directly to equity, in which case the deferred income tax is charged or credited in equity.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right of offset of current income tax assets and liabilities and when the company intends to settle its current income tax assets and liabilities on a net basis.

(k) Comprehensive income (loss)

Comprehensive income includes the change in the company's net assets that result from transactions, events and circumstances from sources other than the company's equity and includes items that would not normally be included in net profit (loss), such as unrealized gains and losses on available-for-sale financial instruments from the company or as a result of the company’s portion of available-for-sale financial instruments in its associate.

(l) Product classification

The company's product consists of property and liability insurance and is classified, for accounting purposes, as an insurance contract. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire.

Insurance contracts are those contracts that transfer significant insurance risk, if and only if, an insured event could cause an insurer to make significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Such contracts may also transfer financial risk.

3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in a period of the revision and future periods if the revision affects both current and future periods.

(a) Critical judgments in applying the company's accounting policies

Management has not made any critical judgments apart from those involving estimations (which are dealt with separately below) in the process of applying the company's accounting policies that have significant effect on the amounts recognized in these consolidated financial statements.

(b) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Valuation of reserves for policy and claims liabilities

Determining the reserve for policy and claims liabilities involves an assessment of the future development of the claims. The process takes into account the consistency of the company's claims handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises, and the delays in reporting of claims. These reserves for policy and claims liabilities are estimates and, as such, are subject to variability, which could be material in the near term. Changes to the estimates could result from future events such as receiving additional claim information, changes in judicial interpretations of contracts or significant changes in severity or frequency of claims from past trends. In general, the longer the term required for settlement of claims, the more variable the estimates may be.

The estimates are principally based on the company's historical experience. Methods of estimation have been used that the company believes produce reasonable results given current information. As additional experience and other data become available, the estimates could be revised. Any future changes in estimation would be reflected in the consolidated statement of comprehensive income (loss) for the year in which the change occurred.

3. Critical accounting judgments and key sources of estimation uncertainty (continued)

(b) Key sources of estimation uncertainty (continued)

Equity income in associate

The company records equity income in its associate at each financial statement date (Note 6). There is currently a dispute among the shareholder mutual insurance companies of the associate with regards to the allocation of income and the interpretation of Clause 9 of the United General Insurance Corporation shareholder agreement. This dispute relates to the 2007 to 2012 years. The income recorded in the current year can be seen in Notes 6 and 11. The equity income recorded in the 2010 to 2012 year is based on the company's best estimate on what it expects to earn from the associate for those years. The current carrying amount of the asset which this estimation uncertainty relates is $3,061,889. As of the consolidated financial statement date it is unknown what effect, if any, to the recorded equity income from the 2007 to 2012 year will result from the resolution of this dispute. Once this dispute is resolved, the carrying value of this asset and its related equity income recorded may vary materially from that recorded in these consolidated financial statements.

4. Investments

Investments are classified as fair value through profit or loss financial instruments, and therefore are carried at their fair value. The fair value of investments is as follow:

	2012 Fair Value	2011 Fair Value
Term deposit	$ 508	$ 505
N.B.M.I.A. Guarantee Fund	48,584	48,584
Equity investments	5,930,822	5,547,337
	5,979,914	5,596,426
Bonds and debentures maturing within one year:		
Government of Canada	254,313	-
Provincial/Municipal Governments	424,675	438,018
Canadian Corporate/Financial Institutions	530,729	552,971
Bonds and debentures maturing one to five years:		
Government of Canada	-	264,995
Provincial/Municipal Governments	1,165,520	1,323,073
Canadian Corporate/Financial Institutions	1,628,640	1,584,798
	4,003,877	4,163,855
	$ 9,983,791	**$ 9,760,281**

4. Investments (continued)

The interest rates on bonds and debentures are as follows:

	Interest receivable basis	**2012** Effective rates (% range)	**2011** Effective rates (% range)
Government of Canada	semi-annual	5.25%	5.25%
Provincial/Municipal Governments	semi-annual	4.25% to 9%	4.1% to 9%
Canadian Corporate/Financial Institutions	semi-annual	0.89% to 6.5%	0.67% to 6.3%

5. Insurance contracts

Deferred premium acquisition costs

The following is a schedule of the changes in deferred premium acquisition costs for the year:

	2012	**2011**
Beginning of year	$ 330,257	$ 318,713
Acquisition costs incurred during the year	678,530	653,190
Expensed during the year	(663,997)	(641,646)
End of year	**$ 344,790**	**$ 330,257**

Reserve for policy and claims liabilities

Changes in claim liabilities recorded in the consolidated statement of financial position for the years ended December 31, 2012 and 2011 and their impact on claims and adjustment expenses for the two years is as follows:

	2012	**2011**
Reserve of policy claims and liabilities, beginning of year		
Gross	$ 1,015,128	$ 941,019
Reinsurer's share	(462,658)	(539,273)
	552,470	401,746
Decrease in estimated losses and expenses, for losses occurring in prior years	3,005	(32,720)
Provision for losses and expenses on claims occurring in the current year	817,268	1,032,188
	820,273	999,468
Paid claims occurring during:		
Current year events	(579,818)	(624,987)
Prior events	(413,451)	(223,757)
	(993,269)	(848,744)
	$ 379,474	**$ 552,470**

5. Insurance contracts (continued)

Reserve for policy and claims liabilities (continued)

Reserve for policy claims and liabilities, end of year:		
Gross	$ 690,014	$ 1,015,128
Reinsurer's share	(310,540)	(462,658)
	$ 379,474	**$ 552,470**

The company has determined estimated settlements in the next fiscal year on the reserve for policy claims and liabilities noted above to be $436,000. This estimate was determined through the use of historical data on claims payments year over year.

Claims development

As reserves for policy claims and liabilities reflect the expected payments on the claims incurred, there can be uncertainty in the ultimate payment on the claims when they are closed. As a result the following is a detail of the claims as of the beginning of the fiscal period by year and the changes which have occurred.

Claims net of reinsurer's share ($'000)

	2007	2008	2009	2010	2011	2012	Total
Net estimate of cumulative claims cost							
At the end year of claim	659	$ 1,264	$ 885	$ 703	$ 1,204	$ 855	
One year later	644	1,228	825	684	1,178		
Two years later	652	1,229	809	684			
Three years later	656	1,230	813				
Four years later	645	1,220					
	661						
Current estimate of cumulative claims cost	661	1,220	813	684	1,178	855	5,411
Cumulative payments	646	1,220	802	616	1,164	628	5,076
Outstanding claims	15	-	11	68	14	227	335
Outstanding claims 2006 and prior							44
Total net outstanding claims							**$ 379**

Unearned premiums and reinsurers share of unearned premiums

Unearned premiums on the consolidated statement of financial position consist of the unearned portions of premiums, reinsurance premiums and deferred commissions. The following is a schedule of the changes in the above for the year:

	2012	**2011**
Beginning of year	$ 1,794,886	$ 1,724,130
Premiums written in year	3,392,648	3,265,949
Premiums earned in year	(3,321,781)	(3,195,193)
End of year	**$ 1,865,753**	**$ 1,794,886**

5. Insurance contracts (continued)

Unearned premiums and reinsurers share of unearned premiums (continued)

The following is a schedule of the changes in reinsurer's share of unearned premiums for the year:

	2012	2011
Beginning of year	$ 104,570	$ 95,091
Reinsurer's share of premiums written in year	187,800	195,329
Reinsurer's share of premiums earned in year	(191,639)	(185,850)
End of year	**$ 100,731**	**$ 104,570**

6. Investment in associate

United General Insurance Corporation is owned by the four New Brunswick Mutual Insurance companies including Fundy Mutual Insurance Company. United General writes automobile policies for these New Brunswick Mutuals. The automobile policies are sold by the company's agents and the company receives no direct benefit from these automobile policies.

The investment in associate, United General Insurance Corporation (United General), includes:

	2012	2011
Voting shares	$ 73,818	$ 76,629
Participating shares	2,747,442	2,747,442
Undistributed share of post-acquisition income	432,367	299,620
Undistributed share of other comprehensive income	78,262	62,428
Allowance for impairment of investment in associate	(270,000)	(270,000)
	$ 3,061,889	**$ 2,916,119**

The unamortized premium on acquisition included in the investment in the voting shares of the related party is $NIL (2011 - $2,811).

At December 31, 2012, the company held approximately 24% (2011 - 25%) of the total equity of United General and had 25% of voting control.

Subject to the terms of a shareholder agreement, the net income or loss of United General is allocated to each shareholder annually. Historically, for each dollar of income allocated to one of the shareholders, one share of United General's participating shares is issued by way of a stock dividend. For each dollar of loss attributable to one of the shareholders, they must surrender one of their participating shares for cancellation. There have been no stock dividends or shares surrendered since 2007.

Under the terms of a shareholder agreement, should the company wish to withdraw from United General, it would receive proceeds equal to 80% of the book value of the company's equity in United General. If the company was required to withdraw from United General, it would receive proceeds equal to 120% of the book value of the company's equity in United General.

6. Investment in associate (continued)

The company's portion of United General's underwriting income is based on the auto business written by the company's agents for United General, net of the expenses relating to those premiums. The company's portion of United General's investment income and other comprehensive is based on the average net assets of United General contributed by the company. The following is a summary of the company's portion of United General's financial position and operations:

Statement of financial position

	2012	2011
Assets		
Investments	$ 3,943,341	$ 3,740,006
Due from agents, brokers and policyholders	343,182	327,805
Reserve for policy claims and liabilities recoverable from reinsurers	463,724	461,692
Other assets	253,666	357,646
	$ 5,003,913	$ 4,887,149
Liabilities		
Reserve for policy claims and liabilities	$ 993,140	$ 1,053,985
Unearned premiums	657,082	638,768
Other liabilities	178,698	152,150
	1,828,920	1,844,903
Shareholder's equity	3,174,993	3,042,246
	$ 5,003,913	$ 4,887,149

Statement of operations

	2012	2011
Gross premiums earned	$ 720,861	$ 768,954
Reinsurance costs	(238,799)	(339,181)
Net premiums earned	482,062	429,773
Net claims incurred	(361,940)	(292,051)
Commissions and other expenses	(273,404)	(240,292)
Underwriting loss	(153,282)	(102,570)
Investment and other income	173,352	276,814
Income before income taxes	20,070	174,244
Provision for Income taxes	(3,258)	(36,577)
Adjustment for previous allocation estimate change	115,935	-
Company's portion of annual income	$ 132,747	$ 137,667

The four shareholders of United General Insurance Corporation are currently in discussions for updating the current shareholder agreement. The main changes in the shareholder agreement may affect the method of allocating income in United General Insurance Corporation to the individual mutual insurance companies (see Note 3).

7. Investment property

	Land	Building	Total
Gross Carrying Amount			
Balance December 31, 2011	$ 70,000	$ 180,000	$ 250,000
Additions	-	-	-
Disposals	-	-	-
Balance December 31, 2012	70,000	180,000	250,000
Depreciation and impairment			
Balance December 31, 2011	-	11,408	11,408
Additions	-	5,649	5,649
Disposals	-	-	-
Balance December 31, 2012	-	17,057	17,057
Carrying amount,			
December 31, 2012	**$ 70,000**	**$ 162,943**	**$ 232,943**
Gross Carrying Amount			
Balance January 1, 2011	$ 70,000	$ 180,000	$ 250,000
Additions	-	-	-
Disposals	-	-	-
Balance December 31, 2011	70,000	180,000	250,000
Depreciation and impairment			
Balance January 1, 2011	-	5,759	5,759
Additions	-	5,649	5,649
Disposals	-	-	-
Balance December 31, 2011	-	11,408	11,408
Carrying amount,			
December 31, 2011	**$ 70,000**	**$ 168,592**	**$ 238,592**

The fair value of the investment property is $250,000 (2011 - $250,000).

Investment property held by the company is leased out under operating leases on a month to month basis.

8. Property, equipment and intangible assets

	Property and equipment						Intangible assets
	Land	Building	Office Furniture and Equipment	Computer Hardware	Automobiles	Total	Computer Software
Gross Carrying Amount							
Balance December 31, 2011	$ 175,000	$ 488,559	$ 126,524	$ 126,804	$ 67,368	$ 984,255	$ 190,237
Additions	-	-	8,735	46,032	22,893	77,660	-
Disposals	-	-	-	(44,689)	-	(44,689)	(489)
Balance December 31, 2012	175,000	488,559	135,259	128,147	90,261	1,017,226	189,748
Depreciation and impairment							
Balance December 31, 2011	-	150,776	86,216	117,827	49,144	403,963	172,781
Additions	-	16,479	7,544	23,783	11,276	59,082	12,481
Disposals	-	-	-	(44,689)	-	(44,689)	(489)
Balance December 31, 2012	-	167,255	93,760	96,921	60,420	418,356	184,773
Carrying amount, December 31, 2012	$ 175,000	$ 321,304	$ 41,499	$ 31,226	$ 29,841	$ 598,870	$ 4,975
Gross Carrying Amount							
Balance January 1, 2011	$ 175,000	$ 457,394	$ 126,524	$ 125,188	$ 45,500	$ 929,606	$ 175,313
Additions	-	44,415	-	1,616	21,868	67,899	14,924
Disposals	-	(13,250)	-	-	-	(13,250)	-
Balance December 31, 2011	175,000	488,559	126,524	126,804	67,368	984,255	190,237
Depreciation and impairment							
Balance January 1, 2011	-	145,881	79,145	92,480	41,719	359,225	160,300
Additions	-	18,145	7,071	25,347	7,425	57,988	12,481
Disposals	-	(13,250)	-	-	-	(13,250)	-
Balance December 31, 2011	-	150,776	86,216	117,827	49,144	403,963	172,781
Carrying amount, December 31, 2011	$ 175,000	$ 337,783	$ 40,308	$ 8,977	$ 18,224	$ 580,292	$ 17,456

The company did not record any impairment charges or reversals during the years noted above.

9. Other liabilities

	2012	2011
Premium and Fire Marshall's taxes payable	49,715	48,308
Other payables and accruals	259,293	223,333
	$ 309,008	$ 271,641

10. Income taxes

The company's recovery of income taxes is made up of the following items:

	2012	2011
Current income taxes recovery	$ 9,144	$ 152,400
Deferred income taxes recovery	12,105	3,594
	$ 21,249	$ 155,994

In computing the company's taxable income there are certain items that are restricted in their deduction or are not taxable:

	2012	2011
Tax at combined basic Canadian federal and provincial income tax rates	$ 27,175	$ (104,657)
Temporary differences	1,803	6,998
Non-taxable dividends deductible	(25,269)	(33,455)
Investment tax reserve	-	4,610
Share of income of associate	(22,209)	(29,351)
Charitable donations carried forward used to future years	2,135	2,737
Income tax losses carried forward to future years	6,216	-
Non deductible and restricted deductible expenses	1,005	718
Current income tax	$ (9,144)	$ (152,400)

The effects of temporary differences, which give rise to the net deferred income tax assets or liabilities reported, are as follows:

	2012	2011
Excess of undepreciated capital cost over net book value	$ (32,906)	$ (35,945)
Non-capital losses for use in future years	6,354	-
Reserve for policy and claims liabilities	3,036	4,420
Charitable donations for use in future years	4,096	-
	$ (19,420)	$ (31,525)

11. Investment and other income

	2012	2011
Interest from term deposits, bonds and debentures	$ 191,018	$ 209,991
Dividends received	172,872	158,587
Gain on disposal of investments	75,861	148,002
Change in fair value through profit or loss financial instruments	234,730	(349,522)
Investment management fees	(68,551)	(66,399)
Amortization of premiums on investments	(23,997)	(24,025)
Share of income of associate (Note 6)	132,747	137,667
Interest income on premiums receivable	23,542	20,262
Amortization of premium on acquisition of associate	(2,811)	(2,811)
	$ 735,411	$ 231,752

12. Related party transactions

Key management of the company is senior employees, officers and members of the board of directors. Key management personnel remuneration includes the following expenses:

	2012	2011
Key management remuneration	$ 176,459	$ 179,330

Included in the consolidated statement of comprehensive income are the following items relating to key management:

Premiums paid	$ 24,074	$ 21,994
Claims incurred (recovered)	$ -	$ (1,385)

13. Contingencies and commitment

(a) 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 reserve for policy and claims liabilities.

(b) The minimum lease payments under operating leases are as follows:

2012	$ 42,689
2013	42,352
2014	43,934
2014	43,934
2015	25,628

The operating lease expense for the year ended December 31, 2012 was $58,826.

14. Capital management

The company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable (see Note 15(b)). For the purpose of capital management, the company has defined capital as its General Reserve, excluding accumulated other comprehensive income (loss).

The Insurance Act of New Brunswick requires insurers to maintain a reserve requirement equal to the sum of $500 for every $100,000 of the first $1,000,000 of insurance in force, and $3,000 for each additional $1,000,000 or part thereof insurance in force. The company's general reserve as at December 31, 2012 was 2.51 (2011 - 2.61) times the requirement of the New Brunswick Insurance Act, which results in a total reserve requirement of $5,104,000 (2011 - $4,823,000)

Government regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators 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 requires a minimum capital available of $1,257,000 (2011 - $1,206,000). The capital available for the company at December 31, 2012 was $8,643,000, 788% of required minimum capital (2011 - $9,707,000, 805% of required capital).

15. Risk management, reinsurance and other risks

(a) Risk management

Consistent with other similar entities, Fundy Mutual Insurance Company's risk management policies are typically performed as part of the overall management of the company's operations. Management is aware of risks related to these objectives through direct personal involvement with employees and outside parties. Management's close involvement in operations identifies risks and variations from expectations leading to changes in risk management activities and requirements and actions. Management has not entered into hedging transactions or other derivatives to manage risk. As part of the overall management of the entity's operations, management avoids undue concentrations of risk to mitigate credit risk.

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

(b) Insurance risk

Reserves for policy and claims liabilities

The reserves for policy and claims liabilities and related reinsurer's share are estimates subject to variability and the variability might be material in the near term. The variability arises because all events affecting the ultimate settlement of claims may not have taken place and may not take place for some time. Variability 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 principally based on the company's historical experience. Methods of estimation are used, which the company believes produce reasonable results given current information. All changes in estimates are recorded as incurred claims in the current period.

The company assists in minimizing risk of the above by diversifying risk across a large portfolio of insureds.

15. Risk management, reinsurance and other risks (continued)

(b) Insurance risk (continued)

Reinsurance and underwriting

The company mitigates its insurance risk by having in place underwriting guidelines as well as reinsuring insurance contracts which limit the liability of the company to a maximum amount on any one claim. The company uses its underwriting guidelines to minimize risk by assessing individual policies, determining if the risk is within the tolerable range and then pricing the policy accordingly.

The current reinsurance contracts are as follows:

Property claims

First $100,000 plus 10% of any excess to $1,000,000 per loss, which limits the company's exposure in any one property claim to $190,000. In addition, the company has obtained reinsurance which limits the company's liability to $300,000 in a catastrophe. Stop loss reinsurance is also in effect which protects the company to limit the "Net Incurred Loss Ratio" to 80% of its fire insurance premiums. For losses exceeding 200% of gross premiums income, the deductible is not applicable. In the 2013 year any new claims resulting will be limited to the first $100,000, which limits the company's exposure to $100,000.

Liability claims

The company pays 50% of the first $20,000 plus 5% of any excess to $1,000,000 per loss, which limits the company's exposure in any one liability claim to $59,000. Liability reinsurance is effected through a 50/50 quota share treaty. For losses exceeding 200% of gross premium income, the deductible is not applicable. For the 2013 year any new claims resulting will be limited to the 50% of the first $20,000, which results in a maximum exposure of $10,000.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. Unearned premiums on business ceded and estimates of amounts recoverable from the reinsurers on reserve for policy and claims liabilities are recorded on the consolidated statement of financial position. A contingent liability exists with respect to reinsurance ceded which could become a liability of the company in the event the reinsurer might be unable to meet its obligations under the reinsurance agreement.

The reinsurance of insurance contracts does not relieve the company's obligation to the policyholders. The company is exposed to the risk that the reinsurer will be unable to meet its obligations.

Insurance pricing

The company is exposed to pricing risk to the extent that the company's unearned premiums are insufficient to meet related future policy cost. The company evaluates this risk on a regular basis by estimating future policy costs through extrapolation of historical loss trends.

15. Risk management, reinsurance and other risks (continued)

(c) **Other risks**

Credit risks

Credit risk arises from the potential that a counter party will fail to perform its obligations. The company conducts a thorough assessment of debtors prior to granting credit and actively monitors the financial health of its debtors on an on-going basis. The premiums receivable, net of applicable reserves, approximates fair value.

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 all of the bonds rated BB 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 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 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 16.

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

Liquidity Risks

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 maintains high levels of liquid assets (cash, term deposits, equities and debt securities) to ensure that any reasonably unforeseen cash demand can be met readily. 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.

All financial liabilities have a maturity of less than one year.

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. Risk management reinsurance and other risks (continued)

Guarantee fund risk

The company has previously entered into a trust agreement with other fire mutual insurance companies. Under this trust agreement the company has on deposit $48,584 in the trust fund. This fund is available to assist in discharging any outstanding claims under insurance contracts and costs relating to the windup of a participant in the trust to the extent the company being wound up does not have sufficient assets to cover these expenses. The portion of the expenses payable out of the fund is based on a pro-rata share of the amount of the trust fund, based on the amount of risk as set out in the report of the Superintendent for the fiscal year immediately preceding the date of the payment to the fund. If there is insufficient amounts in the fund to cover all the above liabilities, and an additional payment is required, the company is required to pay to the fund an amount equal to a pro rata share of the additional payment based on the amount of risk as set out in the report of the Superintendent for the fiscal year immediately preceding the date the notice is given by the trustee to the company. The maximum risk to the company is 50% of the real surplus of the company, which is defined as the investments of the company, less an allowance to reflect reductions in market value of the investments, less the unearned premiums reserve of the company, less the statutory reserve of the company as required by the Insurance Act of New Brunswick (Note 14). The total at risk amount of the company as of December 31, 2012 is $1,483,000 (2011 - $1,546,000).

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.

<u>Interest rate risks</u>

Interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The company is exposed to this risk through its interest bearing investments. The company's invests in a diversified bond portfolio with 5 to 10 year maturity horizons to help mitigate the effect of interest rate fluctuations on interest income. Interest income is affected negatively in falling rate conditions but positively in rising interest rate conditions. At December 31, 2012, an increase or decrease of 1% in interest rates, with all other variables held constant, would affect the comprehensive income by $106,000, net of tax. These estimates are based on broker information and could differ from actual amounts.

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.

15. Risk management reinsurance and other risks (continued)

(c) **Other risks (continued)**

Market risk (continued)

Currency risk

The company's foreign exchange risk is related to its foreign stock holdings. Foreign currency changes are monitored by the investment committee. Foreign stocks included in the company's available for sale financial assets primarily relate to US dollar denominated equities totaling $1,609,887 Canadian. A 10% rise or fall in the value of the US dollar, with all other variables held constant, would affect comprehensive income by $135,000, net of tax. The company has not entered into any derivative financial instruments to hedge this currency risk exposure.

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

Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The company is exposed to this risk through its equity holdings within its investment portfolio. The company is not generally exposed to equity risk on its debt securities as these investments are typically held to their maturity.

The company's investment policy includes guidelines on the equity portfolio related to portfolio composition, preferred share rating as well as general guidelines for group and industry exposure. The company's equity portfolio is monitored by management on a quarterly basis. To further minimize risk exposure, the company has its investments managed by four third party investment managers.

The company’s portfolio includes stocks and mutual funds with fair values that move with the changes in stock markets. A 10% movement in the stock markets with all other variables held constant would have an estimated effect on comprehensive income by $498,000, net of tax.

16. Fair value of financial instruments

Financial instruments included in the consolidated statement of comprehensive income of Fundy Mutual Insurance Company are broken down as follows:

Loans and receivables

Accrued interest income, receivables from other insurance companies, and reinsurer's share of policy and claims liabilities

Fair value through profit or loss

Cash, investments and investments in associate

Other liabilities

Reserve for policy and claims liabilities, and other liabilities

16. Fair value of financial instruments (continued)

The above financial instruments are carried at their fair value. The maximum credit exposure to these financial instruments is their carrying amounts. Fair values were determined by management using the assumptions outlined below. Fair values are an estimate based on current market conditions and may not be reliable due to the use of assumption and are at a specific point in time and may not be reflective of future fair values.

The fair values of accrued interest income, receivable from other insurance companies, due to other insurance companies, reserves for policy and claims liabilities and reinsurer's share of policy and claims liabilities and other liabilities are the same as their carrying amount due to their short-term nature.

The fair value of investments was determined as outlined in 2.

The company employs a fair value hierarchy to categorize the inputs it uses in valuation techniques to measure the fair value. The extent of use of (Level 1) quoted prices in active markets for identical assets or liabilities, (Level 2) inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, and (Level 3) inputs for the asset or liability that are not based on observable market data in the valuation of securities as at December 31, 2012 is as follows:

	Total Fair Value	Level 1 Quoted Prices	Level 2 Observable Inputs	Level 3 Unobservable Inputs
Assets				
Cash	$ 342,786	$ 342,786	$ -	$ -
Accrued interest income	70,496	-	-	70,496
Reinsurance share of policy claims and liabilities	310,540	-	-	310,540
Guarantee Fund	48,584	-	48,584	-
Investment in associate	3,061,889	-	-	3,061,889
Equity investments	5,930,822	5,930,822	-	-
Bonds, Debentures and Term Deposits	4,004,385	-	4,004,385	-
	$13,769,502	**$ 6,273,608**	**$ 4,052,969**	**$ 3,442,925**
Liabilities				
Reserve for policy claims and liabilities	$ 690,014	$ -	$ -	$ 690,014
Other liabilities	309,008	-	-	309,008
	$ 999,022	**$ -**	**$ -**	**$ 999,022**

The cumulative fair value adjustment for the above fair value through profit or loss financial assets is as follows:

	Beginning of year	Adjustment in year	End of year
Cumulative fair value adjustment for			
December 31, 2012			
FVTPL financial assets	**$ 704,464**	**$ 234,730**	**$ 939,194**
December 31, 2011			
FVTPL financial assets	**$ 1,053,986**	**$ (349,522)**	**$ 704,464**

16. Fair value of financial instruments (continued)

Adjustment to the cumulative reserve is as a result of the following:

	2012	2011
Adjustment for sale of FVTPL financial assets	$ (56,467)	$ (192,531)
Unrealized gains (losses) in FVTPL financial assets	291,197	(156,991)
	$ 234,730	$ (349,522)

17. Supplementary cash flow information

	2012	2011
Change in non-cash working capital balances related to operations		
Accrued interest income	$ 2,277	$ 10,271
Due from agents, brokers, and policyholders	23,786	(7,177)
Receivable from other insurance companies	(73,002)	(44,387)
Reinsurers share of unpaid claims and adjustment expenses/unearned premiums	155,957	67,136
Income taxes payable/recoverable	169,845	(32,326)
Deferred premium acquisition costs	(14,532)	(11,544)
Other assets	5,254	(2,219)
Reserve for policy and claims liabilities	(325,114)	74,109
Other liabilities	37,365	92,570
Unearned premiums	70,867	70,756
	$ 52,703	$ 217,189

Other cash flow information:

	2012	2011
Interest paid	$ -	$ -
Interest received	$ 147,343	$ 176,599
Income taxes paid	$ -	$ 26,266
Income taxes received	$ 178,989	$ 146,341