

**SOUTHEASTERN MUTUAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2014**



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## INDEPENDENT AUDITORS' REPORT

To the policyholders of Southeastern Mutual Insurance Company:

### *Report on the Financial Statements*

We have audited the accompanying statement of financial position of Southeastern Mutual Insurance Company as at December 31, 2014 and the statements of changes in equity, operations, comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements present fairly, in all material respects, the financial position of Southeastern Mutual Insurance Company as at December 31, 2014, and its 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 12, 2015

**Chartered Professional Accountants**

**SOUTHEASTERN MUTUAL INSURANCE COMPANY****STATEMENT OF FINANCIAL POSITION**

Statement 1

DECEMBER 31, 2014

	2014	2013 (Restated)
<b>ASSETS</b>		
Cash and cash equivalents	\$ 162,607	\$ 800,321
Accrued interest receivable	53,616	45,144
Premiums receivable	1,390,266	1,327,281
Income taxes recoverable (Note 11)	9,617	-
Deferred premium acquisition costs (Note 5)	666,163	620,291
Investments (Note 6)	12,613,497	11,393,440
Investment in associate (Note 7)	4,403,224	4,208,337
Property and equipment (Note 8)	615,779	599,850
Intangible assets (Note 8)	19,578	28,313
Investment property (Note 9)	<u>140,739</u>	<u>143,788</u>
	<b><u>\$ 20,075,086</u></b>	<b><u>\$ 19,166,765</u></b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (Note 10)	\$ 388,167	\$ 462,968
Reserve for policy claims and liabilities, net of reinsurance (Note 5)	633,058	556,887
Unearned premiums (Note 5)	3,823,972	3,558,704
Income taxes payable (Note 11)	-	188,432
Agents' future retirement compensation (Note 12)	<u>19,174</u>	<u>96,226</u>
	<u>4,864,371</u>	<u>4,863,217</u>
Contingent Liabilities (Note 15)		
<b>EQUITY</b>		
General Reserve - Statement 2	14,090,859	13,742,798
Accumulated other comprehensive income - Statement 2	<u>1,119,856</u>	<u>560,750</u>
	<u>15,210,715</u>	<u>14,303,548</u>
	<b><u>\$ 20,075,086</u></b>	<b><u>\$ 19,166,765</u></b>

**APPROVED ON BEHALF OF THE BOARD:**Donald Howe - ChairmanJack Low – Chair of Audit Finance Committee

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



**SOUTHEASTERN MUTUAL INSURANCE COMPANY****STATEMENT OF CHANGES IN EQUITY**

Statement 2

**FOR THE YEAR ENDED DECEMBER 31, 2014**

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	2014	2013 (Restated)
<b>General Reserve (Note 16)</b>		
General Reserve, beginning of year, as previously stated	\$ 14,150,934	\$ 13,446,876
Prior period adjustment (Note 2)	<u>(408,136)</u>	<u>(66,868)</u>
General Reserve, beginning of year, as restated	13,742,798	13,380,008
Net income for the year - Statement 3	<u>348,061</u>	<u>362,790</u>
<b>General Reserve, end of year - Statement 1</b>	<b><u>\$ 14,090,859</u></b>	<b><u>\$ 13,742,798</u></b>
<b>Accumulated Other Comprehensive Income</b>		
Accumulated other comprehensive income, beginning of year, as previously stated	\$ 152,614	\$ 100,804
Prior period adjustment (Note 2)	<u>408,136</u>	<u>66,868</u>
Accumulated other comprehensive income, beginning of year, as restated	560,750	167,672
Other comprehensive income - Statement 4	<u>559,106</u>	<u>393,078</u>
<b>Accumulated other comprehensive income, end of year - Statement 1</b>	<b><u>\$ 1,119,856</u></b>	<b><u>\$ 560,750</u></b>

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

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# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## STATEMENT OF OPERATIONS

Statement 3

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014	2013 (Restated)
Premiums written	\$ 7,165,105	\$ 6,674,741
Reinsurance premiums	(1,129,795)	(1,183,917)
Change in unearned premiums (Note 5)	<u>(265,268)</u>	<u>(118,805)</u>
Net premiums earned	5,770,042	5,372,019
Service charge revenue	<u>99,321</u>	<u>96,556</u>
Net underwriting revenue	<u>5,869,363</u>	<u>5,468,575</u>
Losses		
Claims and adjusting expenses incurred	2,880,147	2,297,259
Reinsurance (recoveries) charges	<u>5,484</u>	<u>(149,605)</u>
Net claims incurred	<u>2,885,631</u>	<u>2,147,654</u>
	<u>2,983,732</u>	<u>3,320,921</u>
Premium acquisition expenses		
Commissions expense	1,104,807	1,017,394
Change in commissions earned	<u>(821)</u>	<u>(552)</u>
Net commissions	1,103,986	1,016,842
Premium tax	202,533	196,282
Fire Marshall's tax	51,244	47,124
Other premium acquisition costs	<u>9,369</u>	<u>7,230</u>
	1,367,132	1,267,478
Operating expenses - Schedule 1	<u>1,799,074</u>	<u>1,877,687</u>
	<u>3,166,206</u>	<u>3,145,165</u>
Underwriting profit (loss)	<u>(182,474)</u>	<u>175,756</u>
Investment and other income		
Equity income (loss) from associate (Note 7)	141,193	(108,000)
Investment income (Note 14)	<u>418,442</u>	<u>410,734</u>
	<u>559,635</u>	<u>302,734</u>
Income before income taxes	377,161	478,490
Provision for income taxes (Note 11)	<u>(29,100)</u>	<u>(115,700)</u>
Net income for the year - Statement 2	<u><b>\$ 348,061</b></u>	<u><b>\$ 362,790</b></u>

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



**SOUTHEASTERN MUTUAL INSURANCE COMPANY****STATEMENT OF COMPREHENSIVE INCOME**

Statement 4

**FOR THE YEAR ENDED DECEMBER 31, 2014**

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	2014	2013 (Restated)
Net income - Statement 3	\$ 348,061	\$ 362,790
Other comprehensive income:		
Unrealized gain on available-for-sale financial assets:		
Reclassification of held-to-maturity financial assets	242,348	-
Equities	<u>412,889</u>	<u>469,132</u>
	<u>655,237</u>	<u>469,132</u>
Reclassification adjustment for gain included in net income:		
Equities	<u>(46,925)</u>	<u>(38,564)</u>
Other comprehensive income from Associate	<u>53,694</u>	<u>51,810</u>
Net unrealized gain	<u>662,006</u>	<u>482,378</u>
Provision for income tax:		
Current income tax (Note 11)	(71,900)	(89,300)
Deferred income tax (Note 11)	<u>(31,000)</u>	<u>-</u>
	<u>(102,900)</u>	<u>(89,300)</u>
Other comprehensive income - Statement 2	<u>559,106</u>	<u>393,078</u>
<b>Comprehensive income</b>	<b><u>\$ 907,167</u></b>	<b><u>\$ 755,868</u></b>

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





**SOUTHEASTERN MUTUAL INSURANCE COMPANY**

**STATEMENT OF CASH FLOWS**

Statement 5

**FOR THE YEAR ENDED DECEMBER 31, 2014**

	2014	2013 (Restated)
<b>Cash flows from operating activities:</b>		
Net income for the year - Statement 3	\$ 348,061	\$ 362,790
Income taxes on other comprehensive income	(102,900)	(89,300)
Items not requiring an outlay of cash:		
Depreciation and amortization	85,997	101,259
Gain on disposal of investments	(126,692)	(116,547)
Equity loss (income) from associate	(141,193)	108,000
Amortization of bond premiums	38,508	36,188
Gain on disposal of property and equipment	-	(315)
	<u>101,781</u>	<u>402,075</u>
Changes in non-cash working capital balances:		
Accrued interest receivable	(8,472)	(7,796)
Premiums receivable	(62,985)	(94,977)
Deferred premium acquisition costs	(45,872)	(6,953)
Accounts payable and accrued liabilities	(74,801)	21,336
Reserve for policy claims and liabilities, net of reinsurance	76,171	93,595
Income taxes payable/recoverable	(198,049)	100,713
Agents' future retirement compensation	(77,052)	4,299
Unearned premiums	265,268	118,805
Cash flows from (used for) operating activities	<u>(24,011)</u>	<u>631,097</u>
<b>Cash flows from investing activities:</b>		
Additions to property, equipment and intangibles	(90,142)	(61,844)
Proceeds on disposal of property and equipment	-	315
Purchase of investment property	-	(11,744)
Proceeds from sale of investments	2,832,795	2,220,394
Purchase of investments	<u>(3,356,356)</u>	<u>(2,639,395)</u>
Cash flows used for investing activities	<u>(613,703)</u>	<u>(492,274)</u>
Increase (decrease) in cash and cash equivalents	(637,714)	138,823
Cash and cash equivalents, beginning of year	<u>800,321</u>	<u>661,498</u>
<b>Cash and cash equivalents, end of year - Statement 1</b>	<b><u>\$ 162,607</u></b>	<b><u>\$ 800,321</u></b>
<b>See supplementary cash flow information</b>		
Interest received	<u>\$ 272,668</u>	<u>\$ 278,292</u>
Income taxes paid	<u>\$ 330,049</u>	<u>\$ 104,456</u>

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



**SOUTHEASTERN MUTUAL INSURANCE COMPANY****SCHEDULE OF OPERATING EXPENSES**

Schedule 1

**FOR THE YEAR ENDED DECEMBER 31, 2014**

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	<b>2014</b>	<b>2013</b>
Advertising and donations	\$ 115,816	\$ 111,041
Agents' benefits	123,471	118,875
Association fees and memberships	33,183	24,052
Building occupancy costs	90,441	78,954
Computer operations	158,138	137,288
Conventions and meetings	32,022	39,772
Depreciation and amortization	85,997	101,259
Directors' remuneration	103,451	139,065
Insurance and bonding	20,998	29,359
Interest and bank charges	38,513	35,225
Loss prevention	96,709	110,984
Office, postage and stationery	95,433	118,541
Professional fees	156,756	143,290
Salaries and employee benefits	544,112	553,063
Scholarship	6,300	6,000
Telephone	28,564	33,290
Training and education	9,796	22,987
Travel	<u>59,374</u>	<u>74,642</u>
	<b><u>\$ 1,799,074</u></b>	<b><u>\$ 1,877,687</u></b>

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



# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION

DECEMBER 31, 2014

### General information and statement of compliance with International Financial Reporting Standards

Southeastern Mutual Insurance Company is incorporated under the laws of New Brunswick and is subject to the Insurance Act of New Brunswick. The company is a mutual insurance company which offers fire, extended peril and liability coverage to selected real property owners in the southeastern region of the province.

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

#### 1. Adoption of new and revised standards and interpretations

There are no new standards, interpretations and amendments, effective for the first time on January 1, 2014 that have a material effect on the financial statements.

At the date of authorization of these 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 financial statements.

IFRS 9 Financial Instruments includes revisions on the classification and measurement of financial instruments, changes to calculation of impairment on financial assets and new hedge accounting requirements. IFRS 9 replaces the current IAS 39 Financial Instruments: Recognition and Measurement and is effective for reporting periods beginning on or after January 1, 2018.

IFRS 15 Revenue from Contracts with Customers includes revisions to criteria on how much and when revenue is recognized. It replaces several standards currently in place (IAS 18, IAS 11 and IFRIC 13). IFRS 15 is effective for reporting periods beginning on or after January 1, 2017.

IAS 1 Presentation of Financial Statements has been amended to clarify several areas of disclosure and presentation in the financial statements. Changes to IAS 1 is effective for reporting periods beginning on or after January 1, 2016.

The company is currently assessing the potential impact on its financial statements of the above standards. The company is not expecting these standards to have a material impact on their financial statements

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the company's future financial statements.

#### 2. Change in accounting policy

In the current year the company voluntarily changed the policy for accounting for its equity investments on a retroactive basis. The company previously accounted for its equity investments as fair value through profit or loss, and has changed to available-for-sale (Note 3). The company believes the policy of available-for-sale is a better reflection of the company's intentions and overall management of the equity investments. This adjustment has resulted in the following adjustments to the financial statements:

	2014	2013
Decrease in opening general reserve	<u>\$ 408,136</u>	<u>\$ 66,868</u>
Increase in opening accumulated other comprehensive income	<u>\$ 408,136</u>	<u>\$ 66,868</u>
Increase in other comprehensive income (net of tax)	<u>\$ -</u>	<u>\$ 341,268</u>
Decrease in net income	<u>\$ -</u>	<u>\$ 341,268</u>



# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION

DECEMBER 31, 2014

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### 2. Change in accounting policy (continued)

In the periods prior to those presented in the financial statements, the adjustment as a result of the accounting policy change was a decrease in general reserve of \$66,868 and an increase in accumulated other comprehensive income of \$66,868.

### 3. Summary of significant accounting policies

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards and in accordance with the regulations of the Financial and Consumer Services Commission of New Brunswick (FCNB).

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments and deemed cost of land and building. 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) 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 the statement of operations 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.

For information on the classification of each financial instrument of the company see Note 18.

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 income for the year.

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



# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION

DECEMBER 31, 2014

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### 3. Summary of significant accounting policies (continued)

#### (a) Financial instruments (continued)

##### *Investments*

Equities are classified as Available-for-sale financial instruments (see Note 2). They are carried at fair value based on bid prices published in financial newspapers or bid quotations received from securities dealers. Bonds and debentures have previously been classified as held-to-maturity financial instruments. They were measured at amortized cost. Any premium or discounts on bond acquisition were amortized, and any specific investment provisions flow through net earnings. During the year the company sold more than an insignificant amount of these investments before maturity, and therefore was required to reclassify these investments as available-for-sale. (see Note 2 and 6).

##### *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.

#### (b) Insurance contracts

##### *Deferred premium acquisition costs*

Deferred premium acquisition costs consist of agents' commissions and premium taxes related to unearned premiums. These costs, to the extent that they are considered recoverable, are deferred and written off to income over the same periods that the related premiums are earned. In determining the amount recoverable consideration is given to claims and related expenses expected to be incurred as the premiums are earned.

##### *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 are determined on a non-discounted basis.

##### *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.

##### *Premiums ceded*

Premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

Expected reinsurance recoveries on unpaid claims are recognized as assets at the same time and using principles consistent with the company's method for establishing the related liability.

# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION

DECEMBER 31, 2014

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### 3. Summary of significant accounting policies (continued)

#### (c) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand, balances with banks and highly liquid temporary investments which are readily convertible into cash and which are subject to insignificant risk of changes in value.

#### (d) 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 the companys share of net income and other comprehensive income of the associate. Investments are written down when a decline in the value below cost is determined to be other than temporary.

#### (e) Property and equipment

Property and equipment are recorded at cost or deemed 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 or valuation of the property and equipment over their estimated useful lives using the following rates:

Building	2.5% to 10%
Furniture and fixtures	10%
Computers	33%
Vehicles	20%
Signs	20%

#### (f) Intangible assets

Intangible assets consist of computer software, which are not integral to the operation of 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.

#### (g) 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 40 years.

Rent receivable is recognized in net income 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.



**3. Summary of significant accounting policies (continued)**

**(h) Impairment of tangible assets (continued)**

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.

**(i) 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 income as reported in the statement of operations 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 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 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 statement of operations, 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.

# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION

DECEMBER 31, 2014

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### 3. Summary of significant accounting policies (continued)

#### (i) Income taxes (continued)

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.

#### (j) Comprehensive income

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 income, such as unrealized gains and losses on available-for-sale financial instruments.

#### (k) 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.

### 4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in Note 3, 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 financial statements.





# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION

DECEMBER 31, 2014

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

#### (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 a group of claims, the more variable the estimates.

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 statement operations for the year in which the change occurred.

### 5. Insurance contracts

#### *Deferred premium acquisition costs*

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

	<b>2014</b>	<b>2013</b>
Beginning of year	\$ 620,291	\$ 613,338
Acquisition costs incurred during the year	1,238,683	1,163,125
Expensed during the year	<u>(1,192,811)</u>	<u>(1,156,172)</u>
End of year	<u><b>\$ 666,163</b></u>	<u><b>\$ 620,291</b></u>



# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION

DECEMBER 31, 2014

### 5. Insurance contracts (continued)

#### *Unearned premiums*

Unearned premiums on the statement of financial position consist of the unearned portions of premiums. The following is a schedule of the changes in the above for the year:

	2014	2013
Beginning of year	\$ 3,558,704	\$ 3,439,899
Premiums written in year	7,165,105	6,674,741
Premiums earned in year	<u>(6,899,837)</u>	<u>(6,555,936)</u>
Change in year	<u>265,268</u>	<u>118,805</u>
End of year	<u><b>\$ 3,823,972</b></u>	<u><b>\$ 3,558,704</b></u>

#### *Reserve for policy claims and liabilities*

Changes in claim liabilities recorded in the statement of financial position for the years ended December 31, 2014 and 2013 and their impact on claims and adjustment expenses for the two years is as follows:

	2014	2013
Reserve, beginning of year		
Gross	\$ 680,477	\$ 688,250
Reinsurance recoverable	<u>(123,590)</u>	<u>(224,957)</u>
	<u>556,887</u>	<u>463,293</u>
Decrease in estimated losses and expenses, for losses occurring in prior years	(67,088)	(289,249)
Provision for losses and expenses on claims occurring in the current year	<u>2,879,149</u>	<u>2,358,060</u>
	<u>2,812,061</u>	<u>2,068,811</u>
Paid claims occurring during:		
Current year events	(2,299,707)	(1,869,844)
Prior events	<u>(436,183)</u>	<u>(105,373)</u>
	<u>(2,735,890)</u>	<u>(1,975,217)</u>
Reserve, end of year	<u><b>\$ 633,058</b></u>	<u><b>\$ 556,887</b></u>
Reserve for policy claims and liabilities, end of year:		
Gross	646,215	680,477
Reinsurer's share	<u>(13,157)</u>	<u>(123,590)</u>
	<u><b>\$ 633,058</b></u>	<u><b>\$ 556,887</b></u>

The company has determined estimated settlements in the next fiscal year on the reserve for policy claims and liabilities noted above to be \$579,000. This estimate was determined through the use of historical data on claims payments year over year.



# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION

DECEMBER 31, 2014

### 5. Insurance contracts (continued)

*Reserve for policy claims and liabilities (continued)*

Claims development

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

The table below presents the development of claims payments and the estimated total cost of claims for the years 2007 to 2014. The upper half of the table shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

Claims net of reinsurer's share

(\$'000)

	2007	2008	2009	2010	2011	2012	2013	2014	Total
Net estimate of cumulative claims cost									
At the end year of claim	\$ 1,547	\$ 1,574	\$ 2,297	\$ 2,027	\$ 2,519	\$ 2,135	\$ 2,358	2,879	
One year later	1,487	1,476	2,230	1,807	2,444	2,037	2,290		
Two years later	1,450	1,479	2,216	1,757	2,406	2,043			
Three years later	1,450	1,451	2,202	1,757	2,408				
Four years later	1,499	1,448	2,048	1,756					
Five years later	1,504	1,448	2,045						
Six years later	1,504	1,448							
Seven years later	1,504								
Current estimate of cumulative claims cost	1,504	1,448	2,045	1,756	2,408	2,043	2,290	2,879	16,373
Cumulative payments	1,502	1,448	2,045	1,756	2,406	1,993	2,290	2,300	15,740
Outstanding claims	2	-	-	-	2	50	-	579	\$ 633



# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION

DECEMBER 31, 2014

### 6. Investments

The carrying value and fair value of investments are summarized as follows:

	2014		2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>Held-to-maturity</i>				
Bonds and debentures maturing within five years:				
Government of Canada	\$ -	\$ -	\$ 1,095,882	\$ 1,146,322
Provincial/Municipal Governments	-	-	3,534,668	3,598,159
Canadian Corporate/Financial Institutions	-	-	1,014,398	1,047,764
Guaranteed investment certificates	-	-	300,000	300,000
	-	-	<u>5,944,948</u>	<u>6,092,245</u>
Bonds and debentures maturing in more than five years:				
Government of Canada	-	-	161,368	173,630
Provincial/Municipal Governments	-	-	615,994	678,983
Canadian Corporate/Financial Institutions	-	-	299,765	298,180
	-	-	<u>1,077,127</u>	<u>1,150,793</u>
	-	-	<u>7,022,075</u>	<u>7,243,038</u>
<i>Available-for-Sale</i>				
Guarantee Fund - N.B.M.I.A.	-	-	66,680	66,680
Bonds and debentures maturing within five years:				
Government of Canada	481,370	481,370	-	-
Provincial/Municipal Governments	2,481,149	2,481,149	-	-
Canadian Corporate/Financial Institutions	1,617,156	1,617,156	-	-
Guaranteed investment certificates	1,155,000	1,155,000	-	-
	<u>5,734,675</u>	<u>5,734,675</u>	-	-
Bonds and debentures maturing in more than five years:				
Provincial/Municipal Governments	737,841	737,841	-	-
Canadian Corporate/Financial Institutions	303,438	303,438	-	-
	<u>1,041,279</u>	<u>1,041,279</u>	-	-
Equities	2,383,995	2,383,995	2,012,466	2,012,466
Preferred shares	483,901	483,901	735,329	735,329
Short term investments	2,969,647	2,969,647	1,556,890	1,556,890
	<u>5,837,543</u>	<u>5,837,543</u>	<u>4,304,685</u>	<u>4,304,685</u>
	<u>12,613,497</u>	<u>12,613,497</u>	<u>4,371,365</u>	<u>4,371,365</u>
	<b><u>\$ 12,613,497</u></b>	<b><u>\$ 12,613,497</u></b>	<b><u>\$ 11,393,440</u></b>	<b><u>\$ 11,614,403</u></b>



# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION

DECEMBER 31, 2014

### 6. Investments (Continued)

The interest rates on bonds and debentures are as follows:

	Interest receivable basis	2014 Effective rates (% range)	2013 Effective rates (% range)
Government of Canada	semi-annual	3.75 to 4.5%	3.75% to 4.5%
Provincial/Municipal Governments	semi-annual	1.9% to 9.92%	1.9% to 9.92%
Canadian Corporate/Financial Institutions	semi-annual	2.77% to 5.0%	2.94% to 4.71%
Guaranteed investment certificate	annual	1.82% to 2.25%	2.55%

During the year the company sold \$1,100,000 of their held-to-maturity financial assets prior to their maturity date. According to IAS 39 Financial Instruments: Recognition and Measurement, an entity is required to have the positive intention and ability to hold these financial assets to maturity in order to be considered held-to-maturity financial assets. As the amount sold of the held-to-maturity financial assets would be considered significant and they were not within three months of their maturity date, the company is required to reclassify these held-to-maturity financial assets to available-for-sale for no less than two years. As a result these financial assets have been recorded at fair value in these financial statements, and the gain resulting has been included in other comprehensive income on statement 4.

### 7. Investment in associate

United General Insurance Corporation (United General) is owned by four New Brunswick Mutual Insurance companies which includes Southeastern 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 includes:

	2014	2013
Voting shares	\$ 73,838	\$ 73,838
Participating shares	2,668,788	2,668,788
Undistributed share of income (see below)	<u>1,454,290</u>	<u>1,313,097</u>
	4,196,916	4,055,723
Undistributed share of income from other comprehensive income	<u>206,308</u>	<u>152,614</u>
	<b><u>\$ 4,403,224</u></b>	<b><u>\$ 4,208,337</u></b>

# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION

DECEMBER 31, 2014

### 7. Investment in associate (continued)

At December 31, 2014, the company held approximately 31% (2013 - 31%) 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. For each dollar of loss attributable to one of the shareholders, one of their participating shares must be surrendered for cancellation. There have been no shares issued or surrendered since 2007.

Under the terms of the 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.

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

	2014	2013
<b>Assets</b>		
Investments	\$ 5,385,574	\$ 5,252,655
Due from agents, brokers and policyholders	446,789	442,676
Reserve for policy claims and liabilities recoverable from reinsurers	171,378	417,884
Other assets	345,260	331,611
	<u>\$ 6,349,001</u>	<u>\$ 6,444,826</u>
<b>Liabilities</b>		
Reserve for policy claims and liabilities	\$ 932,582	\$ 1,213,721
Unearned premiums	869,112	861,941
Other liabilities	144,083	160,827
	1,945,777	2,236,489
Shareholder's equity	4,403,224	4,208,337
	<u>\$ 6,349,001</u>	<u>\$ 6,444,826</u>



# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION

DECEMBER 31, 2014

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### 7. Investment in associate (continued)

#### Statement of income

	2014	2013
Gross premiums earned	\$ 2,666,957	\$ 2,582,258
Reinsurance costs	<u>(564,783)</u>	<u>(684,828)</u>
Net premiums earned	2,102,174	1,897,430
Net claims incurred	(1,132,754)	(1,264,478)
Commissions and other expenses	<u>(982,400)</u>	<u>(782,523)</u>
Underwriting loss	(12,980)	(149,571)
Investment and other income	<u>180,360</u>	<u>176,354</u>
Income before income tax expense	167,380	26,783
Income tax expense	<u>(25,133)</u>	<u>(3,434)</u>
Company's portion of annual income before adjustment	142,247	23,349
Adjustment based on arbitration decision	-	(131,349)
Adjustment for changes to prior allocations	<u>(1,054)</u>	<u>-</u>
Company's portion of annual income (loss)	141,193	(108,000)
Beginning undistributed share of income	<u>1,313,097</u>	<u>1,421,097</u>
Ending undistributed share of income	<u><b>\$ 1,454,290</b></u>	<u><b>\$ 1,313,097</b></u>



# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION

DECEMBER 31, 2014

### 8. Property and equipment and intangibles

	Property and equipment					Intangibles	
	Land	Building	Furniture and Fixtures	Computers Hardware	Signs	Total	Computer Software
Gross Carrying Amount							
Balance December 31, 2013	\$ 150,000	\$ 517,412	\$ 108,462	\$ 142,132	\$ 35,682	\$ 953,688	\$ 172,592
Additions	-	13,465	18,845	35,914	6,079	74,303	13,339
Disposals	-	-	-	-	-	-	-
Balance December 31, 2014	<u>150,000</u>	<u>530,877</u>	<u>127,307</u>	<u>178,046</u>	<u>41,761</u>	<u>1,027,991</u>	<u>185,931</u>
Depreciation and impairment							
Balance December 31, 2013	-	107,579	80,137	131,262	34,860	353,838	144,279
Additions	-	29,436	8,579	18,389	1,970	58,374	22,074
Disposals	-	-	-	-	-	-	-
Balance December 31, 2014	<u>-</u>	<u>137,015</u>	<u>88,716</u>	<u>149,651</u>	<u>36,830</u>	<u>412,212</u>	<u>166,353</u>
Carrying amount, December 31, 2014	<u><b>\$ 150,000</b></u>	<u><b>\$ 393,862</b></u>	<u><b>\$ 38,591</b></u>	<u><b>\$ 28,395</b></u>	<u><b>\$ 4,931</b></u>	<u><b>\$ 615,779</b></u>	<u><b>\$ 19,578</b></u>
Gross Carrying Amount							
Balance December 31, 2012	\$ 150,000	\$ 500,153	\$ 105,466	\$ 132,600	\$ 35,682	\$ 923,901	\$ 140,535
Additions	-	17,259	2,996	9,532	-	29,787	32,057
Disposals	-	-	-	-	-	-	-
Balance December 31, 2013	<u>150,000</u>	<u>517,412</u>	<u>108,462</u>	<u>142,132</u>	<u>35,682</u>	<u>953,688</u>	<u>172,592</u>
Depreciation and impairment							
Balance December 31, 2012	-	78,816	73,950	101,648	34,106	288,520	113,824
Additions	-	28,763	6,187	29,614	754	65,318	30,455
Disposals	-	-	-	-	-	-	-
Balance December 31, 2013	<u>-</u>	<u>107,579</u>	<u>80,137</u>	<u>131,262</u>	<u>34,860</u>	<u>353,838</u>	<u>144,279</u>
Carrying amount, December 31, 2013	<u><b>\$ 150,000</b></u>	<u><b>\$ 409,833</b></u>	<u><b>\$ 28,325</b></u>	<u><b>\$ 10,870</b></u>	<u><b>\$ 822</b></u>	<u><b>\$ 599,850</b></u>	<u><b>\$ 28,313</b></u>

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





# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION

DECEMBER 31, 2014

### 9. Investment property

	Land	Building	Total
Gross Carrying Amount			
Balance December 31, 2013	\$ 42,000	\$ 109,723	\$ 151,723
Additions	-	2,500	2,500
Disposals	-	-	-
Balance December 31, 2014	<u>42,000</u>	<u>112,223</u>	<u>154,223</u>
Depreciation and impairment			
Balance December 31, 2013	-	7,935	7,935
Additions	-	5,549	5,549
Disposals	-	-	-
Balance December 31, 2014	<u>-</u>	<u>13,484</u>	<u>13,484</u>
Carrying amount, December 31, 2014	<u><b>\$ 42,000</b></u>	<u><b>\$ 98,739</b></u>	<u><b>\$ 140,739</b></u>
Gross Carrying Amount			
Balance December 31, 2012	\$ 42,000	\$ 97,979	\$ 139,979
Additions	-	11,744	11,744
Disposals	-	-	-
Balance December 31, 2013	<u>42,000</u>	<u>109,723</u>	<u>151,723</u>
Depreciation and impairment			
Balance December 31, 2012	-	2,449	2,449
Additions	-	5,486	5,486
Disposals	-	-	-
Balance December 31, 2013	<u>-</u>	<u>7,935</u>	<u>7,935</u>
Carrying amount, December 31, 2013	<u><b>\$ 42,000</b></u>	<u><b>\$ 101,788</b></u>	<u><b>\$ 143,788</b></u>

The fair value of the investment property is estimated at \$140,000.

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

### 10. Accounts payable and accrued liabilities

	2014	2013
Payable to reinsurer	\$ 50,232	\$ 49,231
Premium and fire marshall taxes payable	118,126	103,742
Other payables and accruals	<u>219,809</u>	<u>309,995</u>
	<u><b>\$ 388,167</b></u>	<u><b>\$ 462,968</b></u>



# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION

DECEMBER 31, 2014

### 11. Income taxes

Provision for income taxes included on Statement 3 is comprised of the following:

	2014	2013
Current income tax expense	\$ (54,298)	\$ (119,232)
Deferred income tax recovery (expense)	<u>25,198</u>	<u>3,532</u>
	<b><u>\$ (29,100)</u></b>	<b><u>\$ (115,700)</u></b>

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

	2014	2013
Company's income before income taxes	\$ 377,161	\$ 478,490
Temporary differences	22,032	41,574
Non-taxable loss (income) from associate	(141,193)	108,000
Mark to market adjustments	608,312	430,568
Tax reserve on mark to market adjustments	(193,879)	-
Taxable dividends deductible	(36,000)	(78,138)
Non-deductible and restricted deductible expenses	<u>40,299</u>	<u>25,489</u>
Taxable income	676,732	1,005,983
Current effective tax rate	<u>27.0%</u>	<u>26.0%</u>
	182,718	261,556
Small business deduction	(57,500)	(54,541)
Adjustment for under provision of prior year	<u>980</u>	<u>1,517</u>
Income tax expense	<b><u>\$ 126,198</u></b>	<b><u>\$ 208,532</u></b>

The income tax expense noted above is made up of the following:

Income tax expense included on Statement 3 - statement of operations (see above)	\$ 54,298	\$ 119,232
Income tax expense included on Statement 4 - statement of comprehensive income	<u>71,900</u>	<u>89,300</u>
	<b><u>\$ 126,198</u></b>	<b><u>\$ 208,532</u></b>

Income taxes recoverable (payable) is comprised of the following:

	2014	2013
Current income taxes (payable) recoverable	\$ 49,271	\$ (154,580)
Deferred income taxes payable	<u>(39,654)</u>	<u>(33,852)</u>
	<b><u>\$ 9,617</u></b>	<b><u>\$ (188,432)</u></b>



# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION

DECEMBER 31, 2014

### 11. Income taxes (continued)

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

	Beginning of year	2014 Included in comprehensive income	End of year
Net book value of property and equipment over their undepreciated capital cost for income tax purposes	(46,848)	\$ 23,504	\$ (23,344)
Temporary difference on fair value of bonds	-	(30,051)	(30,051)
Other temporary differences	8,680	155	8,835
Policy and claims liabilities reserve for accounting purposes in excess of their carrying value for income tax purposes	<u>4,316</u>	<u>590</u>	<u>4,906</u>
	<u><b>\$ (33,852)</b></u>	<u><b>\$ (5,802)</b></u>	<u><b>\$ (39,654)</b></u>
	Beginning of year	2013 Included in comprehensive income	End of year
Net book value of property and equipment over their undepreciated capital cost for income tax purposes	(47,639)	\$ 791	\$ (46,848)
Other temporary differences	6,665	2,015	8,680
Policy and claims liabilities reserve for accounting purposes in excess of their carrying value for income tax purposes	<u>3,590</u>	<u>726</u>	<u>4,316</u>
	<u><b>\$ (37,384)</b></u>	<u><b>\$ 3,532</b></u>	<u><b>\$ (33,852)</b></u>
Deferred income taxes included above comprise of the following:			
Deferred income tax recovery (expense) - above		\$ 25,198	\$ 3,532
Deferred income tax expense - Statement 4		<u>(31,000)</u>	<u>-</u>
		<u><b>\$ (5,802)</b></u>	<u><b>\$ 3,532</b></u>

### 12. Agents' future retirement compensation

United General Insurance Corporation (United General) had a contract with their agents to compensate them on retirement. The agents of Southeastern Mutual Insurance Company are also agents of United General. In the 2006 fiscal year Southeastern Mutual Insurance Company had taken on the liability owed by United General to their common agents. A payment equal to the liability had also been received from United General and is included in the assets of the company. The amount payable to the agents has been capped as at December 31, 2006, and will not change. In the December 31, 2014 year \$107,851 was paid out for this future liability. The remaining \$19,174 is expected to be paid out in the December 31, 2015 fiscal year.



# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION

DECEMBER 31, 2014

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### 13. Related party transactions

Key management of the company are senior employees, officers and members of the board of directors. The following is a detail of key management remuneration:

	2014	2013
Key management remuneration	<u>\$ 474,035</u>	<u>\$ 455,090</u>

Included in the statement of operations are the following items relating to key management:

Premiums paid	<u>\$ 13,236</u>	<u>\$ 12,124</u>
Claims incurred	<u>\$ -</u>	<u>\$ 11,572</u>

### 14. Investment and other income

	2014	2013
Interest from term deposits, bonds and debentures, net of bond amortization	\$ 246,826	\$ 238,919
Dividends	44,924	82,775
Gain on disposal of investments	126,692	116,547
Management fees on investments	-	(27,822)
Gain on sale of property and equipment	<u>-</u>	<u>315</u>
	<u>\$ 418,442</u>	<u>\$ 410,734</u>

### 15. Contingent liabilities

In common with the insurance industry in general, the company is subject to litigation arising in the normal course of conducting its insurance business which is taken into account in establishing the reserve for policy claims and liabilities.

### 16. 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 17).

The company also maintains a required amount of general reserve. In accordance with the Insurance Act of New Brunswick this requirement at December 31, 2014 is computed as \$9,719,821 (2013 - \$8,830,159) and is available only to discharge obligations of the company not provided for out of its ordinary receipts. The ultimate disposition of this general reserve is at the discretion of the Lieutenant-Governor in Council.



# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION

DECEMBER 31, 2014

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### 16. Capital management (continued)

Government 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 \$1,254,000 (2013 - \$1,220,000). As another measure of capital adequacy, the company has established a target MCT of 450%. As at December 31, 2014 the company's capital calculated by the NB Insurance Act was \$10,687,000 (852.23% of required minimum capital, 2013 - 813%).

### 17. Risk management, reinsurance and other risks

#### (a) Risk management

Consistent with other similar entities, Southeastern Mutual Insurance Company's risk management policies are typically performed as part of the overall management of Southeastern Mutual Insurance Company's operations. 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.

The company purchases reinsurance to share part of the risks originally accepted by the company in writing the premiums. The business risk of insurance resides in pricing the products, in management of investment funds, and in the estimation of claim costs. Ongoing management practices and policies of the company in underwriting, claims and investment activities control the risk exposure.

#### (b) Insurance risk

##### *Reserves for policy claims and liabilities*

The reserves for policy claims and liabilities and related reinsurer's share are estimates subject to variability and which 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.

To assist in determining the accuracy of the reserves for policy claims and liabilities, the company contracts the services of an outside party to review the various claims for reasonability and proper documentation.

# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION

DECEMBER 31, 2014

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### 17. Risk management, reinsurance and other risks (continued)

#### (b) Insurance risk (continued)

##### *Reserves for policy claims and liabilities (continued)*

In the 2015 fiscal year the company contracted an outside actuary to review the reserve for policy claims and liabilities to determine if the amount recorded for incurred but not reported claims was reasonable to the company's historical data on the development of claims. It was found the company had adequate reserves as of December 31, 2014 and no adjustment was required.

##### *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 \$225,000 per loss is paid by the company, which limits the company's exposure in any one property claim to \$225,000. In addition, the company has obtained reinsurance which limits the company's liability to \$675,000 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 insurance premiums. For the 2015 fiscal year the reinsurance arrangement will change for property claims to \$250,000 per loss. This will limit the company's exposure in any one property claim to \$250,000. In addition the company's liability in a catastrophe will be \$750,000.

##### *Liability claims*

The company will pay 100% of all losses, up to a maximum retention of \$225,000 per loss, which limits the company's exposure in any one liability claim to \$225,000. For the 2015 fiscal year the reinsurance arrangement will change for liability claims to \$250,000 per loss. This will limited the company's exposure in any one liability claim to \$250,000.

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.

The Superintendent of Insurance also limits the company's maximum retention through its reinsurance arrangements to be the maximum of 2% of general reserve or \$350,000. The company's allowed maximum retention as of December 31, 2014 would be \$293,000.

##### *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.

**17. Risk management, reinsurance and other risks (continued)**

**(b) Insurance risk (continued)**

*Reinsurance undertaken*

The company participates in programs to provide re-insurance for crop reinsurance through three separate reinsurance programs. The maximum retained liability for the company in any one year is \$650,000 (2013 - \$525,000). For this reinsurance undertaken the company has recorded \$56,053 (2013 - \$38,578) of premium income included in premiums written on Statement 3. In the 2015 year the company will undertake additional re-insurance increasing the maximum retained liability to \$1,050,000.

*Property insurance risk*

In the current year the company has underwritten insurance on the two properties it owns (Note 8 and Note 9). There is a risk to the company if there is a claim under its property or liability insurance. The current maximum risk to the company is \$400,000 in property insurance and \$250,000 in liability insurance totaling \$650,000 in total risk exposure. This maximum risk exposure takes into consideration that the company will be subject to maximum property and liability claims, however this is unlikely to occur. The company's insurance policies follow standard reinsurance arrangements as noted above.

**(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 company is also exposed to this risk relating to its debt holdings in its investment portfolio, premiums receivable from policyholders 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 all 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 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 18.

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.

# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION

DECEMBER 31, 2014

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### 17. Risk management, reinsurance and other risks (Continued)

#### (c) Other risks (Continued)

##### *Liquidity Risks*

Liquidity risk is the risk that the company will not be able to meet all cash outflow obligations as they become due. The company mitigates this risk by monitoring cash activities and expected outflows. 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.

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.

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 Finance Committee and the Board of Directors. Diversification techniques are utilized to minimize risk.

The company is not subject to significant currency risk as it holds no foreign currency instruments.

##### Currency risk

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in exchange rates and produce an adverse impact on comprehensive income when measured in the company's operating currency.

The company's foreign currency 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 \$1,525,000 Canadian at year end. A 10% rise in the value of the US dollar, with all other variables held constant, would increase comprehensive income by \$109,000, net of tax. A 10% reduction in the value of the US dollar, with all other variables held constant, would decrease comprehensive income by \$109,000, 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.





# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION

DECEMBER 31, 2014

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### 17. Risk management, reinsurance and other risks (Continued)

#### (c) Other risks (Continued)

##### Interest rate risk

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. Diversification techniques are utilized to minimize risk. The company's investment policy sets out guidelines on types and ratings of investments to help minimize this risk. Fair value of these investments is affected positively in falling rate conditions but negatively in rising interest rate conditions. At December 31, 2014, an increase of 1% in interest rates, with all other variables held constant, would decrease bond values by \$113,000 and decrease other comprehensive income by \$95,000 net of income taxes. A decrease of 1% in interest rates, with all other variables held constant, would increase bond values by \$113,000 and increase other comprehensive income by \$95,000 net of income taxes.

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.

##### Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The company is exposed to this risk through its equity holdings within its investment portfolio.

The company's portfolio includes equities 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 the fair values of the company's equities of \$237,000 net of income tax (2013 - \$199,000 net of income tax). For equities that the company did not sell during the year the change in fair value would be recognized in the asset value and other comprehensive income. For equities sold during the year, the change would be recognized in the asset value and in net income.

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

### 18. Fair value of financial instruments

The following shows the carrying amount, the fair value and the difference of each financial asset and liability by type. The maximum credit risk exposure to the below financial assets are their carrying amounts. Fair values are based on market conditions at a specific point in time and may not be reflective of future fair values.



**SOUTHEASTERN MUTUAL INSURANCE COMPANY**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION**

**DECEMBER 31, 2014**

**18. Fair value of financial instruments (continued)**

	Carrying amount	2014 Fair value	Fair value difference
<b>Financial assets</b>			
<i>Loans and receivables</i>			
Accrued interest receivable	\$ 53,616	\$ 53,616	\$ -
<i>Available- for-sale</i>			
Cash and cash equivalents	162,607	162,607	-
Investments	<u>12,613,497</u>	<u>12,613,497</u>	<u>-</u>
<i>Held-to-maturity</i>			
<b>Total financial assets</b>	<b><u>\$12,829,720</u></b>	<b><u>\$12,829,720</u></b>	<b><u>\$ -</u></b>
<b>Financial liabilities</b>			
<i>Other liabilities</i>			
Accounts payable and accrued charges	\$ 388,167	\$ 388,167	\$ -
Reserves for policy claims and liabilities	633,058	633,058	-
Agents' future retirement compensation	<u>19,174</u>	<u>19,174</u>	<u>-</u>
<b>Total financial liabilities</b>	<b><u>\$ 1,040,399</u></b>	<b><u>\$ 1,040,399</u></b>	<b><u>\$ -</u></b>
	Carrying amount	2013 Fair value	Fair value difference
<b>Financial assets</b>			
<i>Loans and receivables</i>			
Accrued interest receivable	\$ 45,144	\$ 45,144	\$ -
Reinsurance receivable	-	-	-
<i>Available- for-sale</i>			
Cash and cash equivalents	800,321	800,321	-
Investments	4,371,365	4,371,365	-
<i>Held-to-maturity</i>			
Investments	<u>7,022,075</u>	<u>7,243,038</u>	<u>220,963</u>
<b>Total financial assets</b>	<b><u>\$12,238,905</u></b>	<b><u>\$12,459,868</u></b>	<b><u>\$ 220,963</u></b>
<b>Financial liabilities</b>			
<i>Other liabilities</i>			
Accounts payable and accrued charges	\$ 462,966	\$ 462,966	\$ -
Reserves for policy claims and liabilities	556,887	556,887	-
Agents' future retirement compensation	<u>96,226</u>	<u>102,152</u>	<u>5,926</u>
<b>Total financial liabilities</b>	<b><u>\$ 1,116,079</u></b>	<b><u>\$ 1,122,005</u></b>	<b><u>\$ 5,926</u></b>



# SOUTHEASTERN MUTUAL INSURANCE COMPANY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND EXPLANATORY INFORMATION

DECEMBER 31, 2014

### 18. Fair value of financial instruments (continued)

The above estimates were determined by management using the assumption outlined below. Fair values are an estimate based on current market conditions and may not be reliable due to the use of assumptions.

The fair values of accrued interest receivable, cash and cash equivalents, reinsurance receivable, accounts payable and accrued charges and claims payable are the same as their carrying amount due to their short-term nature.

The fair value of investments was determined through information from the company's stock brokers which information is reflective of current market values.

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, 2014 is as follows:

	Total Fair Value	Level 1 Quoted Prices	Level 2 Observable Inputs	Level 3 Unobservable Inputs
<b>Assets</b>				
Cash and cash equivalents	\$ 162,607	\$ 162,607	\$ -	\$ -
Accrued interest receivable	53,616	-	-	53,616
Reinsurance receivable	-	-	-	-
Bonds and guaranteed investment certificates	6,775,954	-	6,775,954	-
Equities	2,383,995	2,383,995	-	-
Preferred shares	483,901	483,901	-	-
Short-term investments	<u>2,969,647</u>	<u>2,969,647</u>	<u>-</u>	<u>-</u>
	<b><u>\$12,829,720</u></b>	<b><u>\$ 6,000,150</u></b>	<b><u>\$ 6,775,954</u></b>	<b><u>\$ 53,616</u></b>
<b>Liabilities</b>				
Accounts payable and accrued charges	\$ 388,167	\$ -	\$ -	\$ 388,167
Reserves for policy claims and liabilities	633,058	-	-	633,058
Agents' future retirement compensation	<u>19,174</u>	<u>-</u>	<u>-</u>	<u>19,174</u>
	<b><u>\$ 1,040,399</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,040,399</u></b>

### 19. Subsequent event

Subsequent to the year end, the company entered into a commitment to purchase a building from a third party for \$1,050,000 plus HST. The transaction is expected to close on June 1, 2015. This building will be used as the primary location for Southeastern's operations. The company is attempting to lease or sell its current operating location.

### 20. Comparative figures

Certain of the prior year's figures presented for comparison purposes have been restated to conform to the presentation adopted for the current year.

