SOUTHEASTERN MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 2016

INDEX

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2

FINANCIAL STATEMENTS

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Stevenson & Partners
CHARTERED PROFESSIONAL ACCOUNTANTS

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, 2016 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, 2016, 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 16, 2017

Chartered Professional Accountants

SOUTHEASTERN MUTUAL INSURANCE COMPANY

STATEMENT OF FINANCIAL POSITION

Statement **1**

DECEMBER 31, 2016

	2016	2015
ASSETS		
Cash and cash equivalents	$ 1,805,510	$ 328,346
Accrued interest receivable	57,200	35,907
Premiums receivable	1,661,569	1,561,670
Income taxes recoverable (Note 10)	-	85,952
Prepaid expenses	22,542	15,575
Deferred premium acquisition costs (Note 4)	816,602	723,369
Investments (Note 5)	11,833,711	11,598,788
Investment in associate (Note 6)	4,242,054	4,136,540
Property and equipment (Note 7)	1,308,501	1,891,424
Intangible assets (Note 7)	14,819	22,123
Investment property (Note 8)	595,431	135,128
	$ 22,357,939	**$ 20,534,822**
LIABILITIES		
Accounts payable and accrued liabilities (Note 9)	$ 374,107	$ 577,716
Reserve for unpaid claims, net of reinsurance (Note 4)	696,802	871,094
Income taxes payable (Note 10)	442,681	-
Unearned premiums (Note 4)	4,436,267	4,106,522
	5,949,857	5,555,332
EQUITY		
General Reserve - Statement 2	15,200,757	14,159,544
Accumulated other comprehensive income - Statement 2	1,207,325	819,946
	16,408,082	14,979,490
	$ 22,357,939	**$ 20,534,822**

Contingent Liabilities (Note 13)

APPROVED ON BEHALF OF THE BOARD:

Peter M. Wright

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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, 2016

	2016	**2015**
General Reserve (Note 14)		
General Reserve, beginning of year	$ 14,159,544	$ 14,090,859
Net income for the year - Statement 3	1,041,213	68,685
General Reserve, end of year - Statement 1	**$ 15,200,757**	**$ 14,159,544**
Accumulated Other Comprehensive Income		
Accumulated other comprehensive income, beginning of year	$ 819,946	$ 1,119,856
Other comprehensive income (loss) - Statement 4	387,379	(299,910)
Accumulated other comprehensive income, end of year - Statement 1	**$ 1,207,325**	**$ 819,946**

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 OPERATIONS Statement **3**

FOR THE YEAR ENDED DECEMBER 31, 2016

	2016	**2015**
Premiums written	$ 8,384,933	$ 7,713,496
Reinsurance premiums	(947,505)	(1,087,713)
Change in unearned premiums (Note 4)	(329,745)	(282,549)
Net premiums earned	7,107,683	6,343,234
Losses		
Claims incurred	2,712,374	3,423,092
Adjusting expenses	115,903	136,334
Reinsurance (recoveries) charges	(175,750)	(230,388)
Net claims incurred	2,652,527	3,329,038
	4,455,156	3,014,196
Premium acquisition expenses		
Commissions expense	1,206,323	971,705
Change in commissions earned	(79,921)	(49,290)
Net commissions	1,126,402	922,415
Agents expenses	58,128	183,019
Premium tax	233,991	220,919
Fire Marshall's tax	55,439	53,401
Other premium acquisition costs	25,226	20,997
	1,499,186	1,400,751
Operating expenses - Schedule 1	1,719,350	2,044,333
	3,218,536	3,445,084
Underwriting income (loss)	1,236,620	(430,888)
Investment and other income		
Equity loss from associate (Note 6)	(104,664)	(14,385)
Service charge revenue	121,940	105,527
Investment income (Note 12)	207,778	387,411
Rental income (loss) net of expenses (Note 8)	(24,158)	10,320
Impairment of tangible assets (Note 8)	(17,730)	-
	183,166	488,873
Income before income taxes	1,419,786	57,985
Recovery of (provision for) income taxes (Note 10)	(378,573)	10,700
Net income for the year - Statement 2	**$ 1,041,213**	**$ 68,685**

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, 2016

	2016	2015
Net income - Statement 3	$ 1,041,213	$ 68,685
Other comprehensive income:		
Unrealized gain (loss) on available-for-sale financial assets:		
Equities	218,099	36,473
Bonds and debentures	(18,901)	16,751
	199,198	53,224
Reclassification of loss (gains) included in net income:		
Equities	40,899	(90,217)
Bonds and debentures	(5,697)	(18,918)
	35,202	(109,135)
Other comprehensive income (loss) from associate (Note 6)	210,179	(252,299)
Net unrealized gain (loss)	444,579	
Current income tax (Note 10)	(50,000)	15,500
Deferred income tax (Note 10)	(7,200)	(7,200)
	(57,200)	8,300
Other comprehensive income (loss) - Statement 2	387,379	(299,910)
Comprehensive income (loss)	**$ 1,428,592**	**$ (231,225)**

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, 2016

	2016	2015
Cash flows from operating activities:		
Net income for the year - Statement 3	$ 1,041,213	$ 68,685
Income taxes in other comprehensive income	(57,200)	8,300
Items not requiring an outlay of cash:		
Depreciation and amortization	130,148	112,806
Loss (gain) on disposal of investments	33,558	(59,473)
Equity loss from associate	104,664	14,385
Amortization of bond premiums	52,358	24,750
Impairment of tangible assets	17,730	-
	1,322,471	169,453
Changes in non-cash working capital balances**:**		
Accrued interest receivable	(21,293)	17,709
Premiums receivable	(99,899)	(171,404)
Prepaid expenses	(6,966)	(790)
Deferred premium acquisition costs	(93,233)	(57,206)
Accounts payable and accrued liabilities	(203,609)	189,551
Reserve for unpaid claims, net of reinsurance	(174,292)	238,035
Income taxes payable/recoverable	528,632	(76,335)
Agents' future retirement compensation	-	(19,174)
Unearned premiums	329,745	282,549
Cash flows from operating activities	1,581,556	572,388
Cash flows from investing activities:		
Additions to property, equipment and intangibles	(17,954)	(1,385,385)
Proceeds from sale of investments	4,436,128	2,832,795
Purchase of investments	(4,522,566)	(1,839,274)
Cash flows used for investing activities	(104,392)	(391,864)
Increase in cash and cash equivalents	1,477,164	180,524
Cash and cash equivalents, beginning of year	328,346	147,822
Cash and cash equivalents, end of year - Statement 1	**$ 1,805,510**	**$ 328,346**
See supplementary cash flow information		
Interest received	**$ 197,446**	**$ 218,448**
Income taxes paid	**$ 6,792**	**$ 91,872**
Income taxes received	**$ 99,652**	**$ 34,537**

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, 2016

	2016	2015
Advertising and donations	$ 70,877	$ 113,228
Agents' benefits	135,285	135,136
Association fees and memberships	10,609	16,295
Building occupancy costs	98,414	122,627
Computer operations	174,294	227,085
Conventions and meetings	47,961	41,248
Depreciation and amortization	94,428	107,194
Directors' remuneration	74,866	95,781
Insurance and bonding	22,593	18,725
Interest and bank charges	44,951	44,855
Loss prevention	114,662	108,598
Office, postage and stationery	64,237	89,909
Professional fees	112,595	224,702
Salaries and employee benefits	594,219	615,900
Scholarship	6,000	6,000
Telephone	16,610	27,320
Training and education	5,038	20,146
Travel	31,711	29,584
	$ 1,719,350	**$ 2,044,333**

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

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, 2016 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, 2018.

IFRS 16 Leases includes new standards for accounting for leases. Under this new standard all leases except insignificant and short term leases will include an asset and corresponding liability. This standard replaces parts of standards currently in place (IAS 17, IFRIC 4, SIC-15 and SIC-27). The effective date of this standard is for year ends beginning on January 1, 2019.

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. 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. 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.

2. Summary of significant accounting policies (continued)

(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 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 that are assessed not to be impaired individually can subsequently assessed for impairment on a collective basis. These assets include receivables.

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 other comprehensive income for the year.

Investments

Equities, bonds and debentures and short-term investments are classified as available-for-sale financial instruments. They are carried at fair value based on bid prices published in financial newspapers or bid quotations received from securities dealers. Any premiums or discounts on bond acquisitions are amortized, and any specific investment provisions flow through net earnings.

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)

(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.

Reserve for unpaid claims

Reserve for unpaid claims 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.

Reinsurance premiums and recoveries

Reinsurance premiums 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.

(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 company's 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.

2. Summary of significant accounting policies (continued)

(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 15 to 40 years.

(h) 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.

2. Summary of significant accounting policies (continued)

(h) Impairment of tangible assets (continued)

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.

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.

2. Summary of significant accounting policies (continued)

(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.

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 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 reserve for unpaid claims

Determining the reserve for unpaid claims 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 reserve unpaid claims 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.

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

(b) Key sources of estimation uncertainty (continued)

Valuation of reserve unpaid claims (continued)

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.

4. Insurance contracts

Deferred premium acquisition costs

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

	2016	2015
Beginning of year	$ 723,369	$ 666,163
Acquisition costs incurred during the year	1,592,419	1,457,957
Expensed during the year	(1,499,186)	(1,400,751)
End of year	**$ 816,602**	**$ 723,369**

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:

	2016	2015
Beginning of year	$ 4,106,522	$ 3,823,973
Premiums written in year	8,384,933	7,713,496
Premiums earned in year	(8,055,188)	(7,430,947)
Change in year	329,745	282,549
End of year	**$ 4,436,267**	**$ 4,106,522**

4. Insurance contracts (continued)

Reserve for unpaid claims

Changes in claim liabilities recorded in the statement of financial position for the years ended December 31, 2016 and 2015 and their impact on claims and adjustment expenses for the two years is as follows:

	2016	2015
Reserve, beginning of year		
Gross	$ 995,741	$ 646,215
Reinsurance recoverable	(124,647)	(13,156)
	871,094	633,059
Decrease in estimated losses and expenses, for losses occurring in prior years	(150,213)	(84,178)
Provision for losses and expenses on claims occurring in the current year	2,802,740	3,423,376
	2,652,527	3,339,198
Paid claims occurring during:		
Current year events	(2,166,227)	(2,616,835)
Prior events	(660,592)	(484,328)
	(2,826,819)	(3,101,163)
Reserve, end of year	**$ 696,802**	**$ 871,094**
Reserve for unpaid claims, end of year:		
Gross	839,402	995,741
Reinsurer's share	(142,600)	(124,647)
	$ 696,802	**$ 871,094**

The company has determined estimated settlements in the next fiscal year on the reserve for unpaid claims noted above to be $651,000. This estimate was determined through the use of historical data on claims payments year over year.

4. Insurance contracts (continued)

Reserve for unpaid claims (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 claim payments and the estimated total cost of claims for the years 2008 to 2016. 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)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Net estimate of cumulative claims cost										
At the end year of claim	$ 1,574	$ 2,297	$ 2,027	$ 2,519	$ 2,135	$ 2,358	$ 2,879	$ 3,423	$ 2,743	
One year later	1,476	2,230	1,807	2,444	2,037	2,290	2,806	3,289		
Two years later	1,479	2,216	1,757	2,406	2,043	2,314	2,803			
Three years later	1,451	2,202	1,757	2,408	2,010	2,303				
Four years later	1,448	2,048	1,756	2,415	2,010					
Five years later	1,448	2,045	1,756	2,415						
Six years later	1,448	2,045	1,756							
Seven years later	1,448	2,045								
Eight years later	1,448									
Current estimate of cumulative claims cost	1,448	2,045	1,756	2,415	2,010	2,303	2,803	3,289	2,743	20,812
Cumulative payments	1,448	2,045	1,756	2,415	2,010	2,303	2,759	3,273	2,106	20,115
Outstanding claims	-	-	-	-	-	-	44	16	637	$ 697

5. Investments

Investments are classified on an available-for-sale basis, and therefore are carried at their fair value. The maximum exposure to credit risk would be the fair value as shown below.

	2016 Fair Value	2015 Fair Value
Available-for-Sale		
Bonds and debentures maturing within one year:		
Provincial/Municipal Governments	$ 864,463	$ 255,898
Canadian Corporate	-	680,040
Guaranteed investment certificates	555,000	300,000
	1,419,463	1,235,938
Bonds and debentures maturing between one and five years:		
Government of Canada	171,170	177,154
Provincial/Municipal Governments	1,394,303	1,951,529
Canadian Corporate	3,163,008	621,824
Guaranteed investment certificates	-	555,000
	4,728,481	3,305,507
Bonds and debentures maturing in more than five years:		
Provincial/Municipal Governments	671,980	733,324
Canadian Corporate	601,946	295,320
	1,273,926	1,028,644
	7,421,870	5,570,089
Equities	2,701,075	2,484,329
Preferred shares	1,108,967	440,941
Short term investments	601,799	3,103,429
	4,411,841	6,028,699
	$11,833,711	**$11,598,788**

The company's effective interest rate on bonds and guaranteed investment certificates is calculated based on interest received and accrued in the year less amortization of bond premiums in the year. The effective interest rate on these investments is 2.82% (2015 - 2.74%).

6. 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:

	2016	2015
Voting shares	$ 73,838	$ 73,838
Participating shares	2,668,788	2,668,788
Undistributed share of income (see below)	1,335,241	1,439,905
	4,077,867	4,182,531
Undistributed share of income from other comprehensive income	164,187	(45,991)
	$ 4,242,054	$ 4,136,540

At December 31, 2016, the company held approximately 31% (2015 - 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.

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

	2016	2015
Assets		
Investments	$ 5,368,749	$ 5,301,018
Due from agents, brokers and policyholders	513,171	458,970
Reserve for unpaid claims recoverable from reinsurers	230,946	207,720
Other assets	519,243	299,822
	$ 6,632,109	$ 6,267,530
Liabilities		
Reserve for unpaid claims	$ 1,239,132	$ 1,124,630
Unearned premiums	991,850	901,891
Other liabilities	159,073	104,469
	2,390,055	2,130,990
Shareholder's equity	4,242,054	4,136,540
	$ 6,632,109	$ 6,267,530

Statement of income

	2016	2015
Gross premiums earned	$ 3,018,099	$ 2,769,303
Reinsurance costs	(675,877)	(583,661)
Net premiums earned	2,342,222	2,185,642
Net claims incurred	(1,539,866)	(1,437,710)
Commissions and other expenses	(1,168,059)	(1,054,710)
Underwriting loss	(365,703)	(306,778)
Investment and other income	230,445	283,566
Loss before income tax	(135,258)	(23,212)
Income tax recovery	30,594	8,827
Company's portion of annual loss	(104,664)	(14,385)
Beginning undistributed share of income	1,439,905	1,454,290
Ending undistributed share of income	$ 1,335,241	$ 1,439,905

7. 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, 2015	$ 488,000	$ 1,478,598	$ 148,533	$ 228,733	$ 48,300	$ 2,392,164	$ 207,142
Additions	-	-	200	12,698	-	12,898	5,056
Transfer to investment property	(150,000)	(530,877)	-	-	-	(680,877)	-
Disposals	-	-	-	(132,599)	-	(132,599)	(140,535)
Balance December 31, 2016	338,000	947,721	148,733	108,832	48,300	1,591,586	71,663
Depreciation and impairment							
Balance December 31, 2015	-	191,227	97,557	173,188	38,768	500,740	185,019
Additions	-	48,205	7,473	23,866	2,524	82,068	12,360
Transfers to investment property	-	(167,124)	-	-	-	(167,124)	-
Disposals	-	-	-	(132,599)	-	(132,599)	(140,535)
Balance December 31, 2016	-	72,308	105,030	64,455	41,292	283,085	56,844
Carrying amount, December 31, 2016	**$ 338,000**	**$ 875,413**	**$ 43,703**	**$ 44,377**	**$ 7,008**	**$ 1,308,501**	**$ 14,819**
Gross Carrying Amount							
Balance December 31, 2014	$ 150,000	$ 530,877	$ 127,307	$ 178,046	$ 41,761	$ 1,027,991	$ 185,930
Additions	338,000	947,721	21,226	50,687	6,539	1,364,173	21,212
Disposals	-	-	-	-	-	-	-
Balance December 31, 2015	488,000	1,478,598	148,533	228,733	48,300	2,392,164	207,142
Depreciation and impairment							
Balance December 31, 2014	-	137,015	88,716	149,651	36,830	412,212	166,352
Additions	-	54,212	8,841	23,537	1,938	88,528	18,667
Disposals	-	-	-	-	-	-	-
Balance December 31, 2015	-	191,227	97,557	173,188	38,768	500,740	185,019
Carrying amount, December 31, 2015	**$ 488,000**	**$ 1,287,371**	**$ 50,976**	**$ 55,545**	**$ 9,532**	**$ 1,891,424**	**$ 22,123**

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

8. Investment property

	Land	Building	Total
Gross Carrying Amount			
Balance December 31, 2015	$ 42,000	$ 112,223	$ 154,223
Additions	-	-	-
Transfer from property and equipment	150,000	530,877	680,877
Impairment of tangible asset	-	(17,730)	(17,730)
Disposals	-	-	-
Balance December 31, 2016	192,000	625,370	817,370
Depreciation and impairment			
Balance December 31, 2015	-	19,095	19,095
Additions	-	35,720	35,720
Transfer from property and equipment	-	167,124	167,124
Disposals	-	-	-
Balance December 31, 2016	-	221,939	221,939
Carrying amount, December 31, 2016	**$ 192,000**	**$ 403,431**	**$ 595,431**
Gross Carrying Amount			
Balance December 31, 2014	$ 42,000	$ 112,223	$ 154,223
Additions	-	-	-
Disposals	-	-	-
Balance December 31, 2015	42,000	112,223	154,223
Depreciation and impairment			
Balance December 31, 2014	-	13,484	13,484
Additions	-	5,611	5,611
Disposals	-	-	-
Balance December 31, 2015	-	19,095	19,095
Carrying amount, December 31, 2015	**$ 42,000**	**$ 93,128**	**$ 135,128**

The fair value of the investment property is estimated at $710,000.

The income and expenses recognized in these financial statements for company's investments property is as follows:

Revenue	$ 103,877	$ 37,356
Direct expenses	(92,315)	(21,425)
Depreciation	(35,720)	(5,611)
	$ (24,158)	**$ 10,320**

Included in the above is income and expenses related to the rental of a portion of the company's operating property.

The leases included in the above are operating leases which have the following expected rental payments plus common area costs charged to lessee's:

One year	$ 72,607
One year to five years	$ 97,050

8. Investment property (continued)

Also in the year the company recorded an impairment loss on one of its investment properties. This property was sold subsequent to the year end at impaired value of $111,786 (net of applicable expenses to sell) which resulted in an impairment of $17,730.

9. Accounts payable and accrued liabilities

	2016	2015
Payable to reinsurer	$ 69,258	$ 69,449
Premium and fire marshall taxes payable	135,771	126,970
Due to other government agencies	10,369	101,758
Other payables and accruals	158,709	279,539
	$ 374,107	$ 577,716

10. Income taxes

Recovery of (provision for) income taxes included on Statement 3 is comprised of the following:

	2016	2015
Current income tax expense	$ (397,273)	$ (22,454)
Deferred income tax (expense) recovery	18,700	33,154
	$ (378,573)	$ 10,700

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

	2016	2015
Company's income before income taxes	$ 1,419,786	$ 57,985
Temporary differences	10,134	17,396
Non-taxable loss from associate	104,664	14,385
Mark to market adjustments	234,564	(55,911)
Tax reserve on mark to market adjustments	48,470	48,470
Taxable dividends deductible	(71,619)	(48,020)
Non-deductible and restricted deductible expenses	9,883	32,945
Taxable income	1,755,882	67,250
Current effective tax rate	28.5 %	27.0 %
	500,426	18,158
Small business deduction	(53,153)	(8,478)
Adjustment for (over) under provision of prior year	-	(2,726)
Income tax expense	$ 447,273	$ 6,954

10. Income taxes (continued)

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

	2016	2015
Income tax expense included on Statement 3 - statement of operations (see above)	$ 397,273	$ 22,454
Income tax expense (recovery) included on Statement 4 - statement of comprehensive income	50,000	(15,500)
	$ 447,273	$ 6,954

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

	2016	2015
Current income taxes (payable) recoverable	$ (440,281)	$ 99,652
Deferred income taxes payable	(2,400)	(13,700)
	$ (442,681)	$ 85,952

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

	Beginning of year	2016 Included in comprehensive income	End of year
Net book value of property and equipment over their undepreciated capital cost for income tax purposes	(22,219)	$ 12,333	$ (9,886)
Temporary difference on fair value of bonds	(21,811)	7,200	(14,611)
Other temporary differences	5,100	6,971	12,071
Unpaid claims reserve for accounting purposes in excess of their carrying value for income tax purposes	25,230	(15,004)	10,226
	$ (13,700)	$ 11,500	$ (2,200)

	Beginning of year	2015 Included in comprehensive income	End of year
Net book value of property and equipment over their undepreciated capital cost for income tax purposes	(23,344)	$ 1,125	$ (22,219)
Temporary difference on fair value of bonds	(30,051)	8,240	(21,811)
Other temporary differences	8,835	(3,735)	5,100
Unpaid claims reserve for accounting purposes in excess of their carrying value for income tax purposes	4,906	20,324	25,230
	$ (39,654)	$ 25,954	$ (13,700)

10. Income taxes (continued)

Deferred income taxes included above comprise of the following:

	2016	2015
Deferred income tax recovery (expense) - above	$ 18,700	$ 33,154
Deferred income tax expense - Statement 4	(7,200)	(7,200)
	$ 11,500	$ 25,954

11. 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:

	2016	2015
Key management remuneration	$ 391,515	$ 463,240

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

	2016	2015
Property and liability insurance premiums received	$ 15,572	$ 11,935
Property and liabilities insurance claims incurred	$ 2,000	$ -

12. Investment and other income

	2016	2015
Interest from term deposits, bonds and debentures and GICs, net of bond amortization	$ 149,872	$ 269,458
Dividends	91,464	58,480
Gain (loss) on disposal of investments	(33,558)	59,473
	$ 207,778	$ 387,411

13. 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 unpaid claims.

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).

The company also maintains a required amount of general reserve. In accordance with the Insurance Act of New Brunswick this requirement at December 31, 2016 is computed as $11,546,793 (2015 - $10,572,225) 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.

14. 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. This framework indicates that the company should produce a minimum MCT of $1,519,000 (2015 - $1,455,000). As another measure of capital adequacy, the company has established a target MCT of 450%. As at December 31, 2016 the company's available capital under this framework was $12,151,000 (800% of required minimum capital, 2015 - 744%).

15. Risk management, reinsurance and other risks

(a) **Insurance risk**

Reserve for unpaid claims

The principal risk the company faces under insurance contracts is the actual claims and liabilities payments or the timing thereof may differ from expectations. This is influenced by the severity of claims, actual claims paid, and subsequent development of long-term claims. Therefore the objective of the company is to ensure that sufficient reserves are available to cover these liabilities.

The reserve for unpaid claims 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.

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.

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

(a) **Insurance risk (continued)**

Reinsurance and underwriting continued

The current reinsurance contracts are as follows:

Property claims

First $250,000 per loss is paid by the company, which limits the company's exposure in any one property claim to $250,000. In addition, the company has obtained reinsurance which limits the company's liability to $750,000 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.

Liability claims

The company will pay 100% of all losses, up to a maximum retention of $250,000 per loss, which limits 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, 2016 would be $304,000.

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.

Sensitivity analysis

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The company's uses various techniques based on past claims development and experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrence, expected loss ratios and claims development as described in Note 4.

Results of sensitivity testing based on expected loss ratios are as follows, shown gross and net of reinsurance as impact on pre-tax income:

	2016	2015
5% increase/decrease in loss ratio		
Gross	$ 379,000	$ 339,000
Net of reinsurance recoveries	$ 355,000	$ 317,000

SOUTHEASTERN MUTUAL INSURANCE

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

(a) **Insurance risk (continued)**

Reinsurance undertaken

The company participates in programs to provide re-insurance for crop reinsurance through two separate reinsurance programs. The maximum retained liability for the company in any one year is $900,000 (2015 - $975,000). For this reinsurance undertaken the company has recorded $77,677 (2015 - $82,291) of premium income included in premiums written on Statement 3. In the 2017 year the company will undertake two re-insurance programs with a maximum retained liability of $900,000.

Property insurance risk

In the current year the company has underwritten insurance on the three properties it owns (Note 7 and Note 8). 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 $650,000 in property insurance and $250,000 in liability insurance totaling $900,000 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. In the 2017 year the company will underwrite insurance on two properties it owns. The maximum risk to the company will be $500,000 in property insurance and $250,000 in liability insurance totalling $750,000.

(b) **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 "BBB" 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. FMRP's creditworthiness is monitored through its A.M. Best rating. As of April 2016, A.M. Best has rated FMRP with a rate of A- (Excellent). Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

Accounts receivables are short-term in nature consisting of a large number of policyholders, and are not subject to material credit risk.

The maximum exposure to investment credit risk and concentration of this risk is outlined in Note 5.

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)

(b) **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 Board of Directors. Diversification techniques are utilized to minimize risk.

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 $1,518,715 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 $115,000, net of tax. A 10% reduction in the value of the US dollar, with all other variables held constant, would decrease comprehensive income by $115,000, 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.

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

(b) **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, 2016, an increase of 1% in interest rates, with all other variables held constant, would decrease bond fair values by $107,000 and decrease other comprehensive income by $81,000 net of income taxes. A decrease of 1% in interest rates, with all other variables held constant, would increase bond values by $107,000 and increase other comprehensive income by $81,000 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% increase in the stock markets, with all other variables held constant would increase the fair value of equities held by the company by $205,000 and increase other comprehensive income by $156,000 net of income tax. A 10% decrease in the stock markets, with all other variables held constant would decrease the fair value of equities held by the company by $205,000 and decrease other comprehensive income by $156,000 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.

16. Fair value of financial instruments

Financial instruments included in the statement financial position of Southeastern Mutual Insurance Company are broken down as follows:

Loans and receivables

Accrued interest receivable

Available-for-sale

Cash and cash equivalents and investments

16. Fair value of financial instruments (continued)

The above financial instruments are carried at their fair value. This is the maximum credit exposure for these financial instruments. 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 receivable, cash and cash equivalents, accounts payable and accrued charges and reserve for unpaid claims net of reinsurance 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 investment statements 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, 2016 is as follows:

	Total Fair Value	Level 1 Quoted Prices	Level 2 Observable Inputs	Level 3 Unobservable Inputs
Assets				
Cash and cash equivalents	$ 1,805,510	$ 1,805,510	$ -	$ -
Accrued interest receivable	57,200	-	-	57,200
Bonds and guaranteed investment certificates	7,421,870	-	7,421,870	-
Equities	2,701,075	2,701,075	-	-
Preferred shares	1,108,967	1,108,967	-	-
Short-term investments	601,799	601,799	-	-
	$13,696,421	**$ 6,217,351**	**$ 7,421,870**	**$ 57,200**
Liabilities				
Accounts payable and accrued charges	$ 374,107	$ -	$ -	$ 374,107
Reserve unpaid claims net of reinsurance	696,802	-	-	696,802
	$ 1,070,909	**$ -**	**$ -**	**$ 1,070,909**

17. 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.