

Financial Statements of

**SOUTHEASTERN MUTUAL
INSURANCE COMPANY**

And Independent Auditors' Report thereon

Year ended December 31, 2021

SOUTHEASTERN MUTUAL INSURANCE COMPANY

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Year ended December 31, 2021

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INDEPENDENT AUDITORS' REPORT

To the Policyholders of Southeastern Mutual Insurance Company

Opinion

We have audited the financial statements of Southeastern Mutual Insurance Company (the Company), which comprise:

- the statement of financial position as at December 31, 2021
- the statement of income for the year then ended
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes and schedules to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “***Auditors’ Responsibilities for the Audit of the Financial Statements***” section of our auditors’ report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.



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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Moncton, Canada

March 8, 2022

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Statement of Financial Position

December 31, 2021, with comparative information for 2020

	2021	2020
Assets		
Cash and cash equivalents	\$ 2,453,014	\$ 2,358,456
Investments (note 5)	25,760,909	21,324,963
Accrued interest receivable	93,000	78,200
Premiums receivable	5,609,873	3,973,307
Prepaid expenses	78,787	64,127
Deferred premium acquisition costs (note 4)	2,008,428	1,662,119
Reinsurers' shares of unpaid claims and adjustment expenses (note 4)	1,372,000	524,784
Property and equipment (note 6)	1,431,410	1,438,401
Intangible asset (note 7)	363,111	314,706
Funds held in trust (note 8)	—	407,725
	\$ 39,170,532	\$ 32,146,788

Liabilities and Equity

Accounts payable and accrued liabilities (note 9)	\$ 1,269,363	\$ 1,082,407
Income taxes payable	303,465	822,710
Unearned premiums (note 4)	11,063,991	8,717,799
Provision for unpaid claims (note 4)	4,232,588	1,642,329
Mortgage payable (note 11)	970,917	1,031,917
Deferred income taxes (note 10)	101,406	104,706
	17,941,730	13,401,868
Equity:		
Policyholders' equity	18,249,398	16,782,207
Accumulated other comprehensive income	2,979,404	1,962,713
	21,228,802	18,744,920
	\$ 39,170,532	\$ 32,146,788

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Statement of Income

Year ended December 31, 2021, with comparative information for 2020

	2021	2020
Premiums written	\$ 20,710,296	\$ 16,011,009
Less: premiums ceded to reinsurers	(3,098,008)	(1,992,521)
Net premiums written	17,612,288	14,018,488
Less: change in unearned premiums (note 4)	(2,346,192)	(2,249,071)
Net premiums earned	15,266,096	11,769,417
Service charges	658,980	269,390
Underwriting income	15,925,076	12,038,807
Claims:		
Claims incurred	8,537,829	4,433,806
Adjusting expenses	710,066	584,712
Reinsurance recoveries	(1,236,439)	(474,618)
Net claims and adjustment expenses incurred (note 4)	8,011,456	4,543,900
	7,913,620	7,494,907
Premium acquisition expenses:		
Commissions paid	2,820,587	2,374,278
Change in commissions earned	(255,807)	(363,231)
Net commission expenses	2,564,780	2,011,047
Agent expenses	350,478	201,891
Agent benefits	212,930	171,503
Premium tax	548,219	413,807
Fire Marshall's tax	133,199	95,769
Other premium acquisition costs	46,369	48,299
	3,855,975	2,942,316
Operating expenses (schedule)	2,929,495	2,574,028
	6,785,470	5,516,344
Underwriting income	1,128,150	1,978,563
Investment and other income:		
Investment income (note 13)	846,518	471,848
Rental income net of expenses (note 13)	2,321	6,951
	848,839	478,799
Income before income taxes	1,976,989	2,457,362
Income taxes (note 10)		
Current	513,098	675,423
Deferred (benefit)	(3,300)	25,368
	509,798	700,791
Net income	\$ 1,467,191	\$ 1,756,571

See accompanying notes to financial statements.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Statement of Comprehensive Income

Year ended December 31, 2021, with comparative information for 2020

	2021	2020
Net income	\$ 1,467,191	\$ 1,756,571
Other comprehensive income subject to reclassification:		
Unrealized gain (loss) on available-for-sale financial assets:		
Equities and preferred shares	2,020,659	326,574
Bonds and debentures	(270,651)	308,278
	<u>1,750,008</u>	<u>634,852</u>
Reclassification of realized gain on available for sale financial assets to net income:		
Equities and preferred shares	(286,239)	(55,431)
Bonds and debentures	(32,078)	—
	<u>(318,317)</u>	<u>(55,431)</u>
Net unrealized gain	1,431,691	579,421
Current income tax (note 10)	415,000	186,886
Other comprehensive income	<u>1,016,691</u>	<u>392,535</u>
Total comprehensive income	<u>\$ 2,483,882</u>	<u>\$ 2,149,106</u>

See accompanying notes to financial statements.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Statement of Changes in Equity

Year ended December 31, 2021, with comparative information for 2020

	2021	2020
Policyholders' equity:		
Balance, beginning of year	\$ 16,782,207	\$ 15,025,636
Net income	1,467,191	1,756,571
Balance, end of year	18,249,398	16,782,207
Accumulated other comprehensive income:		
Balance, beginning of year	1,962,713	1,570,178
Other comprehensive income	1,016,691	392,535
Balance, end of year	2,979,404	1,962,713
Total equity	\$ 21,228,802	\$ 18,744,920

Accumulated other comprehensive income ("AOCI") is composed of unrealized gains on available-for-sale financial assets, net of income taxes of \$798,976 (2020 - \$407,603).

See accompanying notes to financial statements.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Statement of Cash Flows

Year ended December 31, 2021, with comparative information for 2020

	2021	2020
Operating activities:		
Net income	\$ 1,467,191	\$ 1,756,571
Adjustments for:		
Depreciation and amortization	172,792	169,895
Interest on mortgage	26,100	32,511
Current income tax expense	513,098	675,423
Deferred income tax expense (benefit)	(3,300)	25,368
Gain on disposal of investments	(332,840)	(56,939)
Amortization of bond premiums	70,904	66,102
Interest income received	(335,426)	(326,767)
Dividends received	(249,156)	(154,244)
	1,329,363	2,187,920
Changes in non-cash balances:		
Accrued interest receivable	(14,800)	(1,000)
Premiums receivable	(1,636,566)	(1,104,003)
Deferred premium acquisition costs	(346,309)	(443,109)
Reinsurers' unpaid claims and adjustment expenses	(847,216)	1,056,166
Prepaid expenses	(14,660)	(34,140)
Accounts payable and accrued liabilities	186,956	437,708
Unearned premiums	2,346,192	2,249,071
Provision for unpaid claims	2,590,259	(2,308,801)
	3,593,219	2,039,812
Interest received	335,426	326,767
Dividends received	249,156	154,244
Income taxes received (paid)	(1,447,343)	307,928
Cash provided by operating activities	2,730,458	2,828,751
Financing activities:		
Payments on mortgage payable	(61,000)	(61,000)
Interest paid	(26,100)	(32,511)
Cash used in financing activities	(87,100)	(93,511)
Investing activities:		
Purchase of property, equipment and intangible assets	(214,206)	(46,045)
Proceeds from sale of investments	7,483,434	7,351,700
Purchase of investments	(10,225,753)	(9,411,732)
Proceeds from funds held in trust	407,725	123,435
Cash used in investing activities	(2,548,800)	(1,982,642)
Increase in cash and cash equivalents	94,558	752,598
Cash and cash equivalents, beginning of year	2,358,456	1,605,858
Cash and cash equivalents, end of year	\$ 2,453,014	\$ 2,358,456

See accompanying notes to financial statements.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Schedule of Operating Expenses

Year ended December 31, 2021, with comparative information for 2020

	2021	2020
Advertising and donations	\$ 148,339	\$ 96,916
Association fees and memberships	25,878	19,827
Conventions and meetings	10,087	9,217
Depreciation and amortization	156,775	153,095
Directors' remuneration (note 12)	101,224	103,306
Directors' expenses (note 12)	818	4,001
Information technology	523,250	469,973
Insurance and bonding	41,189	39,296
Interest and bank charges	90,136	61,195
Interest on mortgage	26,100	32,511
Loss prevention	73,595	72,580
Occupancy	68,157	80,743
Office, postage and stationary	57,132	64,327
Professional fees	112,739	155,242
Salaries and employee benefits	1,453,672	1,173,576
Scholarship	6,000	6,000
Telephone	23,737	21,060
Training and education	5,437	5,616
Travel	5,230	5,547
	<u>\$ 2,929,495</u>	<u>\$ 2,574,028</u>

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2021

Southeastern Mutual Insurance Company (the "Company") is incorporated under the laws of New Brunswick and is subject to the Insurance Act of New Brunswick. The Company sells property and casualty insurance in New Brunswick (the "Province"). Products include personal, commercial and farm insurance. The Company's head office is located in Riverview, New Brunswick.

1. Basis of presentation:

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements were approved by the Board of Directors on March 8, 2022.

(b) Basis of measurement:

The financial statements have been prepared on a historical cost basis, except for the available-for-sale financial assets which are measured at fair value.

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgments:

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on amounts recognized in the financial statements is discussed in note 3.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

2. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise indicated.

(a) Financial instruments

The Company's financial instruments are classified into one of the following four categories, as defined below

- Financial assets at fair value through profit or loss ("FVTPL")
- Available-for-sale ("AFS")
- Loans and receivables
- Other financial liabilities

All financial instruments are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Instruments classified as FVTPL may never be reclassified and, except in very limited circumstances, the classification of other instruments is not changed subsequent to initial recognition. Financial assets purchased and sold, where the contract requires the asset to be delivered within an established time frame, are recognized on a settlement date basis.

Transaction costs are expensed as incurred for FVTPL financial instruments. For other financial instruments, transaction costs are capitalized on initial recognition. The effective interest method of amortization is used for any transaction costs capitalized on initial recognition and for the premiums or discounts earned on AFS investments.

The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. Subsequent to initial recognition, the fair values are determined based on available information. The fair values of investments are based on the quoted market prices at bid. Unless otherwise disclosed, the carrying values of financial instruments approximate their fair values.

(i) Financial assets at fair value through profit or loss ("FVTPL")

A financial asset is classified as FVTPL if it was classified as held-for-trading or is designated as such upon initial recognition. FVTPL financial assets are purchased with the intention of generating profits in the near term or are voluntarily so designated by the Company. Changes in fair values are recorded as unrealized gain (loss) on financial assets at fair value through profit or loss in the statement of income with the related tax impact included in the current and deferred tax line items.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

2. Significant accounting policies:

(b) Financial instruments (continued)

(ii) Available-for-sale (“AFS”)

Changes in fair values are recorded, net of income taxes, in other comprehensive income (“OCI”) in the statement of comprehensive income until the financial instrument is disposed of, or where there has been a significant or prolonged decline in the fair value of an AFS financial asset. When the instrument is disposed of, the gain or loss is reclassified from OCI to realized gain (loss) in the statement of income. Gains and losses on the sale of AFS financial instruments are calculated on an average cost basis.

(iii) Loans and receivables

Financial instruments classified as loans and receivables are carried at amortized cost using the effective interest rate method. When there is a significant or prolonged decline in value, the value of these financial instruments is written down to the estimated net realizable value.

(iv) Financial liabilities

Financial liabilities are recognized initially on the trade date at which the Company becomes party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

(c) Investment income and expenses

Interest income from fixed income securities is recognized on an accrual basis using the effective interest rate method and reported within investment income.

Dividends on equity investments are recognized when the shareholder's right to receive payment is established, which is the ex-dividend date, and are reported within investment income.

General investment expenses are recognized as incurred.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

2. Significant accounting policies (continued):

(d) Impairment

(i) Financial assets

A financial asset not carried at FVTPL is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Factors considered in determining whether a loss is significant or prolonged include the duration and extent to which fair value has been below cost, financial condition and near-term prospects of the issuer, and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

If an AFS investment becomes impaired, the loss is reclassified from OCI to realized gain (loss) in the statement of income.

The cumulative loss that is removed from accumulated other comprehensive income and recognized in income is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in income.

If, in a subsequent period, the fair value of an impaired AFS debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in income, then the impairment loss is reversed, with the amount of the reversal recognized in income.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment. In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in income and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

2. Significant accounting policies (continued):

(d) Impairment (continued)

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less expected selling costs. 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. Impairment losses are recognized in income in the period in which the impairment is determined.

(e) 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.

(f) Property and equipment

(i) Recognition and measurement

Property and equipment are recorded at cost or deemed cost less accumulated amortization and any recognized impairment loss plus subsequent additions. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the item disposed and are recognized on a net basis within income.

(ii) Subsequent costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day maintenance and repairs are expensed as incurred.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

2. Significant accounting policies (continued):

(f) Property and equipment (continued)

(iii) Depreciation

Depreciation is recognized in net income and is amortized on a straight-line basis over the estimated useful life of the assets as follows:

Building	2.5% to 10%
Furniture and fixtures	10%
Computer hardware	17%
Vehicles	20%

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

(g) Intangible assets

Intangible assets consist of computer software which is not integral to the computer hardware owned by the Company. Software is recorded at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 3 to 12 years. The amortization expense is included within the operating expenses in the statement of income.

(h) Insurance contracts

(i) Classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk arises when the Company agrees to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. Contracts not meeting the definition of insurance contracts are classified as investment contracts, derivative contracts or service contracts. The Company has reviewed all the contracts issued to its policyholders and concluded that they all meet the definition of insurance contracts.

Premiums are taken into income on a pro rata basis over the contract period. Premiums on policies written with monthly payment terms are accounted for on an annualized basis. Premiums related to the unexpired portion of the policy at the end of the fiscal year are reflected in unearned premiums. Premiums receivable represents the premiums due for the remaining months of the contracts. The Company records a liability for the unearned portion of premiums.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

2. Significant accounting policies (continued):

(h) Insurance contracts (continued)

(iii) Deferred premium acquisition costs

Commissions and premium taxes related to securing new insurance contracts and renewing existing insurance contracts are deferred to the extent they are considered recoverable. All other costs are recognized as expenses when incurred. The deferred premium acquisition costs are subsequently amortized over the terms of the related policies. To the extent they are considered non-recoverable, they are expensed as incurred.

(iv) Provision for unpaid claims and adjustment expenses

The provision for unpaid claims consists of case estimates prepared by claims adjusters and a provision for incurred but not reported claims ("IBNR"). The estimates include related investigation, settlement and adjustment expenses. The valuation of claims liabilities is measured on a non-discounted basis.

(v) Liability adequacy test

At the end of each reporting period, the Company performs a liability adequacy test on its insurance liabilities less deferred premium acquisition costs to ensure the carrying value is adequate. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities are used. Any deficiency is immediately charged to income initially by writing off deferred premium acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests (the "premium deficiency"). Impairment losses resulting from liability inadequacy can be reversed in future years if the impairment no longer exists.

(vi) Reinsurance contracts held

Contracts entered into by the Company with the reinsurer under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

Reinsurance does not relieve the Company of its liability to its policyholders and is reflected on the statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and the obligations to policyholders.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

2. Significant accounting policies (continued):

(h) Insurance contracts (continued)

(vi) Reinsurance contracts held (continued)

The benefits to which the Company is entitled under its reinsurance contracts held are recognized as amounts recoverable from reinsurer (reinsurance asset). These assets consist of short-term balances due from reinsurer, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from reinsurer are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The Company assesses its reinsurance assets for impairment on a yearly basis. If there is objective evidence that the amount recoverable is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the statement of income. The carrying amount is reduced through the use of an allowance account.

(i) Income taxes

Income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in income except to the extent that it relates to items recognized directly in policyholders' equity or in OCI.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

Deferred tax is a result of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for tax purposes. Deferred tax assets are recognized only to the extent it is probable that sufficient taxable profits will be available against which the benefit of these deferred tax assets can be utilized.

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Changes in deferred income taxes related to a change in tax rates are recognized in income in the period in which the tax change was enacted or substantively enacted.

Deferred income tax assets and liabilities are offset when they arise from the same taxation authority and the Company has both the legal right and the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

2. Significant accounting policies (continued):

(k) Future changes in accounting policies

(i) IFRS 17, *Insurance Contracts*

On May 18, 2017 the IASB issued IFRS 17 Insurance Contracts. On June 25, 2020, the IASB issued amendments to IFRS 17 aimed at helping companies implement the Standard and to defer the effective date. IFRS 17 will replace IFRS 4 Insurance Contracts. The new standard and its amendments are effective for annual periods beginning on or after January 1, 2023.

This Standard introduces consistent accounting for all insurance contracts. The Standard requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires an entity to recognize profits as it delivers insurance services, rather than when it receives premiums.

The Company intends to adopt IFRS 17 in its financial statements for the annual period beginning on January 1, 2023. The extent of the impact of adoption of the standard has not yet been determined.

(ii) IFRS 9, *Financial Instruments*

In July 2014, the IASB issued the complete amended IFRS 9, Financial Instruments. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2019 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 introduces new requirements for the classification and measurement of financial assets based on the business model in which they are held and the characteristics of their contractual cash flows. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

2. Significant accounting policies (continued):

(k) Future changes in accounting policies (continued)

(ii) IFRS 9, *Financial Instruments* (continued)

The standard also introduces additional changes relating to financial liabilities.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

In September 2016, the IASB issued amendments to IFRS 4, Insurance Contracts to address accounting mismatches and volatility that may arise in profit or loss in the period between the effective date of IFRS 9 and the new insurance contracts standard, IFRS 17 Insurance Contracts, issued in May 2019. The amendments allow insurance entities whose predominant activities are to issue insurance contracts within the scope of IFRS 4, an optional temporary exemption from applying IFRS 9 until the effective date of IFRS 17.

The amendments introduce two approaches that may be adopted by insurers in the period between the effective date of IFRS 9 and IFRS 17:

- overlay approach – an option for all issuers of insurance contracts to reclassify amounts between profit or loss and other comprehensive income for eligible financial assets by removing any additional accounting volatility that may arise from applying IFRS 9; and
- temporary exemption – an optional temporary exemption from IFRS 9 for companies whose activities are predominately connected with insurance. This exemption allows an entity to continue to apply existing financial instrument requirements in IAS 39 to all financial assets until the earlier of the application of IFRS 17 or January 1, 2023.

In June 2020, the IASB extended the IFRS 9 temporary exemption until the earlier of the application of IFRS 17 or January 1, 2023.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

2. Significant accounting policies (continued):

(k) Future changes in accounting policies (continued)

(ii) IFRS 9, *Financial Instruments (continued)*

The Company evaluated its liabilities at December 31, 2015, the prescribed date of assessment under the temporary exemption provisions and concluded that all of the liabilities were predominantly connected with insurance. Approximately 90% of the Company's liabilities at December 31, 2015 are liabilities that arise because the Company issues insurance contracts and fulfils obligations arising from insurance contracts. Additionally, the Company has not previously applied any version of IFRS 9. Therefore, the Company is an eligible insurer that qualifies for optional relief from the application of IFRS 9.

As at January 1, 2018, the Company elected to apply the optional transitional relief under IFRS 4 that permits the deferral of the adoption of IFRS 9 for eligible insurers. The Company will continue to apply IAS 39 until January 1, 2023. See note 5 for additional disclosures which enable comparison between the Company and entities that applied IFRS 9 at January 1, 2019.

3. Significant judgments and estimates:

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

(a) Significant judgments

Significant judgments made in applying accounting policies are as follows:

(i) Impairments on AFS financial assets

As of each reporting date, the Company evaluates AFS financial assets in an unrealized loss position for impairment on the basis described in note 2(d).

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

3. Significant judgments and estimates (continued):

(a) Significant judgments (continued)

(i) Impairments on AFS financial assets (continued)

For investments in bonds and debentures, evaluation of whether impairment has occurred is based on the Company's best estimate of the cash flows expected to be collected at the individual investment level. The Company considers all available information relevant to the collectability of the investment, including information about past events, current conditions, and reasonable and supportable forecasts. Estimating such cash flows is a quantitative and qualitative process that incorporates information received from third party sources along with certain internal assumptions and judgments regarding the future performance of any underlying collateral for asset-backed securities. Where possible, this data is benchmarked against third party sources.

Impairments for bonds and debentures in an unrealized loss position are deemed to exist when the Company does not expect full recovery of the amortized cost of the investment based on the estimate of cash flows expected to be collected or when the Company intends to sell the investment prior to recovery from its unrealized loss position.

For equity investments, the Company recognizes an impairment loss in the period in which it is determined that an investment has experienced significant or prolonged losses and is not expected to recover to its cost.

There were no write-downs of AFS financial assets in 2021 (2020 - \$nil).

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

3. Significant judgments and estimates (continued):

(b) Estimates

Information about assumptions and estimation uncertainties that have a risk of resulting in material adjustment within the next 12 months are as follows:

(i) Provision 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. The provision for unpaid claims is an estimate and, as such, is subject to variability, which could be material. 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 estimate is 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 of income in the year in which the change occurred.

The assumptions underlying the valuation of the provision for unpaid claims are reviewed and updated by the Company on an ongoing basis to reflect recent and emerging trends in experience and changes in risk profit of the business.

(ii) Deferred premium acquisition costs

Deferred premium acquisition costs are deferred and amortized in accordance with the accounting policy in note 2(h)(iii). The Company estimates expenses eligible for deferral based on the nature of expenses incurred.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

4. Insurance contracts:

Deferred premium acquisition costs

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

	2021	2020
Balance, beginning of year	\$ 1,662,119	\$ 1,219,010
Acquisition costs incurred during the year	4,202,284	3,385,425
Expensed during the year	(3,855,975)	(2,942,316)
Balance, end of year	\$ 2,008,428	\$ 1,662,119

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:

	2021	2020
Balance, beginning of year	\$ 8,717,799	\$ 6,468,728
Premiums written in year	20,710,296	16,011,009
Premiums earned in year	(18,364,104)	(13,761,938)
Change in year	2,346,192	2,249,071
Balance, end of year	\$ 11,063,991	\$ 8,717,799

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

4. Insurance contracts (continued):

Provision for unpaid claims

Changes in claim liabilities recorded in the statement of financial position for the years ended December 31, 2021 and 2020 and their impact on claims and adjustment expenses for the two years is as follows:

2021	Insurance contract liabilities	Reinsurance of liabilities	Net
Unpaid claims, beginning of year	\$ 1,642,329	\$ 524,784	\$ 1,117,545
Change in provision for insured events of prior years	(190,316)	(188,668)	(1,648)
Provision for insured events of current year	9,438,012	1,425,107	8,012,905
	9,247,696	1,236,439	8,011,257
Net payments attributable to:			
Prior events	852,740	306,389	546,351
Current year events	5,804,697	82,834	5,721,863
	6,657,437	389,223	6,268,214
Unpaid claims, end of year	\$ 4,232,588	\$ 1,372,000	\$ 2,860,588

2020	Insurance contract liabilities	Reinsurance of liabilities	Net
Unpaid claims, beginning of year	\$ 3,951,130	\$ 1,580,950	\$ 2,370,180
Change in provision for insured events of prior years	(871,307)	(405,540)	(465,767)
Provision for insured events of current year	5,889,825	880,158	5,009,667
	5,018,518	474,618	4,543,900
Net payments attributable to:			
Prior events	2,867,550	1,064,317	1,803,233
Current year events	4,459,769	466,467	3,993,302
	7,327,319	1,530,784	5,796,535
Unpaid claims, end of year	\$ 1,642,329	\$ 524,784	\$ 1,117,545

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

4. Insurance contracts (continued):

Provision for unpaid claims (continued)

The Company has determined estimated settlements in the next fiscal year on the provision for unpaid claims noted above to be \$2,568,000 (2020 - \$1,019,000). This estimate was determined through the use of historical data on claims payments year over year.

Claims development

The estimation of claim development involves assessing the future behavior 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 tables below present the development of claim payments and the estimated total cost of claims for the years 2012 to 2021 on a gross and net claims basis. 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.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

4. Insurance contracts (continued):

Provision for unpaid claims (continued)

Claims Development

Gross Claims	2012	2013	2014	2015	2016	(\$'000)	2018	2019	2020	2021	Total
						2017					
Net estimate of cumulative claims cost											
At the end year of claim	\$ 2,152	\$ 2,550	\$ 2,879	\$ 3,630	\$ 2,970	\$ 4,433	\$ 5,123	\$ 7,157	\$ 5,895	\$ 9,499	
One year later	2,114	2,567	2,806	3,444	2,942	4,203	5,111	6,420	5,674		
Two years later	2,119	2,591	2,803	3,426	2,998	4,255	5,016	6,421			
Three years later	2,086	2,580	2,768	3,468	3,003	4,205	4,951				
Four years later	2,086	2,580	2,768	3,447	2,954	4,239					
Five years later	2,086	2,580	2,768	3,447	2,954						
Current estimate of cumulative claim costs	2,086	2,580	2,768	3,447	2,954	4,239	4,951	6,421	5,674	9,499	44,619
Cumulative payments	2,086	2,580	2,768	3,447	2,942	4,127	4,943	6,421	5,268	5,804	40,386
Outstanding claims	\$ -	\$ -	\$ -	\$ -	\$ 12	\$ 112	\$ 8	\$ -	\$ 406	\$ 3,695	\$ 4,233

Claims Net of Reinsurance	2012	2013	2014	2015	2016	(\$'000)	2018	2019	2020	2021	Total
						2017					
Net estimate of cumulative claims cost											
At the end year of claim	\$ 2,135	\$ 2,358	\$ 2,879	\$ 3,423	\$ 2,743	\$ 4,205	\$ 4,858	\$ 5,702	\$ 4,980	\$ 8,053	
One year later	2,037	2,290	2,806	3,289	2,791	4,099	4,794	5,860	4,917		
Two years later	2,043	2,314	2,803	3,271	2,826	4,151	4,706	5,861			
Three years later	2,010	2,314	2,768	3,312	2,831	4,101	4,707				
Four years later	2,010	2,314	2,768	3,291	2,782	4,135					
Five years later	2,010	2,314	2,768	3,291	2,782						
Current estimate of cumulative claim costs	2,010	2,314	2,768	3,291	2,782	4,135	4,707	5,861	4,917	8,053	40,838
Cumulative payments	2,010	2,314	2,768	3,291	2,770	4,024	4,705	5,861	4,512	5,722	37,977
Outstanding claims	\$ -	\$ -	\$ -	\$ -	\$ 12	\$ 111	\$ 2	\$ -	\$ 405	\$ 2,331	\$ 2,861

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

5. Investments:

(a) Investments are classified on an available-for-sale basis, and therefore are carried at their fair value.

	2021	2020
Available-for-Sale		
Bonds and debentures maturing within one year:		
Provincial/Municipal Governments	\$ 1,133,907	\$ 654,719
Canadian Corporate	1,356,908	955,931
	<u>2,490,815</u>	<u>1,610,650</u>
Bonds and debentures maturing between one and five years:		
Provincial/Municipal Governments	2,487,249	2,618,313
Canadian Corporate	7,390,642	5,708,877
	<u>9,877,891</u>	<u>8,327,190</u>
Bonds and debentures maturing in more than five years:		
Provincial/Municipal Governments	838,618	1,158,638
Canadian Corporate	1,592,177	977,123
	<u>2,430,795</u>	<u>2,135,761</u>
Total bonds and debentures	14,799,501	12,073,601
Equities	9,378,581	6,954,591
Preferred shares	1,582,827	1,548,673
Short term investments	–	748,098
	<u>\$ 25,760,909</u>	<u>\$ 21,324,963</u>

The Company's effective interest rate on bonds and debentures 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 2.66% (2020 - 2.97%).

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

5. Investments (continued):

(b) Additional disclosures

The following additional disclosure, required by IFRS 9 for eligible insurers, presents the fair value and the amount of change in the fair value of the Company's financial assets, showing separately the fair value of financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI") and the fair value of financial assets that do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("Non-SPPI"):

2021	SPPI		Non-SPPI	
	Fair Value	Change in fair value	Fair value	Change in fair value
Bonds and debentures	\$14,799,501	\$ (270,651)	\$ –	\$ –
Equities	–	–	9,378,581	1,849,079
Preferred shares	1,582,827	171,580	–	–
	\$16,382,328	\$ (99,071)	\$ 9,378,581	\$ 1,849,079

2020	SPPI		Non-SPPI	
	Fair Value	Change in fair value	Fair value	Change in fair value
Bonds and debentures	\$12,073,601	\$ 308,278	\$ –	\$ –
Equities	–	–	6,954,591	209,291
Preferred shares	1,548,673	117,283	–	–
Short-term investments	–	–	748,098	–
	\$13,622,274	\$ 425,561	\$ 7,702,689	\$ 209,291

The additional disclosure, required by IFRS 9 for eligible insurers, to present the credit risk ratings of SPPI financial assets is included in note 15 (b).

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

6. Property and equipment:

	Land	Building	Furniture and fixtures	Computer hardware	Vehicles	Total
Cost or deemed cost						
Balance December 31, 2020	\$ 338,000	\$ 1,162,551	\$ 206,926	\$ 406,508	\$ 30,798	\$ 2,144,783
Additions	–	25,450	3,595	97,831	–	126,876
Balance December 31, 2021	338,000	1,188,001	210,521	504,339	30,798	2,271,659
Accumulated depreciation						
Balance December 31, 2020	–	282,415	142,749	259,662	21,556	706,382
Additions	–	55,233	11,495	60,979	6,160	133,867
Balance December 31, 2021	–	337,648	154,244	320,641	27,716	840,249
Net book value, December 31, 2021	\$ 338,000	\$ 850,353	\$ 56,277	\$ 183,698	\$ 3,082	\$ 1,431,410

	Land	Building	Furniture and fixtures	Computer hardware	Vehicles	Total
Cost or deemed cost						
Balance December 31, 2019	\$ 338,000	\$ 1,143,174	\$ 203,025	\$ 388,024	\$ 30,798	\$ 2,103,021
Additions	–	19,377	3,901	18,484	–	41,762
Balance December 31, 2020	338,000	1,162,551	206,926	406,508	30,798	2,144,783
Accumulated depreciation						
Balance December 31, 2019	–	224,485	131,082	209,534	15,400	580,501
Additions	–	57,930	11,667	50,128	6,156	125,881
Balance December 31, 2020	–	282,415	142,749	259,662	21,556	706,382
Net book value, December 31, 2020	\$ 338,000	\$ 880,136	\$ 64,177	\$ 146,846	\$ 9,242	\$ 1,438,401

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

7. Intangible assets:

	Computer software	
Cost		
Balance, December 31, 2020	\$	514,729
Additions		87,330
Balance, December 31, 2021		602,059
Accumulated amortization		
Balance, December 31, 2020		200,023
Amortization for the year		38,925
Balance, December 31, 2021		238,948
Net book value		
Balance, December 31, 2020		314,706
Balance, December 31, 2021		363,111

Amortization of intangible assets included in operating expenses amounted to \$38,925 in 2021 (2020 - \$43,632).

8. Funds held in trust:

On January 1, 2019, the Company sold its interest in United General Insurance Corporation for net proceeds in the amount of \$3,319,763. As part of the sale, legal counsel has held back a portion of the proceeds from the sale. This holdback is included in the statement of financial position as funds held in trust. The holdback was paid out in full on January 12, 2021.

9. Accounts payable and accrued liabilities:

	2021	2020
Payable to reinsurer	\$ 711,104	\$ 438,526
Premium and fire marshal taxes payable	290,221	320,510
Due to other government agencies	6,313	7,498
Other payables and accruals	261,725	315,873
	\$ 1,269,363	\$ 1,082,407

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

10. Income taxes:

(a) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

2021	Assets	Liabilities	Net
Property and equipment	\$ –	\$ (159,220)	\$ (159,220)
Claim reserves	40,861	–	40,861
Other	16,953	–	16,953
Net tax assets (liabilities)	\$ 57,814	\$ (159,220)	\$ (101,406)

2020	Assets	Liabilities	Net
Property and equipment	\$ –	\$ (136,286)	\$ (136,286)
Claim reserves	16,413	–	16,413
Other	15,167	–	15,167
Net tax assets (liabilities)	\$ 31,580	\$ (136,286)	\$ (104,706)

(b) Movement in temporary differences during the year

	Property and equipment	Claim reserves	Other	Total
Balance, December 31, 2019	\$(118,215)	\$ 29,627	\$ 9,250	\$ (79,338)
Recognized in income	(18,071)	(13,214)	5,917	(25,368)
Balance, December 31, 2020	(136,286)	16,413	15,167	(104,706)
Recognized in income	(22,934)	24,448	1,786	3,300
Balance, December 31, 2021	\$(159,220)	\$ 40,861	\$ 16,953	\$(101,406)

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

10. Income taxes (continued):

(c) Components of income tax expense

The major components of income tax expense are:

	2021	2020
Current tax expense		
Current period taxes on income	\$ 509,838	\$ 673,552
Adjustments for prior years	3,260	1,871
Deferred tax expense		
Origination and reversal of temporary differences	(3,300)	(562)
Adjustments for prior years	–	25,930
Total income tax expense	\$ 509,798	\$ 700,791
Income tax recognized in other comprehensive income		
Unrealized gain (loss) on AFS financial assets	\$ 415,000	\$ 186,886
Total income tax charged directly to OCI	\$ 415,000	\$ 186,886

(d) Reconciliation of effective tax rate

The Company's provision for income taxes varies from the expected provision at statutory rates for the following reasons:

	2021	2020
Income before income taxes	\$ 1,976,989	\$ 2,457,362
Combined basic Canadian federal and provincial income tax rate	29%	29%
Provision based on combined basis income tax rate	573,327	712,635
Adjustments for prior years	3,260	27,801
Permanent items and other	247	153
Non-taxable dividends	(69,953)	(39,798)
Other	2,917	–
Income tax expense	\$ 509,798	\$ 700,791
Current income tax	\$ 513,098	\$ 675,423
Deferred income tax	(3,300)	25,368
	\$ 509,798	\$ 700,791

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

11. Mortgage payable:

The Company has a mortgage payable with Canadian Imperial Bank of Commerce repayable in monthly installments of \$5,083 plus interest at a rate of CIBC prime plus 0.15% per annum, totaling of 2.60% at December 31, 2021. The mortgage is secured by a Security Agreement and land and building located at 663 Pinewood Road which has a net book value of \$1,188,354. The mortgage is due on demand. The due date set in the mortgage is May 31, 2022. Subsequent to the year end, the mortgage was renewed and is now due on May 31, 2026.

The anticipated principal payments on the mortgage payable for each of the five years subsequent to December 31, 2021 are as follows:

2022	\$	61,000
2023		61,000
2024		61,000
2025		61,000
2026		61,000

12. Related party transactions:

The Company entered into the following transactions with key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including all directors, executives, and non-executive senior management.

	2021	2020
Key management remuneration	\$ 864,439	\$ 799,455

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

	2021	2020
Property and liability insurance premiums received	\$ 10,390	\$ 10,265

Each director of the Company received an annual stipend in 2021 of \$8,100 per director, \$15,800 for the chair (2020 - \$7,708 per director, \$15,010 for the chair).

In addition, each director received an attendance fee in 2021 of \$424 for each attendance at board meetings, board committee meetings and various industry events.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

12. Related party transactions (continued):

The total compensation paid and expenses reimbursed to each director in respect of 2021 and 2020 was as follows:

	Annual stipend	Attendance fees – Board and committee meetings	Total compensation per Director	Courses, conferences, and mileage	Total compensation and expenses per Director
Kevin Burdett					
2021	\$ 8,100	\$ 7,924	\$ 16,024	\$ 136	\$ 16,160
2020	7,708	9,149	16,857	709	17,566
Jack Low					
2021	8,100	7,924	16,024	136	16,160
2020	7,708	9,093	16,801	607	17,408
James Stark					
2021	8,100	7,924	16,024	136	16,160
2020	7,708	8,726	16,434	828	17,262
Lynn Roy					
2021	–	–	–	–	–
2020	5,781	6,417	12,198	217	12,415
Nancy Whipp					
2021	–	–	–	–	–
2020	1,927	2,968	4,895	551	5,446
Brenda Mackenzie					
2021	8,100	7,924	16,024	136	16,160
2020	5,781	6,181	11,962	424	12,386
James Slupsky					
2021	6,750	6,654	13,404	137	13,541
2020	–	–	–	–	–
Peter Wright					
2021	15,800	7,924	23,724	137	23,861
2020	15,010	9,149	24,159	665	24,824
Total for all directors					
2021	\$ 54,950	\$ 46,274	\$ 101,224	\$ 818	\$ 102,042
2020	\$ 51,623	\$ 51,683	\$ 103,306	\$ 4,001	\$ 107,307

Each director is provided with coverage under the health insurance plan. These benefits include coverage for Accidental Death and Dismemberment (AD&D).

The directors did not receive any retirement benefits, pension benefits, bonuses, profit sharing benefits, incentive payments. The directors did not receive any discounts on premiums payable to the Company (other than the premium discounts applicable generally to all policyholders).

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

13. Investment and other income:

(a) Investment income:

	2021	2020
Interest from bonds and debentures net of bond amortization	\$ 264,523	\$ 260,665
Dividends	249,155	154,244
Gain on disposal of investments	332,840	56,939
	\$ 846,518	\$ 471,848

(b) Rental income:

	2021	2020
Revenue and common area charges	\$ 60,071	\$ 60,804
Expenses	(41,733)	(37,053)
Depreciation allocated	(16,017)	(16,800)
Rental income	\$ 2,321	\$ 6,951

14. Capital management:

The Company's capital management objective is to ensure the Company is capitalized in a manner that provides a strong financial position for its policyholders, and at the same time exceeds the regulatory capital requirements. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable (note 15(a)).

Government regulators expect the Company to establish an internal target capital ratio above supervisory target capital ratio when applying the Minimum Capital Test (MCT), which measures available capital against required risk-weighted capital. The MCT calculation incorporates operating results, financial position and other factors and includes a calculated amount of capital available. As of December 31, 2021, the Company's MCT exceeded the supervisory target capital ratio required by the regulator (150%) as well as the Company's internal target ratio (450%).

Management actively monitors the MCT ratio and the effect that external and internal actions have on the capital base of the Company. In particular, management determines the effect on capital before entering into any significant transactions to ensure that policyholders are not put at risk through the depletion of capital to unacceptable levels.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

14. Capital management (continued):

The following is the detail MCT calculations of the Company:

	2021	2020
Calculated capital available	\$ 20,865,000	\$ 18,431,000
Supervisory target capital required	6,582,000	4,960,000
Internal target capital	19,746,000	14,881,000
Ratio of capital available over supervisory target capital required	317%	372%
Ratio of capital available over internal target capital	106%	124%

15. Risk management, reinsurance and other risks:

The primary goals of the Company's financial risk management are to ensure that the outcomes of activities involving elements of risk are consistent with the Company's objectives and risk tolerance, and to maintain an appropriate risk/reward balance while protecting the Company's statement of financial position from events that have the potential to materially impair its financial strength.

Risks identified as potentially significant are managed through a combination of Board policy, management monitoring and other management practices. The Company's Investment Policy Statement establishes asset mix parameters and risk limits to help minimize undue exposure to these risks in the investment portfolio while attempting to maximize the long-term value of policyholders' equity. The Investment Policy Statement is reviewed annually by the Finance and Audit Committee. Compliance with the Investment Policy is monitored quarterly by the Finance and Audit Committee of the Board of Directors.

The Company's exposure to potential loss is primarily due to insurance risk along with credit risks, liquidity risk, market risks, including foreign currency risks, interest rate risks and equity risks.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

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

(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 is 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 risk is reduced through various internal and external control processes including minimum reserve standards, quality assurance reviews, monthly review, and legal counsel.

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 \$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 \$625,000 in a catastrophe. Stop loss reinsurance is also in effect which protects the Company to limit the "Net Incurred Loss Ratio" to 70% of its insurance premiums.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

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

(a) Insurance risk (continued):

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, 2021 would be \$350,000.

Insurance pricing

Pricing risk arises when actual claims experience differs from the assumptions included in pricing calculations. Historically, the underwriting results of the property and casualty industry have fluctuated significantly due to the cyclical nature of the insurance market. The market cycle is affected by the frequency and severity of losses, levels of capacity and demand, general economic conditions and price competition. The Company's pricing process is designed to ensure an appropriate return on capital while also providing long-term rate stability. These factors are reviewed and adjusted regularly to ensure prices are responsive to the current environment and competitor behaviour.

Concentration risk

The Company writes property and casualty insurance contracts for twelve-month durations. The most significant risks arise from natural disasters, climate change and other catastrophes. The Company has a reinsurance program to limit the exposure to catastrophic losses from any one event.

The Company has a concentration of business in property insurance in the Province of New Brunswick. For the year ended December 31, 2021, property premiums represented 91% (2020 - 90%) of gross written premiums.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

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

(a) Insurance risk (continued):

Catastrophic loss risk

Catastrophic loss risk is the exposure to losses resulting from multiple claims arising out of a single catastrophic event. Property and casualty insurance companies experience large losses arising from man-made or natural catastrophes that can result in significant underwriting losses. Catastrophes can cause losses in a variety of property and casualty lines and may have continuing effects which could delay or hamper efforts to timely and accurately assess the full extent of the damage they cause. The incidence and severity of catastrophes are inherently unpredictable. The Company evaluates catastrophic events and assesses the probability of occurrence and magnitude of catastrophic events through various modeling techniques and through the aggregation of limits exposed. The Company's exposure to catastrophic loss is also managed through geographic and product diversification as well as through the use of reinsurance.

The Company reinsures claims from a single catastrophe when the sum exceeds \$625,000 (2020 - \$625,000). Reinsurance coverage risk arises because reinsurance terms, conditions and/or pricing may change on renewal, particularly following catastrophes.

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 determine these sensitivities. This includes indicators such as average claim cost, amount of claims occurrence, expected loss ratios and claims development. The Company considers that the liability for its unpaid claims and adjustment expenses is adequate. However, actual experience will differ from the expected outcome.

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 \$1,100,000 (2020 - \$1,200,000). For this reinsurance undertaken the Company has recorded \$57,528 (2020 - \$73,771) of premium income included in premiums written.

Property insurance risk

The Company's property and equipment (note 6) is insured for any losses exceeding \$250,000 for each property and liability insurance, which results in a maximum risk of \$500,000. This maximum risk takes into consideration that the Company will be subject to maximum property and liability claims. This policy follows standard reinsurance arrangements as noted above.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

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

(b) 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. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis. The Company performed a review of all AFS securities with unrealized losses at December 31, 2021 and concluded that, due to no objective evidence of impairment, a provision for impairment was not required.

The Company relies on reinsurance to manage underwriting risk, however, reinsurance does not release the Company from its primary commitments to its policyholders. Therefore, the Company is exposed to the credit risk associated with the amounts ceded to reinsurers.

The Company regularly assesses the financial soundness of the reinsurer it deals with. An allowance for losses on reinsurance contracts is established when a reinsurance counterparty becomes unable or unwilling to fulfill its contractual obligations. The allowance for loss is based on current recoverable and ceded claim liabilities. No information has come to the Company's attention indicating weakness or failure of its current reinsurer; consequently, no impairment provision has been made in the accounts due to credit risks.

The Company's credit exposure to any one individual policyholder included in premiums receivable from policyholders is not material.

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

Notes to Financial Statements (continued)

Year ended December 31, 2021

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

(b) Credit risks (continued):

The following table summarizes the Company's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses:

	2021	2020
Cash and cash equivalents	\$ 2,453,014	\$ 2,358,456
Accrued interest receivable	93,000	78,200
Premiums receivable	5,609,873	3,973,307
Bonds and debentures	14,799,501	12,073,601
Short-term investments	–	748,098
Held in trust	–	407,725
	\$ 22,955,388	\$ 19,639,387

The following additional disclosure, required by IFRS 9 for eligible insurers, presents the credit risk ratings of SPPI financial assets:

2021	Bonds and debentures	Preferred shares	Total	% of total
AA/PFD-2 (Low)	\$ 2,976,465	\$ 1,389,967	\$ 4,366,432	27%
A/PFD-3 (Low)	6,512,568	192,860	6,705,428	40%
BBB/PFD-4 (Low)	1,571,188	–	1,571,188	10%
Unrated	3,739,280	–	3,739,280	23%
	\$ 14,799,501	\$ 1,582,827	\$ 16,382,328	100%

2020	Bonds and debentures	Preferred shares	Total	% of total
AAA/PFD-1 (Low)	\$ 137,574	\$ –	\$ 137,574	1%
AA/PFD-2 (Low)	1,644,901	1,490,870	3,135,771	23%
A/PFD-3 (Low)	6,335,087	57,803	6,392,890	47%
BBB/PFD-4 (Low)	770,302	–	770,302	6%
Unrated	3,185,737	–	3,185,737	23%
	\$ 12,073,601	\$ 1,548,673	\$ 13,622,274	100%

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

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

(c) Liquidity risks:

Liquidity risk is the risk of having insufficient cash resources to meet current financial obligations. Liquidity risk arises from the Company's general business activities and in the course of managing the assets and liabilities. The liquidity requirements of the Company's business are met primarily by funds generated by operations, asset maturities and investment returns. Cash provided from these sources normally exceeds cash requirements to meet claims costs and operating expenses.

At December 31, 2021, the Company had \$2,453,014 (2020 - \$3,106,554) of cash and cash equivalents. The Company also has a highly liquid investment portfolio. Equities and preferred shares held by the Company had a fair value of \$10,961,408 (2020 - \$8,503,264). Canadian fixed-income securities issued or guaranteed by domestic governments and investment grade corporate bonds held by the Company had a fair value of \$11,060,221 as at December 31, 2021 (2020 - \$8,887,864).

The maturity profile of the Company's investment portfolio is shown 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.

The Company maintains a line of credit with Canadian Imperial Bank of Commerce in the amount of \$125,000 with an interest rate of prime plus 0.15% (currently 2.60%). The line of credit is secured the same as the mortgage in note 11. At December 31, 2021, the Company's line of credit is available. In addition, the Company has a corporate credit card facility in the amount of \$27,500.

(d) Market risk:

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as foreign currency exchange rates, interest rates, and equity market fluctuations. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. Below is a discussion of the Company's primary market risk exposures and how those exposures are currently managed.

Foreign exchange 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.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

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

(d) Market risk (continued):

The Company's foreign currency risk is related to its foreign stock holdings. Foreign currency changes are monitored by the Financial and Audit Committee. Foreign stocks included in the Company's available-for-sale financial assets primarily relate to US dollar denominated equities in the amount of \$4,687,540 (2020 - \$3,608,133) Canadian. A 10% increase or decrease in the value of the US dollar, with all other variables held constant, would increase or decrease comprehensive income by approximately \$352,000 (2020 - \$270,000), 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 policies, procedures and methods used to measure the risk.

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. Typically, investment income will be reduced during sustained periods of low interest rates, but this will also create unrealized gains within the bond and debenture portfolio. It will also create realized gains to be recognized in net income to the extent any bonds are sold during the period. The reverse is true during a sustained period of increasing interest rates. At December 31, 2021, an increase or decrease of 1% in interest rates, with all other variables held constant, would increase or decrease the fair values the Company's bond and debentures and OCI by \$457,000 (2020 - \$423,000).

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

Economic trends, the political environment and other factors can positively and adversely impact the equity markets and consequently the value of equity investments the Company holds. 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 change the fair value of the Company's equities and OCI by \$1,100,000 (2020 - \$850,000).

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.

SOUTHEASTERN MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2021

16. Fair value of financial instruments:

Fair value hierarchy

The table below provides an analysis of the basis of measurement used to fair value financial instruments carried at fair value, categorized by the following fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e., derived from prices)

Level 3: Inputs for the asset or liability not based on observable market data (unobservable inputs).

2021	Level 1	Level 2	Level 3	Total
Bonds and debentures				
Provincial / Municipal governments	\$ –	\$ 4,459,774	\$ –	\$ 4,459,774
Canadian corporate	–	10,339,727	–	10,339,727
Equities	9,378,581	–	–	9,378,581
Preferred shares	1,582,827	–	–	1,582,827
	\$10,961,408	\$14,799,501	\$ –	\$25,760,909
2020	Level 1	Level 2	Level 3	Total
Bonds and debentures				
Provincial / Municipal governments	\$ –	\$ 4,431,670	\$ –	\$ 4,431,670
Canadian corporate	–	7,641,931	–	7,641,931
Equities	6,954,591	–	–	6,954,591
Preferred shares	1,548,673	–	–	1,548,673
Short-term investments	–	748,098	–	748,098
	\$ 8,503,264	\$12,821,699	\$ –	\$21,324,963

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2021 and December 31, 2020. There were no Level 3 investments for the years ended December 31, 2021 and December 31, 2020.