PACICC

Property and Casualty Insurance Compensation Corporation

Insolvency protection for home, automobile and business insurance customers

Annual Report 2011

PACICC Mission

The mission of the Property and Casualty Insurance Compensation Corporation is to protect eligible policyholders from undue financial loss in the event that a member insurer becomes insolvent.

We work to minimize the costs of insurer insolvencies and seek to maintain a high level of consumer and business confidence in Canada's property and casualty insurance industry through the financial protection we provide to policyholders.

PACICC Principles

- In the unlikely event that an insurance company becomes insolvent, policyholders should be protected from undue financial loss through prompt payment of covered claims.
- Financial preparedness is fundamental to PACICC's successful management support of insurance company liquidations, requiring both adequate financial capacity and prudently managed compensation funds.
- Good corporate governance, well-informed stakeholders and cost-effective delivery of member services are foundations for success.
- Frequent and open consultations with members, regulators, liquidators and other stakeholders will strengthen PACICC's performance.
- In-depth P&C insurance industry knowledge – based on applied research and analysis – is essential for effective monitoring of insolvency risk.

Key accomplishments in 2011

- Participating in the Federal Government's review of financial sector legislation, including:
  - proposing a number of technical amendments to the *Winding-up and Restructuring Act* designed to improve the liquidation process for insurance companies
  - submitting a discussion paper on the resolution of complex failures
  - proposing a new insolvency wording for use in reinsurance contracts (in connection with OSFI Guideline B-3).
- Conducting a successful member benchmark survey on ERM practices. (The survey results will help shape PACICC's continuing work to promote sound risk management in the industry.)
- Publishing "Determinants of survivability of new entrants to the P&C industry" as part of PACICC's *Why insurers fail* series and distributing findings to members and other stakeholders.

Contents

PACICC had a successful year in 2011. No insolvencies occurred among our 199 member companies. Indeed, our industry has enjoyed an unusually long period of time – nine years in total – without a P&C insurance company failure in Canada. And while this outcome has been a good one for insurance consumers, it would be a mistake to think that the insurance cycle has somehow been tamed or that the risk of insurer insolvency has been permanently reduced to zero.

Canada's recent experience with catastrophe losses leaves little doubt about the inherent risks that P&C insurers face in the normal course of business. During 2011, Canada's P&C insurance industry experienced a third consecutive year of insured catastrophe losses in excess of $1 billion. The largest single cause of loss in 2011 was the May 15 Slave Lake wildfire, resulting in claims of $700 million. Slave Lake was a surprisingly large catastrophe loss for the industry, and ranks second only to the 1998 ice storm. Additional storm-related damage on the Prairies and in Ontario and Quebec, pushed the insured loss total above $1 billion before the third quarter of 2011 had ended.

During 2011, Canada's P&C insurance industry experienced a third consecutive year of insured catastrophe losses in excess of $1 billion... good risk management suggests that P&C insurers should be preparing themselves for an increase in the frequency and/or severity of such losses.

It may be premature to conclude that three consecutive years of more than $1 billion in insured catastrophe losses in Canada constitutes a "new normal." However, good risk management suggests that P&C insurers should be preparing themselves for an increase in the frequency and/or severity of such losses. If, as appears to the case, the inherent risks we face in providing property insurance coverages are increasing, there needs to be a corresponding increase in the appreciation for the importance of sound risk management and mitigation in helping maintain the financial health and solvency of individual insurers. It is precisely this need that explains why PACICC views the adoption of enterprise risk management (ERM) policies and modern risk management frameworks by its member companies as so important. In our view it is one of the very best tools available to reduce insolvency risk.

Rather than just talking about the importance of ERM, PACICC's goal is to facilitate its adoption by member insurers. As a first step in that process, we surveyed our member companies in 2011 to better understand (and to help benchmark) the current state of P&C insurance ERM practices. Members completing the survey made up more than 80 percent of PACICC-covered premiums – a robust response.

It was encouraging to learn that Canada's P&C insurers do not need to be "sold" on the importance of ERM: a solid majority of respondents indicated they have a documented ERM policy or an established risk management framework. Perhaps the more instructive findings, though, revealed considerable variation in the sources of guidance being used in formulating risk management policies; in who is primarily responsible for the risk management function in companies and who they report to; and in the degree of senior management and Board involvement in overseeing risk management policies and practices. Particularly encouraging was the strong desire on the part of PACICC members for practical advice and experienced guidance in how to implement ERM effectively within their companies. PACICC plans to respond to that call by organizing a series of seminars – commencing in the second half of 2012 – focused on key ERM implementation issues identified by members.

Particularly encouraging was the strong desire on the part of PACICC members for practical advice and experienced guidance in how to implement ERM effectively within their companies.

The ERM initiative and a number of other major evolving initiatives – including loss reserving and earthquake risk, are part of an ambitious three-year work plan. And this work could not have been done so well without the leadership of our CEO Paul Kovacs and the hard work of his small team. I am grateful for their continued commitment to our organization and its goals.

In closing, I would like to highlight some important changes taking place for PACICC's Board of Directors. During 2011, Bruce Thompson, formerly a senior official at OSFI, joined the Board as a public director. In February 2012, Alister Campbell, our former Chair, resigned from the Board. In April 2012, George Cooke and Earl McGill will be retiring from the Board, both after having given PACICC more than 10 years of valuable and dedicated service – and indeed, helping the Corporation become the success it is today. On behalf of the Board and the full membership of PACICC, I wish George, Earl and Alister the best in their future endeavors and offer our sincere thanks for their leadership. Due in no small way to their contributions, PACICC is as well prepared as ever to meet the needs of policyholders should a member insurer ever again become insolvent.

For the period 2012 to 2014, PACICC's strategic plan focuses on three key priorities. In 2012, our work will centre on the industry-wide promotion of comprehensive risk management practices and approaches. Recent member survey results confirm that Enterprise Risk Management (ERM) is an important and evolving issue for the industry. PACICC's work in 2013 will focus on the promotion of best practices in loss reserving. Deficient loss reserving has been shown to be the primary reason why P&C insurers fail. In 2014, we will undertake activities to ensure that PACICC is appropriately prepared for the risk of a major urban earthquake.

Promoting sound risk management

PACICC's primary focus in 2012 is on dialogue with member insurers regarding the benefits of comprehensive risk management practices and approaches. PACICC's recent ERM survey confirmed that expert seminars focusing on ERM practices are of interest to most member companies. We are committed to improving the depth and quality of risk management as a means of mitigating solvency risk.

In 2012, PACICC will launch the first of several expert seminars on ERM topics of interest to members. This is likely to be a multi-year initiative.

In 2012, PACICC will launch the first of several expert seminars on ERM topics of interest to members. This is likely to be a multi-year initiative. Subject areas may include risks relating to underwriting, market, credit, operations and liquidity. The goal of the seminar series is to encourage member companies to embrace a comprehensive risk management approach which is appropriate to their risk profile, identifying all reasonably foreseeable and relevant material risks. It is important that ERM is incorporated in member companies' corporate planning activities as an effective approach to manage aggregate risk and not just specific risks.

Seminars will be led by recognized experts in their field of study who will emphasize the critical linkage that exists between sound corporate governance and an effective risk management framework. They will stress that an insurer's Board and senior management must be substantially involved in establishing, leading and overseeing the company's ERM framework and must document key risk management decisions.

Seminar leaders will consider opportunities for further education for member companies in a number of key areas, including: emerging risks, monitoring and reporting risks, exposure mapping, risk accumulation and measurement, economic capital and capital optimization, stress testing and utilizing ERM as a driver of strategy for business success. With ERM practices for the P&C insurance industry continuing to evolve, this remains an interesting and important "work in progress" for PACICC and its member companies.

Promoting best practices in loss reserving

In 2013, PACICC will seek to promote best practices in loss reserving. Our research into past member company failures indicates that deficient pricing and loss reserving is the key reason why P&C insurers fail. The majority of P&C insurance companies that have failed in Canada over the past 20 years have been provincially regulated. Most provincial solvency supervisors do not require the insurance companies they regulate to follow OSFI's actuarial requirements (appointed actuary, report review, peer-review of reserve estimates and Dynamic Capital Adequacy Testing).

In 2013, PACICC will seek to promote best practices in loss reserving. Our research into past member company failures indicates that deficient pricing and loss reserving is the key reason why P&C insurers fail.

PACICC will work with provincial supervisors to strengthen current solvency regulation to reduce the risk of inadequate pricing and loss reserving. We will seek to document potential provincial regulatory reforms and to identify gaps compared to supervisory best practices.

Managing the risk of a major urban earthquake

In 2014, PACICC will identify the maximum earthquake claim loss event that Canada's P&C insurance industry can manage without impairing the solvency of healthy, well-managed insurers. Our research on earthquake solvency implications will complement plans by the Insurance Bureau of Canada to assess the economic impact on Canada of a major earthquake, and to champion actions to reduce the risk. It will also provide a foundation for developing actions to enhance the Corporation's preparedness in the event that member insurers are confronted by a major external shock.

In closing, I express my thanks and appreciation to the Corporation's Board of Directors for their guidance over the past year, and to my colleagues at PACICC for their continuing high-quality work. Now well into our third decade of service, PACICC remains well-focused on the issues that matter most to consumers and members alike and well-positioned for continuing success in the years ahead.

No P&C insurers became insolvent in 2011, and it has been nine years since an insurer involuntarily exited the Canadian insurance marketplace. The history of our industry shows that these periods of calm are often punctuated by rougher patches, where clusters of insurers become insolvent.

	1980 to 1986	1990 to 1995	2000 to 2003
Number of insolvent P&C insurers	20	9	6
Number of policyholders affected	144,300	111,209	93,200

These clusters of insolvency are normally preceded by periods of intense market stress impairing the financial viability of insurers operating in that market. This is the reason that PACICC constantly monitors the business environment of our member insurers.

Underwriting environment

PACICC's core function, the resolution of insurers who involuntary exit the market, is closely and inversely linked to profitability and the insurance cycle. Periods of poor profitability increase the risk of insolvency, as limited capital may be further eroded by adverse claims development. Since PACICC was established more than 20 years ago, it has participated in the liquidation of a dozen P&C insurance companies with cumulative assets at the time of wind-up of $720 million. And PACICC has provided $168 million in financial support to pay for policyholder claims for those estates.

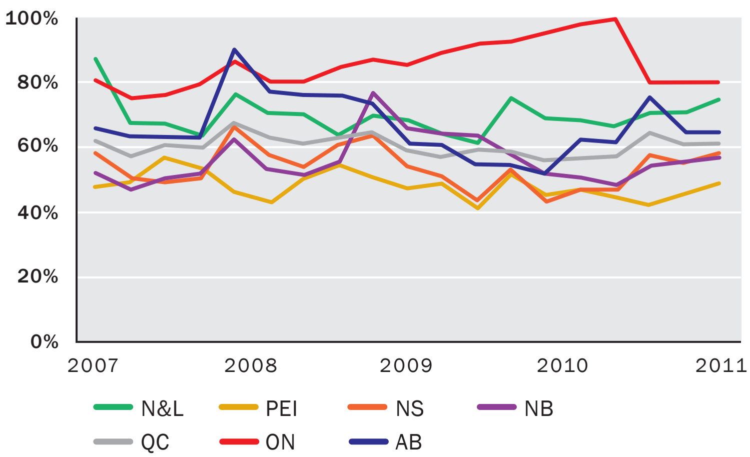
Overall, industry underwriting profitability remained steady in 2011 with a loss ratio of 70.5% compared to 70.7% in 2010. However, there were significant changes in profitability in many major markets. In particular, the 2010 auto insurance reforms made by the Government of Ontario significantly reduced losses for the auto product. The improvement in auto insurance was, however, offset by increased claims costs in both personal and commercial property. Together with improvements in investment income, industry profitability remained steady in 2011.

Automobile insurance

Ontario auto insurance makes up approximately 25% of Canada's entire P&C insurance industry. It has been a source of significant concern since 2007. In 2010, the government enacted reforms to the accident benefit portion of the Ontario auto insurance product. The early results of these reforms are positive with the loss ratio falling from 99.8% in 2010 to 79.6% in 2011. An important source of solvency risk for PACICC is the sustainability of these reforms. The Ontario Court of Appeal's decision to allow claimants to combine psychological injuries with physical when determining catastrophic impairment could increase claims costs. In addition, there are thousands of cases seeking mediation and these outcomes could further increase claims costs. It is not clear from public data if insurers are adequately reserving for these potential cost pressures.

Auto loss ratios

Number of insurers



Source : PACICC, with data from OSFI

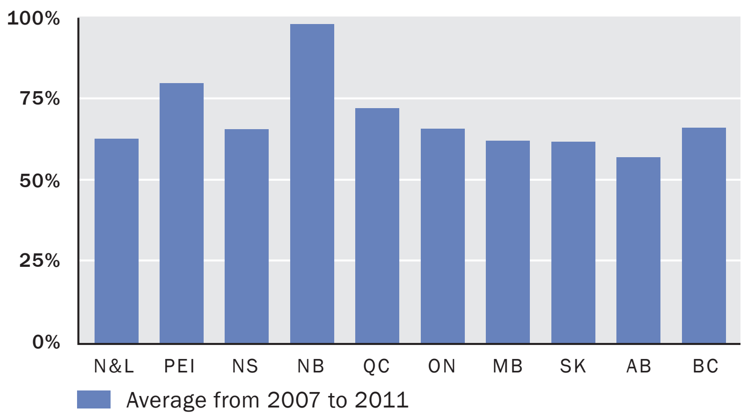
The solvency risk in the Ontario auto market is also heightened because it appears that there is little political appetite or room in the marketplace to raise insurance prices. According to Insurance Bureau of Canada, Ontario drivers already pay approximately 5% of their disposable incomes for auto insurance. Drivers in the rest of Canada pay, on average, 3% of their disposable income for auto insurance. The Government of Ontario is seeking to reduce fraud within the auto insurance system, but it may be some time before these efforts produce results.

In Alberta, the Auto Insurance Rate Board's annual industry-wide rate adjustment process may affect solvency risk because it forces all companies in the province to adjust risks based on the industry average results instead of their company experience. This type of rate regulation has not yet impacted the solvency of insurers operating in the province due to a stable claims environment. Auto insurance markets in Atlantic Canada and Quebec appear profitable and stable at this time with little solvency risk.

Homeowners insurance

For the past five years the homeowners' insurance has been a very stable product, with associated solvency risks being low. This remains true in most parts of the country. However, at current interest rates, 2011 underwriting results indicate that several markets are approaching breakeven status.

Personal property loss ratios



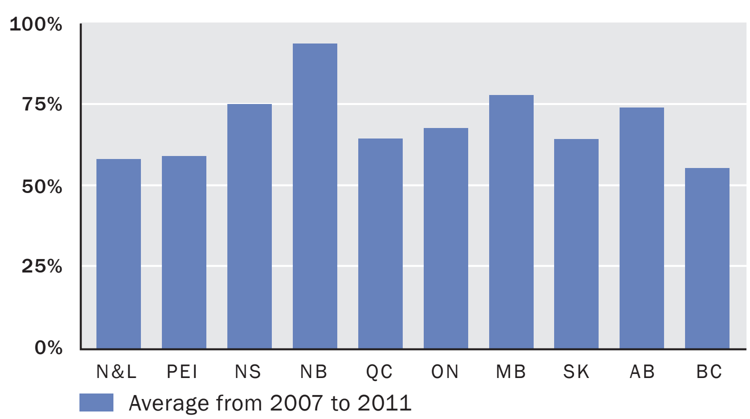
Source : PACICC, with data from OSFI

There is one important exception. It appears that underwriting results in the New Brunswick homeowners' insurance market is not sustainable. The average loss ratio for homeowners insurance in the province for the past five years has been 99.8%. A sustained high loss ratio would likely erode the capital base of insurers operating in this market. Insurers concentrated in this market face increased solvency risk.

Commercial insurance markets

Companies that focus on commercial lines have been more profitable than personal lines insurers for the past five years. This trend continued in 2011. This profitability has led to more intense price competition resulting in expanded coverages or lower prices for commercial insurance consumers.

Commercial property loss ratios



Source: PACICC, with data from IBC and MSA Research

Looking at loss results over a five-year period show that the market has tightened. There is an increase in solvency risk for insurers with a large book of business in New Brunswick and, to a lesser extent Nova Scotia, Manitoba and Alberta, where the five-year average loss ratio is at a level that could erode the capital base of insurers operating in these four provinces.

Catastrophic risks

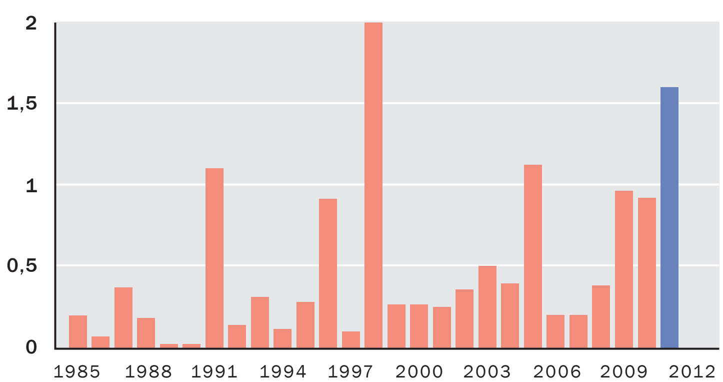
In the past fifteen years, Canada's P&C insurance industry has experienced five years where insured losses exceeded $1 billion. Prior to 1998, this had never occurred. For the first time on record, the P&C insurance industry experienced its third consecutive billion dollar catastrophe loss year. According to PCS Canada, the 2011 industry claims resulting from catastrophe storms and fires of more than $1.6 billion. This is the second worse year on record.

The largest single catastrophic event of 2011 was Canada's most expensive wildfire in Slave Lake, Alberta with claims losses exceeding $700 million. This event highlights the solvency risk associated with wildfires. There are larger communities that are also vulnerable to wildfires. Fire is a covered peril is every homeowners and commercial insurance policy. It is not clear that the industry is specifically underwriting and charging for wild fire risk.

During 2011, the other catastrophes were typically smaller climatic events, often falling below reinsurance thresholds. As a result, many of the events had a direct impact on the primary insurance company. Storm losses occurred across the country, including Atlantic Canada, Quebec, Ontario, Saskatchewan and Alberta. Consistent and significant flood losses in New Brunswick have become a major contributor to the poor loss ratios previously noted in comments on homeowners' and commercial property markets.

Catastrophic losses

$ billions



Source: PACICC, with data from MSA Research

The disaster losses of 2011 highlight the growing importance of risk management for catastrophe related risks for the industry. Property insurance is changing with weather-related (water and wind) claims costs have grown as a proportion of total property claims. While reinsurance moderated the effect of the more severe catastrophe events on insurers and claimants, premium increases in property insurance also moderated the solvency impact of those events that fell below reinsurance trigger points. The highly dynamic nature of risk from catastrophes, and to potential insurer solvency, highlights the strength of the P&C industry in adapting to the changing environment of weather-related losses – using both pricing and reinsurance strategies to manage the risk and maintain the capacity to pay claims to Canadian policyholders.

Regulatory risk

Changes made by the Office of the Superintendent of Financial Institutions (OSFI) to its Minimum Capital Test (MCT) and Branch Asset Adequacy Test (BAAT) come into effect January 1, 2012. The intention of the changes was to make these tests more risk-based and to bring greater consistency with other financial institutions. OSFI also notified insurers that they plan to implement an additional margin for foreign exchange risk in 2013. These changes should reduce solvency risk for insurers operating in Canada.

In addition, in 2011 the Canadian Council of Insurance Regulators established a Solvency Working Group that will provide a forum for provincial regulators to discuss their solvency issues. PACICC welcomes the opportunity to work with the CCIR members to further reduce solvency risks at provincially regulated entities.

Investment risk

Most economic forecasters expect that interest rates will remain near current levels over the next 18 months. Insurers are aware that disciplined underwriting is required in order to sustain profitability.

Two significant adverse shocks have the potential to negatively impact Canada's P&C insurers. The first is the sovereign debt crisis in European Union. While Canada's public finances are not directly involved, many Canadian insurers have European parent companies or related affiliates. It is possible that a European member of an insurance group operating in Canada could become insolvent due to the sovereign debt crisis.

It is possible that central banks in Europe or the United States could monetize their debts to reduce the burden to their citizens of repaying the full debt. This could lead to higher inflation, to which P&C insurers are particularly vulnerable because they set prices in advance. A sharp rise in inflation would cause higher than expected clams costs that insurers would need to pay by dipping into their capital base.

Looking forward

From a solvency perspective, the outlook for Canada's P&C insurance sector is healthy. The industry, and most PACICC member insurers, have significantly built up their capital positions over the past several years. There are important variations in capital strength between companies. Nevertheless, industry-wide measures show that Canada's P&C insurers are prepared to face future challenges from a position of financial strength.

PACICC has had an ERM policy in place since 2007. The accompanying table summarizes our comments on the Corporation's priority risks, and the chart illustrates progress achieved in mitigating enterprise risks over the past five years.

PACICC groups its enterprise risks in four categories. For the period 2011-12, we view the trends in these categories as *stable* for financial, regulatory and reputation risks, and *decreasing* for operational risks.

During 2011, PACICC added one new risk to its risk register: the potential insurer insolvency implications of a major earthquake occurring in Canada. We are currently working to better understand this risk in terms of the impacts it could have on individual insurers and on PACICC. By 2014 – when "managing the risk of a major urban earthquake" is expected to be the Corporation's strategic priority – appropriate risk mitigation actions can be under way.

Consistent with PACICC's ERM policy, the Audit Committee of the Board of Directors reviewed the Corporation's risk inventory and ratings on two occasions during 2011, and the full Board reviewed and approved the annual ERM Plan.

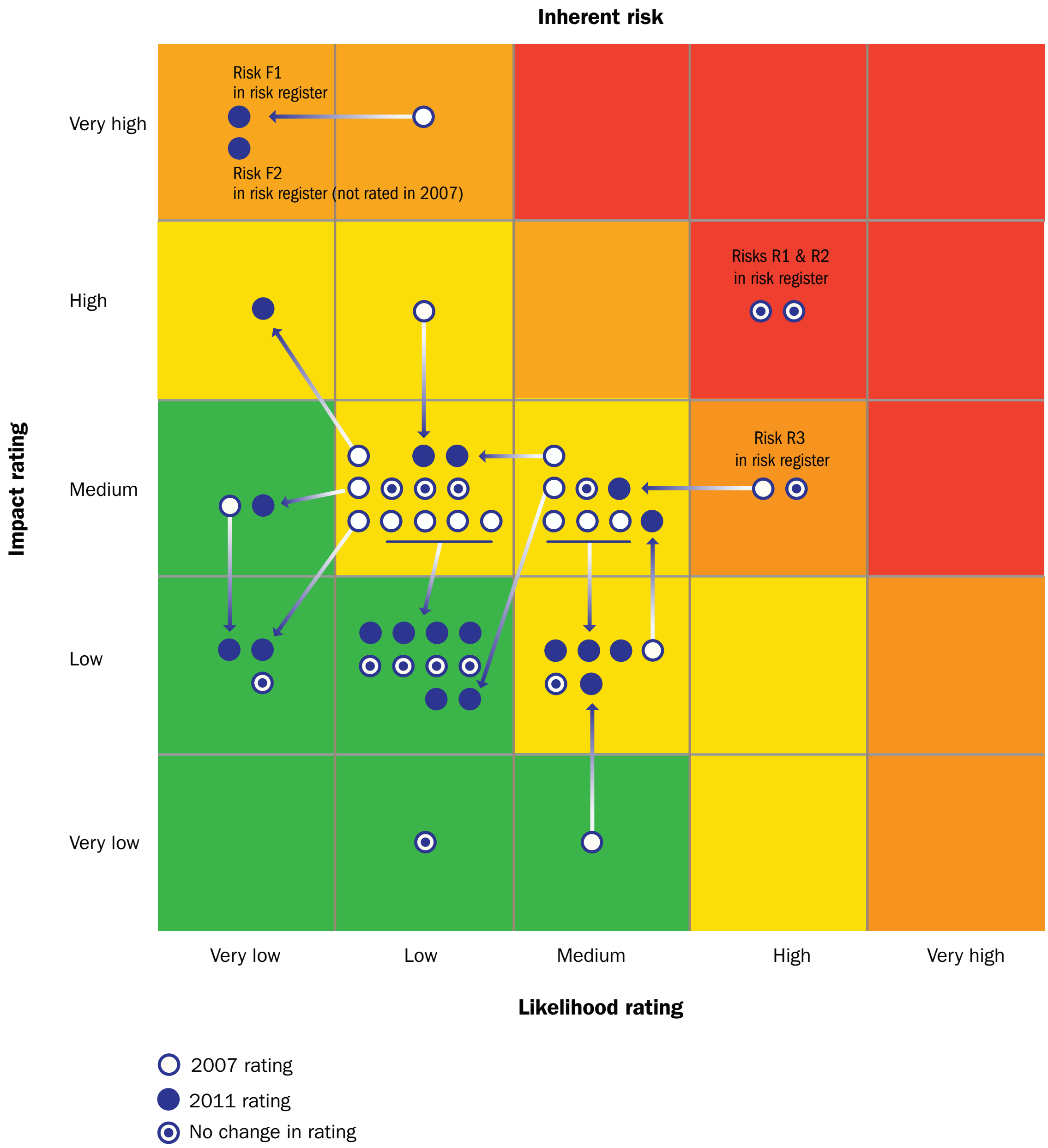
Overview of PACICC risk environment

Risk category and description	Number of risks	Risk trend in 2011-12	Comments on risk mitigation
Financial risks The risk that external financial developments, or PACICC's management of its assets and liabilities, could impair a timely and effective response to a member company failure	7 individual risks; 2 priority risks	*Stable*	▸ Board approval to establish the option of an industry liquidity facility reduces the risk of PACICC having insufficient financial capacity to respond to an extraordinary insolvency event (Risk F1* in chart). ▸ PACICC is analyzing the potential for earthquake losses in Canada to impair the solvency of members. We will also examine the implications for PACICC's current financial capacity and coverage limits. This is the Corporation's strategic priority for 2014 (Risk F2 in chart).
Regulatory risks The risk that insurance regulatory practices in Canada could constrain a timely and effective response by PACICC to a member company failure, or increase the cost of responding	7 individual risks; 3 priority risks	*Stable*	▸ PACICC is working to ensure that provincial insurance supervisors understand the potential adverse effects that their rate regulation decisions can have on insurer solvency (Risk R1 in chart). ▸ PACICC has undertaken risk-mitigation initiatives to help improve the quality of provincial solvency supervision (relative to IAIS standards). These efforts are continuing (Risk R2 in chart). ▸ PACICC has recommended specific actions to modernize the *Winding-Up and Restructuring Act*. The Federal Government is currently examining these regulations (Risk R3 in chart).
Operational risks The risk that PACICC's operations could be disrupted or strained, either by procedural problems, or by a lack of qualified personnel able to respond to a member company failure	9 individual risks	*Decreasing*	▸ Board approval of a claims-management contingency plan reduces the risk of PACICC having insufficient human resources to respond to an upsurge in claims.
Reputation risks The risk that an event could adversely affect stakeholder views of PACICC, potentially resulting in a loss of trust and confidence in the Corporation	11 individual risks	*Stable*	▸ Development of a crisis-management communications plan provides a framework for effective response by PACICC to potential negative events. The Corporation's other reputation risks are being managed through regular controls and procedures.

** Risk numbers refer to PACICC's risk register and to the complete ERM Plan, a copy of which is posted on the Corporation's website at www.pacicc.ca*

PACICC Enterprise Risks

Change in risk ratings from 2007 to 2011



KPMG LLP
Chartered Accountants
333 Bay Street, Bay Adelaide Centre
Suite 4600
Toronto, Ontario M5H 2S5

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Members of the Property and Casualty Insurance
Compensation Corporation

We have audited the accompanying financial statements of Property and Casualty Insurance Compensation Corporation, which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising 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 audits. We conducted our audits 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 our 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, we consider internal control relevant to the Corporation'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 Corporation'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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Property and Casualty Insurance Compensation Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 5, 2012
Toronto, Canada

Statements of Financial Position

December 31, 2011, December 31, 2010 and January 1, 2010
(In thousands of dollars)

	December 31, 2011	December 31, 2010	January 1, 2010
Assets			
Cash (note 7)	$18,365	$20,433	$21,136
Investments (note 7)	46,411	44,844	43,254
Accrued interest	262	246	288
Liquidation dividends receivable	–	10	–
Assessment receivable	16	–	–
Other receivables	30	134	100
Total assets	**$65,354**	**$65,667**	**$64,778**
Liabilities and Equity			
Liabilities:			
Trade and other payables	$226	$177	$175
Provisions (note 6)	1,063	1,640	3,256
Total liabilities	1,289	1,817	3,431
Equity:			
Operations surplus	1,572	1,559	1,650
Liquidation surplus	15,775	17,218	16,123
Compensation Fund	46,718	45,073	43,574
Total equity	64,065	63,850	61,347
Total liabilities and equity	**$65,354**	**$65,667**	**$64,778**

See accompanying notes to statements.

On behalf of the Board:

Maurice Tulloch, *Board Chair*

Earl McGill, *Director*

Statements of Comprehensive Income

Years ended December 31, 2011 and December 31, 2010
(In thousands of dollars)

	2011	2010
Revenue from operations:		
Members assessements	$1,221	$1,190
Investment	21	12
Funding from liquidations and others	256	215
	1,498	1,417
Expenses:		
Salaries and benefits	696	712
Research and other consulting	249	263
Premises	133	128
Legal fees	71	59
Travel	45	41
Board of Directors	71	64
Corporate secretary and accounting services	45	44
Furniture and equipment	18	36
Telephone and postage	27	31
Printing and office supplies	19	21
Insurance	15	15
Investment management	74	71
Bank	2	2
Miscellaneous	20	21
	1,485	1,508
Excess (deficiency) of revenue over expenses – operations	13	(91)
Liquidations: (note 5(b)):		
Assessments	4	–
Liquidation dividends	4,344	845
Investment income	235	131
Claims recoveries (costs)	(826)	513
Expenses	(249)	(394)
Refunds to members	(4,951)	–
Excess (deficiency) of revenue over expenses – liquidations	(1,443)	1,095
Compensation Fund:		
Investment income	1,645	1,499
Excess of revenue over expenses – Compensation Fund	1,645	1,499
Total comprehensive income	**$215**	**$2,503**

All income is attributable to members.

See accompanying notes to financial statements.

Statements of Changes in Equity

Years ended December 31, 2011 and December 31, 2010
(In thousands of dollars)

	Operations surplus	Liquidation surplus	Compensation Fund	Total
Balance, January 1, 2010	$1,650	$16,123	$43,574	$61,347
Comprehensive income (loss)	(91)	1,095	1,499	2,503
Balance, December 31, 2010	1,559	17,218	45,073	63,850
Comprehensive income (loss)	13	(1,443)	1,645	215
Balance, December 31, 2011	**$1,572**	**$15,775**	**$46,718**	**$64,065**

See accompanying notes to financial statements.

Statements of Cash Flows

Years ended December 31, 2011 and December 31, 2010
(In thousands of dollars)

	2011	2010
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses:		
Operations	$13	$(91)
Liquidations	(1,443)	1,095
Compensation Fund	1,645	1,499
Change in accrued interest	(16)	42
Change in receivables	98	(44)
Change in trade and other payables	49	2
Change in provisions	(577)	(1,616)
Cash provided by (used in) operating activities	(231)	887
Investment activities:		
Maturity of investments	40,225	28,798
Purchase of investments	(41,792)	(30,388)
Cash used in investing actvities	(1,567)	(1,590)
Decrease in cash	(1,798)	(703)
Cash, beginning of year	20,433	21,136
Cash, end of year	**$18,635**	**$20,433**

See accompanying notes to financial statements.

The Property and Casualty Insurance Compensation Corporation ("PACICC" or the "Corporation") was incorporated under the provisions of the Canada Corporations Act on February 17, 1988 and operates as a non-profit organization. The objective of PACICC is to be available to make payments to insured policyholders in the event that a property and casualty insurer that is a member becomes insolvent. The Corporation's members include all licensed property and casualty insurers (other than farm mutuals) and all government-owned property and casualty insurers (other than those writing automobile insurance only) carrying on business in a participating jurisdiction. For a full description of the protection provided, reference should be made to PACICC's By-Laws and Memorandum of Operation.

The Corporation is domiciled in Canada. The address of the Corporation's registered office is 20 Richmond Street, East, Suite 210, Toronto, Ontario, M5C 2R9.

The financial statements of the Corporation for the year ended December 31, 2011 include the funds of the Corporation.

1. Basis of preparation:

(a) Statement of compliance:
The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accountings Standards Board. These are the Corporation's first financial statements prepared in accordance with IFRS and IFRS 1, First-time Adoption of International Financial Reporting Standards.

The financial statements for the year ended December 31, 2011 have been approved for issue by the Board of Directors on March 5, 2012.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is provided in note 17.

(b) Funds:
The Corporation is funded by assessments levied on its members. Assessments are recognized on an accrual basis as revenue of the appropriate restricted funds. Investment income earned by the funds is recognized in the respective fund.

(c) Basis of measurement:
The financial statements of the Corporation have been prepared on a historical cost basis except for bonds, which are carried at amortized cost.

(d) Functional and presentation currency:
These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. Except as otherwise indicated, all financial information presented in Canadian dollars has been rounded to the nearest thousand.

(e) Use of estimates:
The preparation of the financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates. 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.

(f) Liquidity format:
The Corporation presents its statement of financial position broadly in order of liquidity.

2. Significant accounting policies

The significant accounting policies have been applied consistently to all periods used in the preparation of these financial statements and in the opening IFRS statement of financial position at January 1, 2010 for the purpose of the transition to IFRS.

(a) Cash and cash equivalents:
Cash and cash equivalents are highly liquid investments composed of bank balances, overnight bank deposits and short-term investments carried at amortized cost.

(b) Bonds:
Bonds are carried at amortized cost. Interest income is recorded on an accrual basis. Realized gains and losses and impairment losses are recognized immediately in income.

The fair values reported are based on a hierarchy that reflects the significance of the inputs making the measurements:

- Level 1 – quoted prices (unadjusted) 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 (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the assets or liability that are not based on observable market data (unobservable inputs).

(c) Property and equipment:
Equipment is depreciated over three years on a straight-line basis based on an estimated useful life.

(d) Provisions:
A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized in profit or loss.

(e) Operating lease:
At inception of an arrangement, the Corporation determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Corporation the right to control the use of the underlying asset.

All of the Corporation's leases are classified as operating leases and are not recognized in the Corporation's statement of financial position.

(f) Income taxes:
The Corporation is registered as a non-profit organization and, accordingly, is currently exempt from income taxes, provided certain requirements of the Income Tax Act (Canada) are met.

(g) Revenue recognition:

(i) Member assessments:

Member assessments are recognized as income when due. Assessments for members in liquidation are based on management's best estimate of the ultimate cost of the liquidation and are recorded in full in the year approved by the Board of Directors. The estimated ultimate cost of each liquidation is based upon projected future cash flows from its assets, settlement of its claims and the estimated liquidation expenses. While these estimates are updated as the liquidation progresses, it is possible that changes in future conditions surrounding the estimated assumptions could require a material change in the recognized amount. The liquidation assessment amount that is billed to member companies is the lesser of the assessment limit as set out in the By-Laws of the Corporation and management's estimate of the funding requirements of liquidation.

(ii) Liquidation dividends:

Liquidation dividends are recorded when notification of such is received from the liquidator. Refunds of previous member assessments are considered at this time. Any fund balance remaining will be refunded to members once the liquidator has been formally discharged by the court.

(iii) Interest income:

Interest income from debt securities, including bonds and debentures, is recognized on an accrual basis using the effective interest rate method.

3. New standards and interpretations not yet adopted:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Corporation.

4. General and designated funds:

The following summarizes the assessment activity in the general funds and the open insolvencies:

(a) Operating Fund:

Administrative assessments are periodically levied against members to cover operating expenses not associated with a particular insolvency.

(b) Compensation Fund:

In 1997, the Board of Directors approved a Compensation Fund to provide for a permanent source of immediate funds in the event of any new insolvencies in the future. Members were assessed in 1998 and the amount was received in equal annual instalments over the three-year period from 1998 to 2000.

(c) Markham General Fund:

On July 24, 2002, a winding-up order was issued. PACICC member assessments for Markham General total $22,891,298 to date, of which $3,955 were recognized in 2011. Claims paid to date by the liquidator total $20,837,566 and liquidation dividends of $13,559,856 have been received to date, of which $4,344,245 were recognized in 2011. Provisions of $284,800 (2010 - $525,000) have been made for future claim payments.

(d) Canadian Millers' Fund:

On December 13, 2001, a winding-up order was issued. On January 2, 2002, the Board of Directors of PACICC approved and management levied an assessment of $3,000,000 and approved that withdrawals of up to $7,000,000 could be made from the Compensation Fund to pay unearned premiums and claims. Liquidation dividends of $3,329,752 have been received to date, of which $58,488 were recognized in 2011. Claims paid to date by the Corporation total $4,740,480, of which $8,030 was recognized in 2011.

(e) Reliance Fund:

In December of 2009, the liquidator for Reliance received court approval for the estate to pay dividends of 100% to creditors. As a result, the loan and services agreement between PACICC and the liquidator was terminated, along with any reserve on PACICC's general assessment capacity to back the former agreement. PACICC remains an inspector in the Reliance liquidation, but no longer has any financial obligations to the estate.

(f) GISCO Fund:

In 2000, the Board of Directors approved an assessment of $5,000,000 and billed members $3,500,000. The previously approved but unbilled assessment of $1,500,000 was determined not to be required and was reversed in 2004. Claims paid to date by the Corporation total $5,212,189. Liquidation dividends received to date total $5,190,372, a reduction of $59,628, resulting from an over payment in a previous year.

(g) Maplex Fund:

The Board of Directors approved an assessment of $20,000,000 and billed members $10,000,000 in each of 1995 and 1996. Liquidation dividends of $19,024,266 have been received to date, of which nil was received in 2011. The total claims paid to date by the Corporation amount to $23,464,563. Refunds of $5,275,969 were declared in 2008, of which all but $75,148 has been distributed, and a further $3,312,228 was refunded in 2011 (note 8(b) and (c)).

(h) Hiland Fund:

In 1994, the Board of Directors approved an assessment of $5,000,000. However, in accordance with PACICC By-Laws, $4,289,038 was billed in total to the members to the end of 2000. Liquidation dividends of $4,354,500 have been received to date. The previously approved but unbilled assessment of $710,962 was determined not to be required and, hence, was reversed in 2000. Claims paid to date by the Corporation total $6,600,946.

(i) Beothic Fund:

In 1993, an assessment in the amount of $2,500,000 was authorized by the Board of Directors. However, in accordance with PACICC By-Laws, members were billed $1,011,212 in that year. The $1,488,788 previously approved but unbilled assessment was determined not to be required and, hence, was reversed in 1996. Claims paid to date by the Corporation total $2,309,511. Dividends of $2,070,297 have been received to date.

(j) Canadian Universal Fund:

The Board of Directors approved and billed a $2,000,000 assessment in 1992. PACICC has paid several claims and the liquidator has reimbursed in full. Claims paid to date by the Corporation total $527,085. No further claims are expected by the liquidator.

(k) Ontario General Fund:

In 1990, the Board of Directors approved an assessment of $1,000,000, which was billed to the members. Claims paid to date by the Corporation total $594,210. No further claims are expected by the liquidator.

Years ended December 31, 2011 and December 31, 2010
(Tabular amounts in thousands of dollars)

4. General and designated funds (continued):

(l) Advocate Fund:
In 1989, the Board of Directors approved an assessment of $10,000,000, which was billed to the members. The progress of claims paid and liquidation dividends received resulted in a refund to members of $6,000,000 in 1995 and a further $1,638,758 was refunded in 2011 (note 8(c)). All PACICC claims have been paid and final liquidation dividends of $3,520,934 were received in 1999. Claims paid by the Corporation total $44,037,846. The court approved a discharge of the liquidator for Advocate in June 2007. PACICC has no further obligation to the estate.

5. Operating, compensation and liquidity fund information:

(a) Statement of financial position as at December 31, 2011:

	Operations Fund	Compensation Fund	Liquidation refund	Canadian Millers'	GISCO	Maplex	Hiland	Beothic	Canadian Universal	Ontario General	Advocate	Markham General	Total
Assets													
Cash	$1,050	$66	$566	$653	$2,565	$107	$674	$241	$816	$286	$13	$11,598	$18,653
Investments	–	46,411	–	–	–	–	–	–	–	–	–	–	46,411
Accrued interest	1	241	3	1	2	1	1	–	1	–	1	10	262
Assessment receivable	16	–	–	–	–	–	–	–	–	–	–	–	16
Interfund receivable	701	–	–	35	–	–	–	22	–	–	–	–	758
Other receivables	30	–	–	–	–	–	–	–	–	–	–	–	30
Total assets	**$1,798**	**$46,718**	**$569**	**$689**	**$2,567**	**$108**	**$675**	**$263**	**$817**	**$286**	**$14**	**$11,608**	**$66,112**
Liabilities and Equity													
Liabilities:													
Trade and other payables	$226	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$226
Interfund payables	–	–	10	–	310	12	94	–	21	10	8	293	758
Provisions	–	–	500	–	21	75	18	–	–	–	–	449	1,063
Total liabilities	226	–	510	–	331	87	112	–	21	10	8	742	2,047
Equity:													
Operations surplus	1,572	–	–	–	–	–	–	–	–	–	–	–	1,572
Liquidation surplus	–	–	59	689	2,236	21	563	263	796	276	6	10,866	15,775
Compensation surplus	–	46,718	–	–	–	–	–	–	–	–	–	–	46,718
Total equity	1,572	46,718	59	689	2,236	21	563	263	796	276	6	10,866	64,065
Total liabilities and equity	**$1,798**	**$46,718**	**$569**	**$689**	**$2,567**	**$108**	**$675**	**$263**	**$817**	**$286**	**$14**	**$11,608**	**$66,112**

5. Operating, compensation and liquidity fund information (continued):

(b) Revenue and expenses from liquidations for the year ended December 31, 2011:

	Liquidation refund	Canadian Millers'	GISCO	Maplex	Hiland	Beothic	Canadian Universal	Ontario General	Advocate	Markham General	Total
Revenue (expense):											
Assessments	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$4	$4
Liquidation dividends	–	58	(60)	–	–	–	2	–	–	4,344	4,344
Investment	14	9	27	48	7	3	8	3	16	100	235
	14	67	(33)	48	7	3	10	3	16	4,448	4,583
Expenses (income):											
Claims paid	–	8	–	–	–	–	–	–	–	$1,058	$1,066
Accrued claims	–	–	–	–	–	–	–	–	–	(240)	(240)
Expenses	10	20	28	25	14	13	1	–	9	129	249
Dividend funding	4,951	–	–	–	–	–	–	–	–	–	4,951
Dividend for distribution	(4,951)	–	–	3,312	–	–	–	–	1,639	–	–
	10	28	28	3,337	14	13	1	–	1,648	947	6,026
Net results from liqudations	**$4**	**$39**	**$(61)**	**$(3,289)**	**$(7)**	**$(10)**	**$9**	**$3**	**$(1,632)**	**$3,501**	**$(1,443)**

(c) Changes in liquidation surplus for the years ended December 31, 2011 and 2010:

	Liquidation refund	Canadian Millers'	GISCO	Maplex	Hiland	Beothic	Canadian Universal	Ontario General	Advocate	Markham General	Total liquidation surplus
Balance, January 1, 2010	$54	$660	$1,982	$3,296	$571	$151	783	$222	$1,643	$6,761	$16,123
Comprehensive income	1	(10)	315	14	(1)	122	4	51	(5)	604	1,095
Balance, December 31, 2010	55	650	2,297	3,310	570	273	787	273	1,638	7,365	17,218
Comprehensive income	4	39	(61)	(3,289)	(7)	(10)	9	3	(1,632)	3,501	(1,443)
Balance, December 31, 2011	**$59**	**$689**	**$2,236**	**$21**	**$563**	**$263**	**$796**	**$276**	**$6**	**$10,866**	**$15,775**

6. Provisions:

		Liquidations				
	Unclaimed refunds	GISCO	Maplex	Hiland	Markham General	Total
Balance, January 1, 2010	$554	$586	$125	$18	$1,973	$3,256
Stale-dated cheques	–	–	(50)	–	(175)	(225)
Claim reserves	–	(265)	–	–	(1,195)	(1,460)
Liquidator expenses	–	(300)	–	–	369	69
Balance, December 31, 2010	554	21	75	18	972	1,640
Stale-dated cheques	–	–	–	–	(50)	(50)
Claim reserves	–	–	–	–	(240)	(240)
Liquidator expenses	–	–	–	–	(233)	(233)
Refund to members:						
Prior	(96)	–	–	–	–	(96)
Current	42	–	–	–	–	42
Balance, December 31, 2011	**$500**	**$21**	**$75**	**$18**	**$449**	**$1,063**

(Tabular amounts in thousands of dollars)

7. Financial instruments:

Carrying values and fair values

	December 31, 2011		December 31, 2010		January 1, 2010	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Cash	$18,635	$18,635	$20,433	$20,433	$21,136	$21,136
Term deposits	5,179	5,194	8,812	8,800	8,115	8,079
Bonds	41,232	42,318	36,032	36,771	35,139	36,165
	$65,046	**$66,147**	**$65,277**	**$66,004**	**$64,390**	**$65,380**

Cash, term deposits and bonds are recorded at amortized costs.

(a) Term deposits:
These investments have an aggregate carrying value of approximately $5,179,000 (2010 - $8,812,000). Term deposits consist primarily of federal government short-term instruments with a maximum term to maturity of one year in an institutional pool of assets. Included in these amounts are certain term certificates amounting to approximately $169,000 (2010 - $169,000), with maturity terms over a year.

(b) Bonds:

	Remaining term to maturity			December 31, 2011		December 31, 2010		January 1, 2010	
	Within 1 year	1 to 5 years	Over 5 years	Total carrying amount	Effective rates	Total carrying amount	Effective rates	Total carrying amount	Effective rates
Government	$4,007	$19,971	$ –	$23,978	2.62% - 5.01%	$23,024	2.20% - 5.25%	$20,784	2.20% - 5.25%
Corporate	2,813	14,441	–	17,254	2.55% - 5.35%	13,008	2.48% - 5.42%	14,355	2.48% - 5.42%
	$6,820	**$34,412**	**$ –**	**$41,232**	**2.55% - 5.35%**	**$36,032**	**2.20% - 5.42%**	**$35,139**	**2.20% - 5.42%**

8. Refund to member companies:

(a) On April 13, 2005, PACICC's Board of Directors authorized a refund from the proceeds of liquidation dividends to contributing members totalling $19,880,520. This amount represented 80% of the total accumulated dividends recovered by PACICC from the estates of the following insolvent insurers: Advocate, Ontario General, Canadian Universal, Beothic, Hiland and Maplex.

As of December 31, 2011, PACICC had paid out $19,516,296 from the total amount authorized for distribution of $19,880,520. Of the residual amount of $268,137, PACICC expects to pay out $16,037 when instructions are received from several member companies on how to allocate the funds; the remaining amount of $252,100 represents unclaimed refunds where PACICC is still in the process of determining ultimate ownership.

(b) On November 1, 2006, PACICC's Board of Directors authorized a refund of $5,275,969 from the proceeds of the Maplex liquidation. The amount distributed to date is $5,200,821. The final $75,148 will be distributed when instructions are received from several member companies on how to allocate the funds.

(c) On November 8, 2011, PACICC's Board of Directors approved an additional refund of $4,950,986 from the estates of Maplex ($3,312,228) and Advocate ($1,638,758) as these liquidations are now closed. Refunds of $4,909,135 were distributed in December. The final $41,851 is undistributed while management determines ultimate ownership.

9. Assessment capacity:

PACICC has the ability to make a maximum potential annual general assessment of members of 1.5% (2010 - 1.5%) of covered premiums written, which amounted to approximately $631,065,000 in 2011 (2010 - $574,280,000). As a result of the loan arrangement with the liquidator of Canadian Millers', $3,000,000 of this assessment capacity is reserved for any possible obligations of the Canadian Millers' liquidation.

10. Property and equipment:

As at December 31, 2011, equipment acquired by the Corporation has been fully amortized.

11. Lease commitments:

In 2007, the Corporation renewed its lease for office premises for a period of five years ending December 31, 2012. The annual lease commitment is $58,284.

12. Contingent liabilities:

The Corporation, from time to time, is named in actions for losses, damages and costs allegedly sustained by the plaintiffs. In connection with these actions, management believes that the Corporation will not incur any significant losses or expenses.

13. Fair value disclosure:

(a) The carrying values of financial assets and liabilities, other than bonds, approximate their fair values due to the short-term nature of these financial instruments.

(b) The Corporation uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. The extent of the Corporation's use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3) in the valuation of bond and equity investments, as well as derivatives, were as follows:

	Total
Level 1	$ –
Level 2	42,318
Level 3	–
Total	$42,318

14. Financial risk management:

(a) Credit risk:

Credit risk refers to the risk of financial loss from the failure of a counterparty to honour its obligation to the Corporation. The only assets exposed to this type of risk are the investments held in the Compensation Fund and the funds on deposit with a financial institution. In order to minimize the exposure of risk, a comprehensive investment policy has been developed.

Generally, the Corporation's investment policy is to be as conservative as possible so as to protect its capital against undue financial and market risk while having ready access to the funds and increasing the value of the funds. The investments will be a mix of high quality fixed income securities and cash equivalent instruments. The funds cannot be invested in equities. The policy also includes composition limits, issuer type limits, quality limits, single issuer limits, corporate sector limits and time limits.

The breakdown of the bond portfolio by the higher of the Standard and Poors' and Moody's credit ratings as at December 31 is:

	December 31, 2011		December 31, 2010		January 1, 2010	
Credit rating	Carrying value	Percentage of portfolio	Carrying value	Percentage of portfolio	Carrying value	Percentage of portfolio
AAA	$25,070	60.8%	$20,754	57.6%	$21,751	61.9%
AA	16,162	39.2%	15,278	42.4%	13,388	38.1%
Total	$41,232	100.0%	$36,032	100.0%	$35,139	100.0%

(b) Interest rate risk:

Interest rate risk is the potential for financial loss arising from changes in interest rates. Generally, the risk exposure for the Corporation is limited to the interest and dividend investment income which will be reduced during sustained periods of lower interest rates as higher yielding fixed income securities mature and the proceeds are reinvested at lower rates.

As at December 31, 2011, management estimates that an immediate hypothetical 1% move in interest rates, with all other variables held constant would impact the market value of bonds by approximately $1,227,222 (2010 - $1,132,000).

(c) Liquidity risk:

Liquidity risk is the risk of having insufficient cash resources to meet financial commitments. Liquidity requirements for the Corporation are met primarily by two sources. Daily operational expenses are met by an annual assessment to members of the Corporation at the beginning of each year as approved by the Board of Directors.

In the event a member company becomes insolvent and it is necessary for the Corporation to make payments to insured policy holders, the Corporation could use funds available in the Compensation Fund. The Corporation also has the ability to make a maximum annual general assessment of its members of 1.5% of covered premiums written, which amounted to approximately $631,065,000 in 2011 (2010 - $574,280,000). As a result of the loan arrangement with the liquidator of Canadian Millers', $3,000,000 of this assessment capacity is reserved for any possible obligations of the Canadian Millers' liquidation.

15. Remuneration:

Key personnel of the Corporation are members of the Board of Directors and senior executives. Remuneration paid to key personnel during the year includes the following expenses:

	2011	2010
Directors' fees	$58	$58
Salaries	485	503
Other benefits	62	63
	$605	**$624**

16. Commitments and contingencies:

Legal proceedings:

In the normal course of business, the Corporation may be involved in various legal claims and other matters, the outcome of which is not presently determinable. In management's opinion, the resolution of any such matters would not have a material adverse effect on the financial condition of the Corporation.

17. Explanation of transition to IFRS:

(a) Adoption of IFRS 9, Financial Instruments ("IFRS 9"):

As stated in note 1(a), these are the Corporation's first financial statements prepared in accordance with IFRS.

The accounting policies set out in note 2 have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Corporation's date of transition).

In preparing its opening IFRS statement of financial position, the Corporation has adjusted amounts reported previously in financial statements prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

As part of the transition to IFRS on January 1, 2010, the Corporation adopted IFRS 9 and reports bonds at amortized cost.

IFRS 9 divides all financial assets into two classifications – those measured at amortized cost and those measured at fair value. The Corporation meets the two conditions required to use the amortized cost method.

(i) Business model test:

The objective of the Corporation's business model is to hold the financial assets to collect the contractual cash flows.

(Tabular amounts in thousands of dollars)

17. Explanation of transition to IFRS (continued):

(ii) Cash flow characteristics test:

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Prior to transition and under Canadian GAAP, bonds were classified as available-for-sale and were recorded at fair value.

Unrealized gains or losses from the change in fair value were recorded as an adjustment to members' funds in the statement of comprehensive income and changes in members' funds.

As a result of the transition to IFRS and the adoption of IFRS 9, the excess of the fair value of the bond portfolio over its amortized cost is not recognized in members' funds until realized through future sale or maturity of the investments. This reduced members' funds from amounts previously reported by $1,026,000 at January 1, 2010 and $739,000 at December 31, 2010.

(b) Reconciliation:

The Corporation did not present a statement of cash flows under previous Canadian GAAP.

The following is a reconciliation of the Corporation's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS:

	December 31, 2012	January 1, 2010
Equity		
Balance under Canadian GAAP	$64,589	$62,373
Reduction of equity to reduce carrying value of bonds from fair value to amortized cost	(739)	(1,026)
Total equity under IFRS	**$63,850**	**$61,347**

The following is a reconciliation of the Corporation's comprehensive income reported in accordance with Canadian GAAP to its comprehensive income in accordance with IFRS:

	Year ended December 31, 2010
Comprehensive income:	
Balance under Canadian GAAP	$2,216
Change in unrealized gains on bond portfolio, not recognized on an amortized cost basis	287
Total comprehensive income under IFRS	**$2,503**

PACICC board of directors

2011/12 Board

Maurice Tulloch
Chair
President and CEO,
Aviva Canada Inc.

Lea Algar
Chair,
General Insurance OmbudService

Diane Brickner
President,
Peace Hills General Insurance Company

Alister Campbell*
President and CEO,
Zurich Canada

George Cooke
President and CEO,
The Dominion of Canada General Insurance Company

Paul Kovacs
President and CEO,
PACICC

Earl McGill
Former Superintendent of Insurance for Manitoba (retired)

Lawrie Savage
President,
Lawrie Savage & Associates Inc.

Alain Thibault
Senior Advisor and Past Chairman,
TD Insurance

Bruce Thompson
Program Director,
Toronto Centre

David Woolley
President,
Atlantic Insurance Company Ltd.

Board Committees

Audit

Earl McGill (Chair)
Lea Algar
Diane Brickner
Bruce Thompson
Maurice Tulloch

Governance and Human Resources

Maurice Tulloch (Chair)
George Cooke
Lawrie Savage
Alain Thibault
David Woolley

* Resigned February 2012

PACICC staff and contact information

Paul Kovacs
President and Chief Executive Officer

Full-time staff

Jim Harries
Vice President, Operations

Grant Kelly
Chief Economist
Vice President, Financial Analysis and Regulatory Affairs

Tracy Waddington
Manager, Administration

Contract and part-time staff

John Connor
Manager, Claims

Randy Bundus
Corporate Counsel

Peter Stodolak
Research Analyst

Address

20 Richmond Street East, Suite 210
Toronto, Ontario M5C 2R9
Phone (416) 364-8677
Fax (416) 364-5889
www.pacicc.ca

Provincial regulators

Carolyn Rogers
Superintendent and Chief Executive Officer
Financial Institutions Commission of British Columbia
555 West Hastings Street
Vancouver, British Columbia V6B 4N6
Tel: (604) 953-5300
Fax: (604) 953-5301
www.fic.gov.bc.ca

Mark Prefontaine
Superintendent of Financial Institutions
Province of Alberta Treasury Department
402 Terrace Building,
9515 – 107 Street
Edmonton, Alberta T5K 2C3
Tel: (780) 427-8322
Fax: (780) 427-0752
www.finance.gov.ab.ca

James Hall
Superintendent of Insurance
Saskatchewan Financial Services Commission
1919 Saskatchewan Drive, 6th Floor
Regina, Saskatchewan S4P 3V7
Tel: (306) 787-7881
Fax: (306) 787-9006
www.sfsc.gov.sk.ca

Jim Scalena
Superintendent of Financial Institutions
Manitoba Department of Consumer and Corporate Affairs
405 Broadway Avenue, Suite 1115
Winnipeg, Manitoba R3C 3L6
Tel: (204) 945-2542
Fax: (204) 948-2268
www.gov.mb.ca

Phil Howell
Superintendent and Chief Executive Officer
Financial Services Commission of Ontario
5160 Yonge Street, 17th Floor, Box 85
North York, Ontario M2N 6L9
Tel: (416) 250-7250
Fax: (416) 590-7070
www.fsco.gov.on.ca

Mario Albert
Superintendent and Chief Executive Officer
Autorité des Marchés Financiers
Place de la Cité, Tour Cominar
2640, boulevard Laurier 8e étage
Québec, Québec G1V 5C1
Tel: (418) 525-7571
Fax: (418) 528-2791
www.lautorite.qc.ca

Doug Murphy
Superintendent of Insurance
Ministry of Finance
5151 Terminal Road, 7th Floor
P.O. Box 2271
Halifax, Nova Scotia B3J 1A1
Tel: (902) 424-6331
Fax: (902) 424-1298
www.gov.ns.ca/enla/fin/fininst.htm

Robert Bradley
Superintendent of Insurance
Office of the Attorney General
P.O. Box 2000
95 Rochford Street,
Shaw Building, 4th Floor
Charlottetown,
Prince Edward Island C1A 7N8
Tel: (902) 368-6478
Fax: (902) 368-5283
www.gov.pe.ca

Deborah McQuade
Superintendent of Insurance
Department of Justice
P.O. Box 6000, Centennial Building
440 King Street
Fredericton, New Brunswick E3B 5H8
Tel: (506) 453-2512
Fax: (506) 453-7435
www.gnb.ca

Doug Connolly
Superintendent of Insurance
Department of Government Services
and Lands
Confederation Building, West Block
2nd Floor
P.O. Box 8700
St. John's, Newfoundland A1B 4J6
Tel: (709) 729-2570
Fax: (709) 729-4151
www.gov.nf.ca

Douglas Doak
Superintendent of Insurance
Division of Taxation and Assessment
Department of Finance
Government of Northwest Territories
3rd Floor, YK Centre Building
4822-48th Street
Yellowknife, Northwest Territories
X1A 3S3
Tel: (867) 873-7308
Fax: (867) 873-0325
www.fin.gov.nt.ca

Fiona Charbonneau
Superintendent of Insurance
Department of Community Services
P.O. Box 2703 (C-5)
Whitehorse, Yukon Y1A 2C6
Tel: (867) 667-5111
Fax: (867) 667-3609
www.gov.yk.ca

Federal regulator

Julie Dickson
Superintendent
Office of the Superintendent
of Financial Institutions
255 Albert Street
Ottawa, Ontario K1A 0H2
Tel: (613) 990-7628
Fax: (613) 993-6782
www.osfi-bsif.gc.ca

ACE INA Insurance	Assurance ACE INA
Affiliated FM Insurance Company	Corporation d'Assurances Affiliated FM
Alberta Motor Association Insurance Company	Alberta Motor Association Insurance Company
Allianz Global Risks U.S. Insurance Company	Compagnie d'Assurance Allianz Risques Mondiaux É.-U.
Allstate Insurance Company	Allstate, Compagnie d'Assurance
Allstate Insurance Company of Canada	Allstate du Canada, Compagnie d'Assurance
Alpha, Compagnie d'assurances Inc.	Alpha, Compagnie d'Assurances Inc. (L')
American Bankers Insurance Company of Florida	American Bankers Compagnie d'Assurance Générale de la Floride
American Road Insurance Company	Compagnie d'Assurance American Road
Antigonish Farmers Mutual Insurance Company	Antigonish Farmers Mutual Insurance Company
Arch Insurance Company	Compagnie d'assurance Arch
Ascentus Insurance Ltd.	Assurances Ascentus ltée (Les)
Aspen Insurance U.K. Ltd.	Compagnie d'assurance Aspen UK
Associated Electric & Gas Insurance Services	Services d'assurance associés électricité et gaz
Assurance Mutuelle des Fabriques de Montreal	Assurance Mutuelle des Fabriques de Montréal (L')
Assurance Mutuelle des Fabriques de Quebec	Assurance Mutuelle des Fabriques de Québec (L')
AssurePro Insurance Company Limited	AssurePro Insurance Company Limited
Atlantic Insurance Company Ltd.	Atlantic Insurance Company Limited
Aviva Insurance Company of Canada	Aviva, Compagnie d'Assurance du Canada
Aviva International Insurance Ltd.	Assurance International Aviva Ltée
AXA Assurances Agricoles Inc.	AXA Assurances Agricoles Inc.
AXA Assurances Inc.	AXA Assurances Inc.
AXA General Insurance	AXA Assurances générales
AXA Insurance (Canada)	AXA Assurances (Canada)
AXA Pacific Insurance Company	AXA Pacifique Compagnie d'Assurance
AXIS Reinsurance Company (Canadian Branch)	AXIS Compagnie de Réassurance (succursale canadienne)
BCAA Insurance Corporation	BCAA Insurance Corporation
Belair Insurance Company Inc.	Compagnie d'assurance Belair Inc. (La)
Berkley Insurance Company	Compagnie d'Assurance Berkley
Boiler Inspection and Insurance Company of Canada	Compagnie d'Inspection et d'Assurance Chaudières et Machinerie (La)
British Aviation Insurance Company Limited	Compagnie britannique d'assurance aérienne limitée (La)
British Columbia Life & Casualty Company	British Columbia Life & Casualty Company
CAA Insurance Company (Ontario)	CAA Insurance Company (Ontario)
Canadian Direct Insurance Inc.	Canadian Direct Insurance Inc.
Canadian Farm Insurance Corporation	Canadian Farm Insurance Corporation
Canadian Northern Shield Insurance Company	Bouclier du Nord Canadien, Compagnie d'assurance (Le)

Canassurance Compagnie d'Assurance Generales Inc.	Canassurance Compagnie d'Assurance Generales Inc.
Capitale, compagnie d'assurance générale	Capitale Assurances Générales Inc. (La)
Certas Direct Insurance Company	Certas direct, compagnie d'assurances
Certas Home and Auto Insurance Company	Certas, compagnie d'assurances habitation et auto
Chartis Insurance Company of Canada	Compagnie d'Assurance Chartis du Canada
Cherokee Insurance Company	Cherokee Insurance Company
Core Pointe Insurance Company	La Compagnie d'Assurance CorePointe
Chubb Insurance Company of Canada	Chubb du Canada Compagnie d'Assurance
Clare Mutual Insurance Company	Clare Mutual Insurance Company
Coachman Insurance Company	Coachman Insurance Company
Commonwealth Insurance Company	Compagnie d'assurances Commonwealth
Constitution Insurance Company of Canada	Constitution du Canada, Compagnie d'Assurance
Continental Casualty Company	Compagnie d'assurance Continental Casualty (La)
Co-operators General Insurance Company	Compagnie d'Assurance Générale Co-operators (La)
Coseco Insurance Company	Compagnie d'Assurance Coseco
CUMIS General Insurance Company	Compagnie d'Assurance Générale CUMIS (La)
Darwin National Assurance Company	Darwin National Assurance Company
DAS Legal Protection Insurance	DAS Compagnie d'assurance de protection juridique limitée
Desjardins General Insurance Inc.	Desjardins Assurances Générales Inc.
Dominion of Canada General Insurance Company	Compagnie d'assurance générale Dominion du Canada
Ecclesiastical Insurance Office PLC	Société des Assurances Ecclésiastiques
Echelon General Insurance Company	Échelon, Compagnie d'Assurances Générales
Economical Mutual Insurance Company	Economical, Compagnie Mutuelle d'Assurance
Electric Insurance Company	Compagnie d'assurance Electric
Elite Insurance Company	Compagnie d'Assurances Élite (La)
Employers Insurance Company of Wausau	Compagnie d'Assurances des Employeurs de Wausau
Everest Insurance Company of Canada	Compagnie d'Assurance Everest du Canada (La)
Factory Mutual Insurance Company	Factory Mutual Insurance Company
FCT Insurance Company	FCT Insurance Company Limited
Federal Insurance Company	Compagnie d'assurances Fédérale
Federated Insurance Company of Canada	Federated, compagnie d'assurances du Canada (La)
Federation Insurance Company of Canada	Fédération Compagnie d'Assurance du Canada (La)
Fenchurch General Insurance Company	Fenchurch Compagnie d'Assurance Générale
First North American Insurance Company	Nord-Américaine, Première Compagnie d'Assurance (La)
Fortress Insurance Company	Fortress Insurance Company

GCAN Insurance Company	GCAN Compagnie d'Assurances
General Reinsurance Corporation	General Reinsurance Corporation
Germania Mutual Insurance Company	Germania Mutual Insurance Company
Global Reinsurance Company	Global Reinsurance Company
GMS Insurance Inc. (Group Medical Services)	GMS Insurance Inc. (Group Medical Services)
Gore Mutual Insurance Company	Gore Mutual Insurance Company
Grain Insurance and Guarantee Company	Compagnie d'assurance et de garantie Grain (La)
Great American Insurance Company	Compagnie d'Assurance Great American
Great American Insurance Company of New York	Compagnie d'Assurance Great American de New York
Gan Eurocourtage	Gan Eurocourtage
Groupe Estrie-Richelieu, compagnie d'assurance	Groupe Estrie-Richelieu, Compagnie d'assurance (Le)
Groupe Ledor	Groupe Ledor
Guarantee Company of North America	Garantie, Compagnie d'Assurance de l'Amérique du Nord (La)
Hanover Insurance Company	Hanover Insurance Company
Hartford Fire Insurance Company Ltd.	Compagnie d'Assurance Incendie Hartford (La)
HDI - Gerling America Insurance Company	HDI - Gerling America Insurance Company
ICAROM Public Limited Company	ICAROM Public Limited Company
Industrial Alliance Insurance	Industrielle Alliance Assurance Inc.
Industrial Alliance Pacific General Insurance Corporation	Industrielle-Alliance Pacifique, Compagnie d'Assurances Générales
Innovassur, assurances générales Inc.	Innovassur, Assurances Générales Inc.
Insurance Company of Prince Edward Island	Insurance Company of Prince Edward Island
Insurance Corporation of British Columbia	Insurance Corporation of British Columbia
Intact Insurance Company	Intact Compagnie d'assurance
International Insurance Company of Hannover Limited	International Insurance Company of Hannover Limited
Jevco Insurance Company	Compagnie d'Assurances Jevco (La)
Jewelers Mutual Insurance Company	Jewelers Mutual Insurance Company
King's Mutual Insurance Company	King's Mutual Insurance Company (The)
Legacy General Insurance Company	Compagnie d'assurances générales Legacy
Liberty International Underwriters Canada	Liberty International Underwriters Canada
Lloyd's Canada	Lloyd's Canada
Lumbermen's Mutual Casualty Company	Compagnie d'Assurance Lumbermen's Mutual Casualty (La)

Max Canada Insurance Company	Max Canada Insurance Company
Mennonite Mutual Fire Insurance Company	Mennonite Mutual Fire Insurance Company
Mennonite Mutual Insurance Company (Alberta) Ltd.	Mennonite Mutual Insurance Company (Alberta) Ltd.
Metro General Insurance Corporation Ltd.	Metro General Insurance Corporation Ltd.
Millennium Insurance Corporation	Millennium Insurance Corporation
Missisquoi Insurance Company	Compagnie d'Assurance Missisquoi (La)
Mitsui Sumitomo Insurance Company Ltd.	Compagnie d'Assurance Mitsui Sumitomo Limitée
Motors Insurance Corporation	Compagnie d'Assurance Motors (La)
Munich Reinsurance America Inc.	Réassurance Munich Amérique, Inc.
Mutual Fire Insurance Company of British Columbia	Mutual Fire Insurance Company of British Columbia (The)
Mutuelle d'Eglise de l'Inter-Ouest	Mutuelle d'Église de l'Inter-Ouest (La)
National Liability & Fire Insurance Company	National Liability & Fire Insurance Company
NIPPONKOA Insurance Company Ltd.	NIPPONKOA Insurance Company Ltd.
Nordic Insurance Company of Canada	Nordique, Compagnie d'assurance du Canada (La)
Northbridge General Insurance Corporation	Société d'assurance générale Northbridge
Northbridge Indemnity Insurance Corporation	Société d'assurance d'indemnisation Northbridge
Northbridge Commercial Insurance Corporation	Société d'assurance des entreprises Northbridge
Northbridge Personal Insurance Corporation	Société d'assurance des particuliers Northbridge
North Waterloo Farmers Mutual Insurance Company	North Waterloo Farmers Mutual Insurance Company (The)
Novex Insurance Company	Novex Compagnie d'assurance
Old Republic Insurance Company of Canada	Ancienne République, Compagnie d'Assurance du Canada (L')
Omega General Insurance Corporation	Omega Compagnie d'Assurance générale
Optimum Assurance Agricole Inc.	Optimum Assurance Agricole Inc.
Optimum Société d'assurance Inc.	Optimum Société d'Assurance Inc.
Optimum West Insurance Company	Optimum West Insurance Company
PAFCO Insurance Company	PAFCO compagnie d'assurance
Peace Hills General Insurance Company	Peace Hills General Insurance Company
Pearl Assurance Public Limited Company	Pearl Assurance Public Limited Company
Pembridge Insurance Company	Pembridge, compagnie d'assurance
Personal Insurance Company	Personnelle, Compagnie d'Assurances (La)
Personnelle, assurances générales	Personnelle, assurances générales Inc. (La)
Perth Insurance Company	Perth, Compagnie d'Assurance
Pictou County Farmers' Mutual Fire Insurance Company	Pictou County Farmers' Mutual Fire Insurance Company
Pilot Insurance Company	Compagnie d'Assurance Pilot

Pool Insurance Company	Pool Insurance Company
Portage La Prairie Mutual Insurance Company	Portage La Prairie Mutual Insurance Company (The)
Primmum Insurance Company	Primmum compagnie d’assurance
Prince Edward Island Mutual Insurance Company	Prince Edward Island Mutual Insurance Company
Pro-Demnity Insurance Company	Pro-Demnity Insurance Company
Progressive Casualty Insurance Company	Progressive Casualty Insurance Company
Promutuel Gaspésie-Les Iles Société mutuelle d’assurance générale	Promutuel Gaspésie-Les Iles, Société mutuelle d’assurance générale
Promutuel Reassurance	Promutuel Réassurance
Promutuel des Riverains	Promutuel des Riverains, Société mutuelle d’assurance générale
Protective Insurance Company	Protectrice, société d’assurance (La)
Quebec Assurance Company	Compagnie d’Assurance du Québec
RBC General Insurance Company	Compagnie d’assurance générale RBC
RBC Insurance Company of Canada	Compagnie d’assurance RBC du Canada
RCA Indemnity Corporation	RCA Indemnity Corporation
Red River Valley Mutual Insurance Company	Red River Valley Mutual Insurance Company
Royal & SunAlliance Insurance Company of Canada	Royal & Sun Alliance du Canada, société d’assurances
S & Y Insurance Company	S & Y Compagnie d’Assurance
Safety National Casualty Corporation	Safety National Casualty Corporation
Saskatchewan Mutual Insurance Company	Saskatchewan Mutual Insurance Company
Scotia General Insurance Company	Scotia Générale, compagnie d’assurance
Scottish & York Insurance Company Ltd.	Compagnie d’assurance Scottish & York Limitée
Security Insurance Company of Hartford	Compagnie d’Assurance Sécurité de Hartford
Security National Insurance Company	Sécurité Nationale Compagnie d’Assurance
Sentry Insurance, A Mutual Company	Sentry Insurance
SGI Canada	SGI Canada
SGI Canada Insurance Services Ltd.	SGI Canada Insurance Services Ltd.
Shipowners’ Mutual Protection & Indemnity Association (Luxembourg)	Entreprise d’assurances Shipowners’ Mutual Protection & Indemnity Association (Luxembourg) (L’)
Sompo Japan Insurance Inc.	Assurances Sompo du Japon Inc.
Sovereign General Insurance Company	Souveraine, Compagnie d’Assurance Générale (La)
SSQ, Societe d’assurances générales Inc.	SSQ, Société d’Assurances Générales Inc.
State Farm Fire and Casualty Company	State Farm Fire and Casualty Company
State Farm Mutual Automobile Insurance Company	State Farm Mutual Automobile Insurance Company
St. Paul Fire & Marine Insurance Company	Compagnie d’Assurance Saint Paul (La)
Sunderland Marine Mutual Insurance Company	Société d’assurance mutuelle maritime Sunderland Limitée

T.H.E. Insurance Company Ltd.	T.H.E. Insurance Company
TD Direct Insurance Company	TD assurance directe inc.
TD General Insurance Company	Compagnie d'Assurances Générales TD
TD Home and Auto Insurance Company	Compagnie d'assurance habitation et auto TD
Temple Insurance Company	Compagnie d'assurance Temple (La)
TIG Insurance Company	Société d'Assurance TIG
Tokio Marine & Nichido Fire Insurance Company	Tokio Maritime & Nichido Incendie Compagnie d'Assurances Ltée
Traders General Insurance Company	Compagnie d'Assurance Traders Générale
Trafalgar Insurance Company of Canada	Compagnie d'assurance Trafalgar du Canada
Trans Global Insurance Company	Compagnie d'assurances Trans Globale
Travelers Guarantee Company of Canada	Compagnie Travelers Garantie du Canada (La)
Trisura Guarantee Insurance Company	Compagnie d'assurance Trisura Garantie
Triton Insurance Company	Compagnie d'assurance Triton
TTC Insurance Company Limited	TTC Insurance Company Limited
Unica Insurance Inc.	Unica assurances inc.
Unifund Assurance Company	Unifund, Compagnie d'Assurance
Union Canadienne, compagnie d'assurances	Union Canadienne, compagnie d'assurances (L')
Unique, compagnie d'assurances générales	Unique Assurances Générales Inc. (L')
United General Insurance Corporation	United General Insurance Corporation
Utica Mutual Insurance Company	Compagnie d'Assurance Mutuelle Utica
Virginia Surety Company Inc.	Virginia Surety Company Inc.
Waterloo Insurance Company	Waterloo, Compagnie d'Assurance
Wawanesa Mutual Insurance Company	Compagnie Mutuelle d'Assurance Wawanesa (La)
Western Assurance Company	Western Assurance Company
Western Financial Insurance Company	Western Financial, Compagnie d'assurances
Westland Insurance Company	Westland Insurance Company
Westport Insurance Corporation	Société d'assurance Westport
XL Insurance Company Ltd.	Compagnie d'assurance XL Limitée
XL Reinsurance America Inc.	Réassurance XL Amérique
Zenith Insurance Company	Compagnie d'Assurance Zénith
Zurich Insurance Company	Zurich Compagnie d'Assurances SA