PACICC

Property and Casualty Insurance Compensation Corporation

Insolvency protection for home, automobile and business insurance customers

2016 Annual Report









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 2016

- Partnered with the Autorité des marchés financiers (AMF) to develop an Intervention Guideline clarifying the regulatory process and legal framework governing the next insolvency of a Quebec-regulated PACICC member.
- Completed the first full year of operation of PACICC's Pre-Insolvency Regulatory Liaison Committee (comprising public directors on PACICC's Board), enhancing our ability to work effectively with insurance regulators.
- Supported the Insurance Bureau of Canada in its efforts to secure a government backstop to minimize the financial risk posed by a catastrophic urban earthquake.
- Published the tenth paper in our *Why insurers fail series* (*"Lessons learned from the financial challenges – and the successful recovery – of the Farm Mutual Reinsurance Plan"*) – and distributed the paper to members and other stakeholders.
- Delivered the third full year of programming of PACICC's Risk Officer's Forum, encompassing three in-person networking meetings and three webinars focusing on current and emerging risk issues – supported by a membership of approximately 300 P&C insurance risk professionals, including a principal contact in each member company.

Contents

DURING 2016, CANADA'S INSURANCE INDUSTRY experienced the most-costly loss ever recorded in this country from a single event – the wildfire that hit the City of Fort McMurray and surrounding areas. The total insured losses from the Fort Mac wildfire exceed the most-costly single-event catastrophe by a factor of more than two. The wildfire put strain on company earnings, but for the most part, insurers were able to maintain their capital strength thanks to adequate reinsurance coverage.

While 2016 was a challenging year, the industry is positioned to recover in 2017. One of the main reasons is that Canada has had a long upswing in the most recent P&C insurance cycle – more than a decade, in fact – during which time most insurers have experienced solid earnings and the opportunity to build their capital strength. This can be seen, for example, in the steady reduction of net premiums in relation to capital – from a ratio of about 1.5 to 1 at the start of the current cycle, to about 1 to 1 at this time.

As rising catastrophe losses have become the "new normal" for the industry, they signal the need for insurers to increase resilience to greater volatility in future underwriting results and earnings.

The key point is, the large losses from Fort McMurray came at a time when the industry was strongly capitalized. As rising catastrophe losses have become the "new normal" for the industry, they signal the need for insurers to increase resilience to greater volatility in future underwriting results and earnings. An important part of such resilience is for insurers to carefully manage their exposures to potential losses and concentrations of risk.

Developing P&C Intervention Guidelines with Insurance Regulators

Last year, PACICC advanced work on several initiatives to further PACICC's efforts to reduce the risk of insolvency. The first was to establish a new Pre-Insolvency Regulatory Liaison (PIRL) Committee consisting of PACICC's public (non-industry) directors. This Committee provides a forum for confidential consultations and information exchanges with regulators concerning potentially troubled member companies.

Second, PACICC has signed an agreement with Quebec's Autorité des marchés financiers (AMF) documenting, in the form of Intervention Guidelines, the steps that both organizations can and will take if solvency concerns arise for a Quebec-supervised PACICC member.

Third, we are continuing to partner with the Insurance Bureau of Canada to address the risk of a severe urban earthquake causing financial contagion in the industry. PACICC's research has demonstrated that the industry has considerable capacity to respond to the claims that would arise from a large earthquake. Nevertheless, there is a threshold that defines the industry's capacity to respond to a catastrophic earthquake. Canadian policyholders should not be exposed to the risk of such an occurrence. Thus, there is a need for a government backstop to be available to protect consumers from insurance company defaults arising beyond a "tipping point" of an insured-loss event of about $30 billion.

As a fourth PACICC initiative, our annual report includes information on PACICC's risk profile, and on our initiatives to support member companies in strengthening their risk management practices. In this respect, I draw your attention to the activities of the Risk Officer's Forum established by PACICC. Of note, PACICC's most recent ERM benchmark survey results show a deepening of sound risk-management practices in the industry. To reference one key example, 90 percent of survey respondents had a Board-approved risk-appetite statement in place in 2016 – compared to only half of respondents three years earlier. That is significant progress.

... we are continuing to partner with the Insurance Bureau of Canada to address the risk of a severe urban earthquake causing financial contagion in the industry.

In closing, I extend my thanks to PACICC's Board of Directors for their counsel over the past year, and to Paul Kovacs and his management team for their strong support of the Board and the achievement of solid operating results.

In particular, I would like to thank Lea Algar and Pierre Fromentin who retired from PACICC's Board in 2016 – Lea with more than a decade of service on behalf of insurance consumers. They will be missed, and we wish them both the very best. Fortunately for PACICC, we welcomed four new directors to the Board in April 2016 – all of whom bring impressive experience and qualifications: Louis Durocher, Chief Risk Officer for Aviva Canada; Glenn Gibson, retired CEO of Crawford Canada; Lynn Oldfield, CEO of AIG Canada; and Pete Walker, Chief Underwriting Officer at Zurich Canada.

With the support of an effective Board and management, PACICC remains focused on the insurer solvency issues that matter most to consumers and to our members.

FOR THE PERIOD 2017 TO 2019, PACICC's new strategic plan focuses on three key priorities. In 2017, our work will focus on developing P&C Intervention Guidelines with insurance regulators, building on the new Agreement between the AMF and PACICC. In 2018, PACICC will participate in the Federal government's renewal of financial sector legislation. In 2019, PACICC's recommended priority is to undertake an examination of the full range of its coverage and benefits in collaboration with industry stakeholders.

PACICC strives to maintain a high level of consumer and business confidence in Canada's P&C insurance industry through the financial protection we provide to policyholders. Developing actions to reduce the risk of an insurer insolvency is a key focus of the Corporation. Recognizing that company failures can and do occur, however, PACICC is equally focused on preparedness, safeguarding consumers' interests and minimizing the costs associated with any insolvency. This preparedness includes regular contact with Canada's provincial insurance regulators to assist in dealing with the next major shock affecting the industry.

PACICC's priority issue for 2017 is to develop Intervention Guidelines with several insurance regulators in Canada.

Developing Intervention Guidelines with Insurance Regulators

PACICC's priority issue for 2017 is to develop Intervention Guidelines with several insurance regulators in Canada. Maintaining clear and effective working relationships with insurance regulators has been a key to PACICC success in fulfilling its mission to protect insurance policyholders in the unlikely event of a member insolvency. The timing of completion and implementation will depend in part on the pace at which the supervisory authorities are able to proceed. Building on the Agreement in place with Quebec, this effort will focus on OSFI, British Columbia and Alberta, seeking to cover more than 90 percent of PACICC members.

The protocols could be expected to address: conditions required by regulators to exchange information with PACICC concerning potentially troubled member insurers, roles and responsibilities of PACICC and the Superintendent, a guide to intervention in order to identify areas of concern at an early stage and to ensure effective intervention to minimize policyholder losses and protocols to improve the effectiveness, efficiency and clarity of the relationship between PACICC and the Superintendent.

Renewing Federal Financial Sector Legislation

PACICC's proposed priority for 2018 is to participate in the Federal government's scheduled renewal of financial sector legislation. The primary focus of the renewal is on banking and insurance legislation. This provides an opportunity for PACICC and IBC to press for a government backstop to minimize the financial risk posed by a severe urban earthquake. PACICC has been working with IBC as the Bureau explored options in designing a government backstop. Beyond some threshold, governments will need to be involved when responding to a catastrophic earthquake.

PACICC's existing Memorandum of Operation includes powers and functions required for an industry backstop for distressed insurers: for an earthquake above a certain threshold, the government could provide funds to PACICC, and PACICC could then distribute the funds to distressed insurers to prevent systemic failure in the industry. This is consistent with the core policy objectives of the financial sector review, including:

- Stability – safety, soundness and resiliency;
- Efficiency – contributes to economic growth; and
- Utility – protection for consumers (businesses, individuals and families).

PACICC has been working with IBC as the Bureau explored options in designing a government backstop. Beyond some threshold, governments will need to be involved when responding to a catastrophic earthquake.

PACICC's second goal will be to advance the case for modernizing the Federal *Winding-Up and Restructuring Act (WURA)* – the legislation governing the liquidation of failed banks and insurance companies. This has been a longstanding issue for PACICC. Our position advocating reform is well-developed and has been communicated previously to Federal officials. A compelling argument can be made for modernizing *WURA* and including it in the review because of its role as the resolution mechanism for insolvent banks and insurance companies and because it is woefully outdated!

As PACICC develops its recommendations on this issue, there will be opportunities to partner with other industry stakeholders – including IBC and Assuris – and to strengthen and leverage our position in the process.

Reviewing PACICC`s Coverage and Benefits

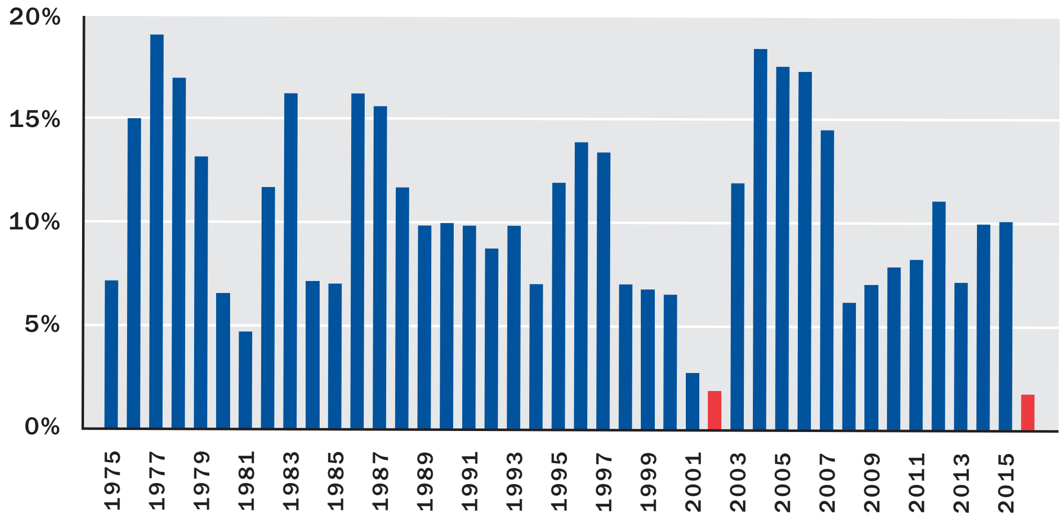
In 2019, PACICC's recommended priority is to undertake a review of its coverage and benefits. This was last done in 2006. The review would examine the full range of PACICC coverage and benefits, including the current limit on unearned premiums. Stakeholder consultations would include insurance consumers, regulators and liquidators. PACICC has conducted research to help benchmark best practices of insurance guarantee funds in other jurisdictions. The results of this research will inform our planned review of coverage and benefits.

In closing, I want to thank all Board members for their guidance and support over the past year, and our staff for their continuing high-quality work. PACICC will continue to enhance its ability to protect policyholders in the event of a member insolvency, work to minimize insolvency costs and help to maintain high levels of confidence in our industry. I am confident that we are well-positioned for continued success.

This past year tested the financial stability of PACICC's member insurance companies. The May wildfire in Fort McMurray, Alberta was the most costly wildfire ever recorded by insurers anywhere and a major reason for poor financial results in 2016.

2014 was one of the least profitable years in Canada's P&C insurance industry. At that time, insurers responded to the decline in profitability with price increases and reductions in the availability of coverage. These moves restored profitability, but ultimately prompted governments to introduce new regulation of auto insurance rating criteria and auto prices.

P&C return on equity



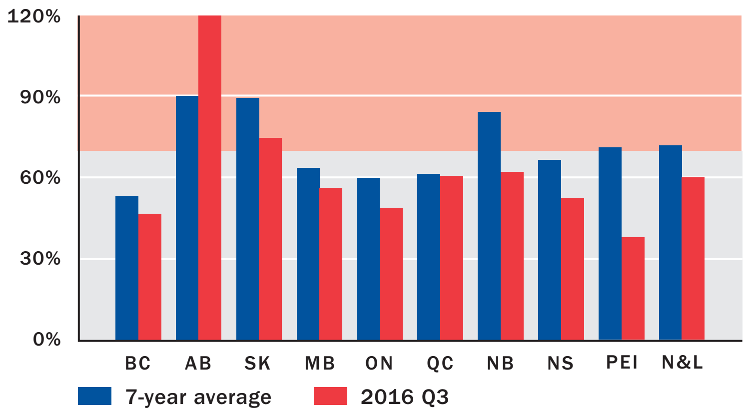
Source: PACICC based on data from MSA Research

Sustained moderate profitability is absolutely vital to maintain the solvency of insurers and price stability in the insurance marketplace. Retained earnings are the primary source of capital for Canada's P&C insurers. In total, Canada's insurance industry now has more than $50 billion in capital – the most the industry has ever reported. A well-capitalized industry provides stability for insurance consumers, promotes competition and attracts new entrants to the market.

Property Markets

The wildfire had its most dramatic impact on Canada's personal property insurance markets. Last year, most of these markets were healthy with relatively low solvency risk, providing a secure source of earnings and capital for insurers. Maintaining a healthy, profitable homeowners' insurance marketplace is important for the Canadian economy.

PP loss ratios



Source: PACICC based on data from MSA Research

There are several homeowners' insurance markets in Canada, however, where claims costs over the past seven years (the length of an average insurance cycle in Canada) exceeded 70-75 percent of the premiums collected. Claims costs at these levels yield unprofitable markets for insurers and represent a drain on capital. When results deteriorate, insurers must raise rates in order to match premiums collected with claims paid. Short-term adjustments like this are required to maintain the long-term stability of these markets.

A wild card in the personal property market is the long-run trend of increasingly frequent and severe natural catastrophes. The problem is not so much that catastrophic losses are occurring. Rather, it is the fact that insurers have not been able to accurately assess and anticipate the costs associated with severe weather risks so as to properly factor them into the pricing of their products. While increasingly frequent and severe weather catastrophes present a yearly earnings challenge for the industry, they are not considered to be a threat to industry solvency, like the catastrophic risk of an earthquake.

There is a second significant risk of insolvency in personal property markets in Canada. PACICC examined every insurer that was closed by provincial or federal regulators in the Canadian insurance marketplace since 1950. Of these 35 companies, a natural disaster was the primary cause in two cases

National General Insurance Company – closed in 1952

This was a federally regulated insurer opened in July 1948. Its business plan focused on providing fire insurance in the province of Manitoba. In 1950, the Red River climbed to its highest level since 1861 and the company "suffered a succession of underwriting losses which were aggravated by the Winnipeg flood in 1950." The company was closed by the regulator in 1952.

Mennonite Mutual Hail Insurance Company – closed in 1984

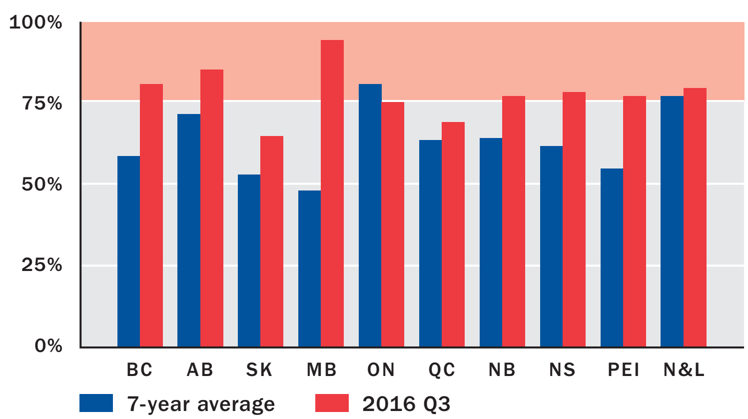
This insurer provided hail insurance in Western Canada for almost 100 years. It reported significant volatility in its financial results over the final 10 years of operation. Losses resulting from major hail storms in Manitoba in 1978 and Alberta in 1981 resulted in a reduction in capital. The regulator closed this company in 1984.

In both cases, smaller insurers were highly concentrated in one market, or in one type of risk. This type of insolvency is still possible today. Smaller insurers can become victims of their own success when a natural hazard strikes a community where the insurer has concentrated risk. It is possible for these companies to become vulnerable to the solvency risk posed by an extreme weather event. The large claims stemming from Slave Lake and Fort McMurray wildfires demonstrate the potential for such a problem to occur again.

Increased solvency risk in some auto markets

Ontario auto insurance accounts for about one-quarter of Canada's P&C insurance market. It is a product that has been subject to enormous swings in profitability, and subject to constant reforms over the past 20 years. The Ontario auto product currently appears profitable, with consumers benefitting from rate relief as insurers seek to deliver on the government's electoral commitment to reduce auto insurance rates. The question facing consumers and the insurance industry is whether the latest round of reforms is sustainable and will affect industry solvency.

Auto loss ratios



Source: PACICC based on data from MSA Research

Solvency risk is also a concern for auto insurers operating in Alberta. Cost pressures – particularly on the liability portion of the auto insurance product – have increased substantially since a 2011 court decision which weakened the cap on minor injuries.

Under these conditions, PACICC considers insurers with a substantial book of Alberta auto business to have a higher risk of underwriting losses, which could impact their solvency.

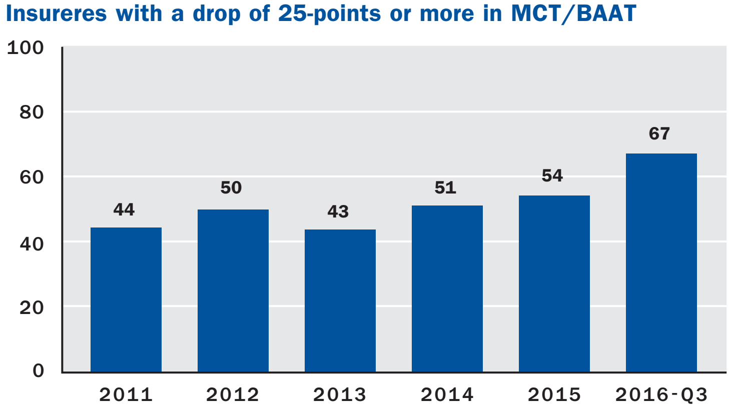
Insurers focused on selling auto insurance across the Atlantic provinces also face underwriting pressures over the next two to three years. When New Brunswick reformed its auto insurance product in 2004 by introducing a cap on pain and suffering awards, drivers in the province experienced a significant reduction in the price they paid for auto insurance. Insurers also reported profitable results. Similar reforms introduced in Nova Scotia and Prince Edward Island resulted in large claims cost decreases and reduced prices. Additional product reform and the passage of time have eroded this stability. In all three markets, there is evidence of increasing claims costs in the Bodily Injury portion of the auto insurance product which will put upward pressure on rates in the near term. There will be higher solvency risk if governments do not allow rates to offset these increased costs. Reform of the system is needed to reduce long-term costs of auto insurance in these provinces.

Auto insurance in Newfoundland and Labrador is another source of concern. The province did not introduce the same reforms as the other provinces in Atlantic Canada. Claims costs are rising faster than premiums. There are no signs that product reform is being considered in the near term. The Newfoundland and Labrador market is currently unprofitable and is eroding the capital base of insurers. Solvency risk may therefore be elevated for insurers selling auto insurance in Newfoundland and Labrador.

Significant differences in the financial performance across PACICC's membership

Some 200 PACICC member insurers actively compete in Canada. While the industry as a whole continues to report sustained profitability and capital growth, there is great disparity in the financial performance and health of individual insurers. PACICC regularly monitors insurers to assess the likelihood that they could fail. One warning sign of potential failure is significant fluctuations in the regulatory Minimum Capital Test or Branch Adequacy of Assets Test results. There are insurers operating in Canada that have reported year-on year swings in regulatory solvency test results of more than 25 basis points. This type of volatility is an

Insureres with a drop of 25-points or more in MCT/BAAT



Insurers fail the test when their MCT score falls by 25 points or more in a single year.

Source: PACICC, based on data from Statistics Canada and MSA Research indicator of increased insolvency risk. PACICC monitors the financial results of individual insurers and liaises with regulators in pursuit of their common objective of protecting insurance consumers.

Insolvencies come in clusters

Fortunately, no Canadian P&C insurer failed in 2016. It has now been more than a decade since an insurer was ordered to be wound up by a Canadian insurance regulator. While this may seem like a long period of calm, it is not uncommon for the insurance industry. Recent history shows that periods of calm can be punctuated by clusters of insurer insolvencies.

	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

Source: PACICC

Long periods of stability create other risks. Because it has been more than a decade since a Canadian P&C insurer failed and was ordered into liquidation, there are a number of insurance regulators and bankruptcy professionals who have never managed the complexities involved in the liquidation of a P&C insurer.

Looking ahead

From a solvency perspective, the ability of Canada's P&C insurance industry to successfully manage a difficult year of operation such as 2016 is positive. However, the poor results experienced in 2016 cannot be repeated if industry solvency is to be maintained. Most PACICC member insurers have a strong and healthy capital base supporting their operations. While significant variations in profitability and capital strength exist among companies, industry-wide measures show that the great majority of Canada's P&C insurers are well capitalized and prepared to face a challenging future.

PACICC's own risks

PACICC's risk profile – comprising the Corporation's priority risks – is summarized in the grid below (and briefly described in the accompanying text box). At year-end 2016, PACICC judged its risk profile to be stable – with no significant changes for any of the individual risks.

Risk Profile Grid (as at December 2016)

Impact rating	Very low	Low	Medium	High
Very high	**Assessment Risk 1-1** Insolvency costs exceed risk limit-risk appetite			
High		**Regulatory Risks** 1-5 New laws 1-6 Benefits enhanced		
Medium		**Operational Risks** 1-7 Resorce demands 1-8 Unexpected insolvency costs	**Operational Risks** 1-9 Lack of liqudator expertise	
Low				**Regulatory Risks** 1-2 Solvency supervision 1-3 Rate regulation 1-4 Outdated winding-up legislation

Likelihood rating

PACICC's priority risks (risk profile)

1-1 A catastrophic earthquake or other factor causes the failure of a very large insurer, or leads to multiple, smaller insolvencies; resulting insolvency costs exceed PACICC's risk limit-risk appetite (2x our annual general assessment capacity)

1-2 Supervisory practices below minimum IAIS standards

1-3 Rate regulation causes insolvency

1-4 Outdated winding-up legislation

1-5 Adverse changes in new legislation

1-6 PACICC could be forced to increase coverage and benefits

1-7 Risk 1-1 places extraordinary demands on human resources

1-8 Lack of member financial data results in unexpected insolvency costs

1-9 Much of Canada's accumulated P&C liquidation expertise has "retired"

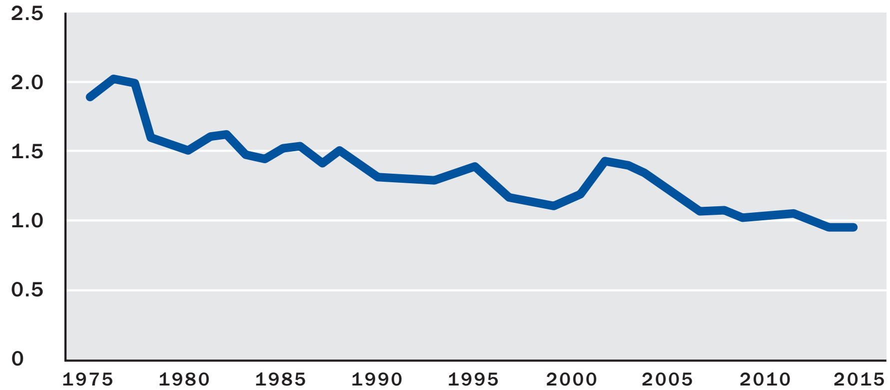
PACICC's Board of Directors has approved a risk limit-risk appetite statement as part of the Corporation's ERM program. We define our risk limit-risk appetite as twice the Corporation's current maximum, annual general assessment capacity (the total $ amount that PACICC could assess the industry in a single year to fund the covered claims of an insolvent member company). As at December 31, 2016, PACICC's risk limit-risk appetite was $1.67 billion (Cdn). Events that could cause PACICC to exceed its risk limit-risk appetite include the insolvency of a large member company or a severe catastrophic loss such as a large urban earthquake. In both cases, there is a high likelihood that the total liabilities coming to PACICC would be greater than the risk limit-risk appetite – resulting potentially in undue delays in policyholder compensation.

More information on PACICC's full risk register can be reviewed as part of the Board-approved Risk Management Report, posted on the Corporation's website at www.pacicc.ca.

Key indicators of P&C solvency risk

PACICC's risk-management process includes monitoring key indicators of P&C solvency risk. Four key indicators are depicted below. All suggest that P&C solvency risk has been trending down in Canada in recent years.

Ratio of capital to net premiums earned

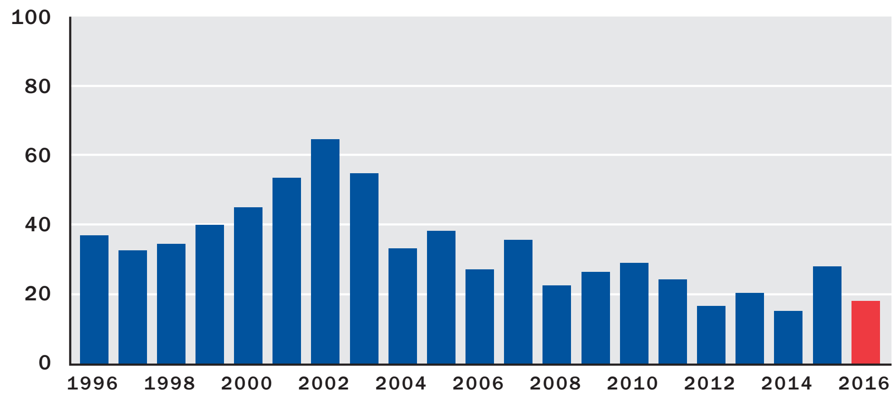


Source: PACICC, based on data from MSA Research

There has been a steady "deleveraging" of P&C premiums in relation to capital over the past 40 years – from a ratio of 2 to 1 in the mid-1970s, to an approximate 1 to 1 ratio now.

Insurers with large swings in premium volume

Number of PACICC members



Source: PACICC, based on data from MSA Research

Large swings in premium volume for individual insurers is a key indicator of solvency risk. (PACICC defines "large" in this context as greater than +/- 33% in a single year). This indicator of solvency risk has been trending down in Canada for more than a decade.

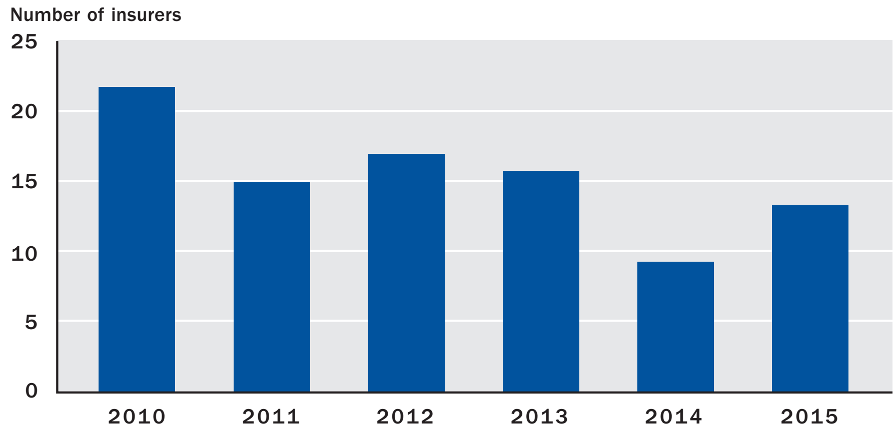
MCT to DPW, 2016

MCT/BAAT ratio

Source: PACICC, based on data from MSA Research

Most PACICC members currently maintain an MCT/BAAT ratio that is well above the regulatory minimum of 150%.

Losses in consecutive years



Source: PACICC, based on data from MSA Research

Since 2010, the number of PACICC member insurers incurring losses in (two) consecutive years has trended down

Risk Officer’s Forum

PACICC’s P&C Risk Officer’s Forum completed its third full year of successful operations in 2016. The Forum has attracted a broad base of membership among Canadian P&C risk professionals and Chief Risk Officers; supported by a robust, well-planned program of in-person meetings and webinars focusing on emerging industry issues and risks. Feedback received from members through follow-up evaluations has been very positive. From PACICC’s viewpoint, the Forum is achieving all of its objectives.

Risk Officer’s Forum Mandate:

- Discuss and share risk management best practices within industry;
- Review and communicate topical risk management information;
- Serve as a risk management resource for PACICC and for insurance regulators;
- Discuss major existing risks and significant emerging risks within the industry; and
- Provide resources, references and information to facilitate research of risk management and related governance topics.

2016 Event Dates and Discussion Topics

Forum Meetings:

• April 14	Market Conduct Regulation
• September 28	Risk Culture
• November 23	CEO Perspective on ERM

Emerging Risks Webinars:

• February 24	Autonomous Vehicles
• May 18	Cyber Security
• November 16	Business Continuity – Implications for P&C Insurers

2017 Event Dates and Discussion Topics

Forum Meetings:

• April 20	OSFI Update on Industry Issues
• September 27	Earthquake Risk
• November/December*	CEO Perspective on ERM (*date to be announced)

Emerging Risks Webinars:

• February 22	On-Demand Insurance
• May 17	The Smart Factory – Innovative New Technologies
• October 25	Generational and Demographic Change

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INDEPENDENT AUDITORS' REPORT

To the members of the Property and Casualty Insurance Compensation Corporation

We have audited the accompanying financial statements of the Property and Casualty Insurance Compensation Corporation, which comprise the statement of financial position as at December 31, 2016, the statements of comprehensive income, changes in equity and cash flows for the year then ended, 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 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 the Property and Casualty Insurance Compensation Corporation as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 2, 2017
Toronto, Canada

Statement of Financial Position

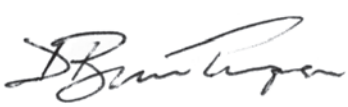
December 31, 2016 and December 31, 2015
(In thousands of dollars)

	December 31, 2016	December 31, 2015
Assets		
Cash (note 7)	$23,040	$20,842
Investments (note 7)	52,530	51,843
Accrued interest	254	281
Assessment receivable	5	–
Other receivables	45	33
Total assets	**$75,874**	**$72,999**
Liabilities and Equity		
Liabilities:		
Trade and other payables	$198	$182
Provisions (note 6)	113	113
Total liabilities	311	295
Equity:		
Operations surplus	1,660	1,692
Liquidation surplus	20,758	18,860
Compensation Fund	53,145	52,152
Total equity	75,563	72,704
Total liabilities and equity	**$75,874**	**$72,999**

See accompanying notes to financial statements.

On behalf of the Board:

Lawrie Savage, *Board Chair*



Bruce Thompson, *Director*

Statement of Comprehensive Income

Years ended December 31, 2016 and December 31, 2015
(In thousands of dollars)

	2016	2015
Revenue from operations:		
Members assessments	$1,433	$1,354
Investment income	15	16
Funding from liquidations and others	175	198
	1,623	1,568
Expenses:		
Salaries and benefits	898	867
Research and other consulting	205	160
Premises	149	141
Investment management	84	82
Board of Directors	78	77
Legal fees	34	6
Corporate secretary and accounting services	45	45
Travel	50	57
Telephone and postage	17	22
Furniture and equipment	27	19
Printing and office supplies	25	24
Insurance	15	15
Bank	1	1
Miscellaneous	27	16
	1,655	1,532
Excess of revenue over expenses (expenses over revenue) – operations	(32)	36
Liquidations: (note 5(b)):		
Liquidation dividends	1,835	526
Investment income	145	152
Other expense	(82)	(108)
Excess of revenue over expenses – liquidations	1,898	570
Compensation Fund:		
Investment income	993	1,068
Excess of revenue over expenses – Compensation Fund	993	1,068
Total comprehensive income	**$2,859**	**$1,674**

All income is attributable to members.

See accompanying notes to financial statements.

Statement of Changes in Equity

Years ended December 31, 2016, December 31, 2015 and December 31, 2014
(In thousands of dollars)

	Operations surplus	Liquidation surplus	Compensation Fund	Total
Balance, December 31, 2014	$1,656	$18,290	$51,084	$71,030
Comprehensive income	36	570	1,068	1,674
Balance, December 31, 2015	1,692	18,860	52,152	72,704
Comprehensive income (loss)	(32)	1,898	993	2,859
Balance, December 31, 2016	**$1,660**	**$20,758**	**$53,145**	**$75,563**

See accompanying notes to financial statements.

Statement of Cash Flows

Years ended December 31, 2016 and December 31, 2015
(In thousands of dollars)

	2016	2014
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses: (expenses over revenue)		
Operations	$(32)	$36
Liquidations	1,898	570
Compensation Fund	993	1,068
Amortization of bond premium and discount	175	86
Change in accrued interest	27	(10)
Change in receivables	(17)	207
Change in trade and other payables	16	(53)
Cash provided by operating activities	3,060	1,904
Investing activities:		
Maturity of investments	7,008	7,957
Purchase of investments	(7,870)	(9,100)
Cash used in investing actvities	(862)	(1,143)
Increase in cash	2,198	761
Cash, beginning of year	20,842	20,081
Cash, end of year	**$23,040**	**$20,842**

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, 2016 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 Accounting Standards Board.

The financial statements for the year ended December 31, 2016 have been approved for issue by the Board of Directors on March 2, 2017.

(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 investments, 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 revenue 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 year 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:

(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 using the effective interest method. 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 asset or liability that are not based on observable market data (unobservable inputs).

(c) Equipment:

Equipment is depreciated over three years on a straight-line basis based on its 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) IFRS 9 – Financial instruments ("IFRS 9:

In July 2014, the International Accounting Standards Board ("IASB") published an amended version of IFRS 9, which replaces IAS 39 Financial Instruments - Recognition and Measurement, and includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and a new general hedge accounting model. Financial asset classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. IFRS 9 also introduces a single impairment model for financial instruments not measured at fair value through profit and loss that requires recognition of expected credit losses at initial recognition of a financial instrument and the recognition of full lifetime expected credit losses if certain criteria are met. The new model for hedge accounting aligns hedge accounting with risk management activities. The financial reporting impact of adopting IFRS 9 is being assessed.

b) IFRS 15, Revenue from Contracts with Customers ("IFRS 15"):

On May 28, 2014 the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 18 Revenue alongside other standards and interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. On April 12, 2016, the IASB issued Clarifications to IFRS 15, Revenue from Contracts with Customers, which is effective at the same time as IFRS 15. The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property. The Corporation intends to adopt IFRS 15 and the clarifications in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

c) IFRS 16, Leases ("IFRS 16"):

On January 13, 2016 the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Corporation intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

4. General and designated funds:

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

(a) Operations 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, all of which was recognized prior to 2014. Claims paid to date by the liquidator total $21,176,272 and liquidation dividends of $15,485,074 have been received to date, of which $102,765 was recognized in 2015. Provisions of nil (2015 - nil) 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 $3,757,412 have been received to date. Claims paid to date by the Corporation total $4,740,480.

(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 $5,311,793. Liquidation dividends received to date total $5,731,578 of which $16,792 was received in 2016.

Year ended December 31, 2016
(Tabular amounts in thousands of dollars)

4. General and designated funds (continued)

(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, all of which was received prior to 2014. The total claims paid to date by the Corporation amount to $23,464,659. 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)). In 2013, the 2008 undistributed funds of $75,148 were transferred to the Compensation Fund (note 8(d)).

(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 $6,173,061 have been received to date, of which $1,818,561 was received in 2016. 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.

(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 Liquidation Fund information:

(a) Statement of financial position as at December 31, 2016:

	Operating Fund	Compensation Fund	Liquidation refund	Canadian Millers'	GISCO	Maplex	Hiland	Beothic	Canadian Universal	Ontario General	Advocate	Markham General	Total
Assets													
Cash	$1,772	$374	$124	$1,080	$2,770	$ –	$2,403	$275	$832	$615	$15	$12,780	$23,040
Investments	–	52,530	–	–	–	–	–	–	–	–	–	–	52,530
Accrued interest	1	241	–	1	1	–	2	–	–	–	–	8	254
Interfund receivable	35	–	–	3	–	–	–	–	–	–	–	–	38
Other receivables	50	–	–	–	–	–	–	–	–	–	–	–	50
Total assets	**$1,858**	**$53,145**	**$124**	**$1,084**	**$2,771**	**$ –**	**$2,405**	**$275**	**$832**	**$615**	**$15**	**$12,788**	**$75,912**
Liabilities and Equity													
Liabilities:													
Trade and other payables	$198	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$198
Interfund payables	–	–	–	–	6	–	5	2	3	3	15	4	38
Provisions	–	–	74	–	21	–	18	–	–	–	–	–	113
Total liabilities	198	–	74	–	27	–	23	2	3	3	15	4	349
Equity:													
Operations surplus	1,660	–	–	–	–	–	–	–	–	–	–	–	1,660
Liquidation surplus	–	–	50	1,084	2,744	–	2,382	273	829	612	–	12,784	20,758
Compensation surplus	–	53,145	–	–	–	–	–	–	–	–	–	–	53,145
Total equity	1,660	53,145	50	1,084	2,744	–	2,382	273	829	612	–	12,784	75,563
Total liabilities and equity	**$1,858**	**$53,145**	**$124**	**$1,084**	**$2,771**	**$ –**	**$2,405**	**$275**	**$832**	**$615**	**$15**	**$12,788**	**$75,912**

(b) Revenue and expenses from liquidations for the year ended December 31, 2016:

	Liquidation refund	Canadian Millers'	GISCO	Maplex	Hiland	Beothic	Canadian Universal	Ontario General	Advocate	Markham General	Total
Revenue:											
Liquidation dividends	$ –	$–	$ 17	$ –	$ 1,818	$ –	$ –	$ –	$ –	$ –	$1,835
Investment	1	9	19	–	12	2	6	5	–	91	145
	1	9	36	–	1,830	2	6	5	–	91	1,980
Expenses:											
Claims paid	–	–	–	–	–	–	–	–	–	–	–
Accrued claims	–	–	–	–	–	–	–	–	–	–	–
Expenses	3	9	11	–	12	2	3	3	–	39	82
	3	9	11	–	12	2	3	3	–	39	82
Net results from liquidations	**$(2)**	**$ –**	**$25**	**$ –**	**$1,818**	**$ –**	**$ 3**	**$ 2**	**$ –**	**$52**	**$1,898**

(c) Changes in liquidation surplus for the year ended December 31, 2016:

	Liquidation refund	Canadian Millers'	GISCO	Maplex	Hiland	Beothic	Canadian Universal	Ontario General	Advocate	Markham General	Total liquidation surplus
Balance, December 31, 2014	$54	$669	$2,707	$ –	$569	$271	820	$610	$ –	$12,590	$18,290
Comprehensive income (loss)	(2)	415	12	–	(5)	2	6	–	–	142	570
Balance, December 31, 2015	52	1,084	2,719	–	564	273	826	610	–	12,732	18,860
Comprehensive income (loss)	(2)	–	25	–	1,818	–	3	2	–	52	1,898
Balance, December 31, 2016	**$50**	**$1,084**	**$2,744**	**$ –**	**$2,382**	**$273**	**$829**	**$612**	**$ –**	**$12,784**	**$20,758**

6. Provisions:

	Unclaimed refunds	Liquidations				Total
		GISCO	Maplex	Hiland	Markham General	
Balance, December 31, 2014	$74	$21	$ –	$18	$ –	$113
Claim reserves	–	–	–	–	–	–
Liquidator expenses	–	–	–	–	–	–
Reversal of provision for unclaimed funds from liquidations	–	–	–	–	–	–
Balance, December 31, 2015	74	21	–	18	–	113
Claim reserves	–	–	–	–	–	–
Liquidator expenses	–	–	–	–	–	–
Reversal of provision for unclaimed funds from liquidations	–	–	–	–	–	–
Balance, December 31, 2016	**$74**	**$21**	**$ –**	**$18**	**$ –**	**$113**

Year ended December 31, 2016
(Tabular amounts in thousands of dollars)

7. Financial instruments:

Carrying values and fair values

	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
Cash	$23,040	$23,040	$20,842	$20,842
Term deposits	5,357	5,346	5,265	5,249
Bonds	47,173	47,711	46,578	47,525
	$75,570	**$76,097**	**$72,685**	**$73,616**

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

(a) Term deposits:
These investments have an aggregate carrying value of approximately $5,357,000 (2015 - $5,265,000). 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.

(b) Bonds:

	Remaining term to maturity			December 31, 2016		December 31, 2015	
	Within 1 year	1 to 5 years	Over 5 years	Total carrying amount	Effective rates	Total carrying amount	Effective rates
Government	$4,815	$23,521	$ 2,345	$30,681	1.65% - 10.25%	$30,314	1.70% - 10.25%
Corporate	4,322	10,132	2,038	16,492	1.71% - 4.81%	16,264	2.28% - 4.81%
	$9,137	**$33,653**	**$ 4,383**	**$47,173**	**1.65% - 10.25%**	**$46,578**	**1.70% - 10.25%**

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.

(d) As of December 31, 2013, the provisions for the undistributed funds from (a) ($268,137), (b) ($75,148), (c) ($41,851) as well as unclaimed funds from these liquidations ($192,862) totalling $577,998 were reversed, and transferred to the Compensation Fund.

(e) During 2014, the Board approved the transfer of the remaining funds the Maplex ($22,000) and Advocate ($6,000) liquidations to the Compensation Fund, as these liquidations have been wound-up and the amounts were deemed immaterial to distribute to membership.

9. Assessment capacity:
PACICC has the ability to make a maximum potential annual general assessment of members of 1.5% (2015 - 1.5%) of covered premiums written, which amounted to approximately $837,300,000 in 2016 (2015 - $790,800,000). As a result of the loan arrangement with the liquidators of Canadian Millers', $3,000,000 of this assessment capacity is reserved for any possible obligations of the Canadian Millers' liquidation.

10. Equipment:
As at December 31, 2016, any equipment acquired by the Corporation had been fully amortized.

11. Commitments and contingencies:

(a) Legal:

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.

(b) Lease:

In 2013, the Corporation renewed its lease for office premises for a period of five years ending December 31, 2017. The annual lease commitment is $62,601.

12. 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	47,711
Level 3	–
	$47,711

13. Financial risk management:

(a) Credit risk:

Credit risk refers to the risk of financial loss from the failure of a counter party 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, 2016		December 31, 2015	
Credit rating	Carrying value	Percentage of portfolio	Carrying value	Percentage of portfolio
AAA	$29,376	62.2%	$31,356	67.3%
AA	6,219	13.2	13,433	28.8
A	7,664	16.2	–	–
BBB	3,914	8.4	1,789	3.9
Total	**$47,173**	**100.0%**	**$46,578**	**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, 2016, 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 $1,044,870 (2015 - $1,169,115).

(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 policyholders, 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 $837,500,000 in 2016 (2015 - $790,800,000).

As a result of the loan arrangement with the liquidators of Canadian Millers', $3,000,000 of this assessment capacity is reserved for any possible obligations of the Canadian Millers' liquidation.

14. 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:

	2016	2015
Directors' fees	$78	$75
Salaries	531	537
Other benefits	74	76
	$683	**$688**

PACICC board of directors

2016/17 Board

Lawrie Savage
Chair
President
Lawrie Savage & Associates Inc.

Jean-François Blais
President
Intact Insurance Company

Louis Durocher
Chief Risk Officer
Aviva Canada Inc.

Pierre Fromentin*
Senior Vice-President
Desjardins General Insurance Company

Glenn Gibson
President and CEO
The GTG Group

Paul Kovacs
President and CEO
PACICC

Ellen Moore
President and CEO
Chubb Insurance Company of Canada

Lynn Oldfield
President and CEO
AIG Insurance Company of Canada

Bruce Thompson
Former Director / Program Director
OSFI / Toronto Centre

Martin Thompson
President and CEO
RSA Canada

Pete Walker
Chief Underwriting Officer – Canada
Zurich Insurance Company Limited

* Retired from Board on December 31, 2016

Board Committees

Audit and Risk

Bruce Thompson (Chair)
Jean-François Blais
Louis Durocher
Glenn Gibson
Lawrie Savage
Martin Thompson

Governance and Human Resources

Lawrie Savage (Chair)
Pierre Fromentin
Ellen Moore
Lynn Oldfield
Pete Walker

Pre-Insolvency Regulatory Liaison

Lawrie Savage (Chair)
Glenn Gibson
Paul Kovacs
Bruce Thompson

PACICC staff and contact information

Paul Kovacs
President and Chief Executive Officer

Full-time staff

Ian Campbell
Vice President

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

Ron Bilyk
Governance, Risk Advisor

John Connor
Manager, Claims

Randy Bundus
Corporate Counsel

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Fax (416) 364-5889
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Provincial regulators

British Columbia

Frank Chong
Acting Superintendent, Financial Institutions
Financial Institutions Commission of British Columbia
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Vancouver, British Columbia V6B 4N6
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Fax: (604) 660-3365
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Alberta

Nilam Jetha
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Alberta Treasury Board and Finance
402 Terrace Building,
9515 – 107 Street
Edmonton, Alberta T5K 2C3
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Fax: (780) 427-1636
www.finance.gov.ab.ca

Saskatchewan

Ian McIntosh
Deputy Superintendent of Insurance
Financial and Consumer Affairs Authority of Saskatchewan
1919 Saskatchewan Drive, Suite 601
Regina, Saskatchewan S4P 4H2
Tel: (306) 787-6700
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PACICC member companies	Sociétés membres de la SIMA
ACE INA Insurance	Assurance ACE INA
Affiliated FM Insurance Company	Corporation d'Assurances Affiliated FM
AIG Insurance Company of Canada	Compagnie d'Assurance AIG du Canada
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.
Allied World Specialty Insurance Company	Compagnie d'assurance de spécialité Allied World
Allstate Insurance Company of Canada	Allstate du Canada, Compagnie d'Assurance
Alpha, compagnie d'assurances Inc.	ALPHA, compagnie d'assurances inc. (L')
American Agricultural Insurance Company	American Agricultural Insurance Company
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 de l'Inter-Ouest (L')	Assurance Mutuelle de l'Inter-Quest (L')
Assurance Mutuelle des Fabriques de Montréal	Assurance Mutuelle des Fabriques de Montréal (L')
Assurance Mutuelle des Fabriques de Québec	Assurance Mutuelle des Fabriques de Québec (L')
AssurePro Insurance Company Limited	AssurePro Insurance Company Limited
Atlantic Insurance Company Ltd.	Atlantic Insurance Company Ltd.
Aviva General Insurance Company	Aviva Compagnie d'Assurance Générale
Aviva Insurance Company of Canada	Aviva, Compagnie d'Assurance du Canada
AXA Art Insurance Corporation	AXA Art Insurance Corporation
AXA Insurance Company	AXA Assurances
AXIS Reinsurance Company (Canadian Branch)	AXIS Compagnie de Réassurance (succursale canadienne)
Ayr Farmers' Mutual Insurance Company	Ayr Farmers' Mutual Insurance Company
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 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, General Insurance Company Inc.	Canassurance, compagnie d’assurances générales inc.
Capitale General Insurance (La)	Capitale Assurances Générales Inc. (La)
Carleton Mutual Insurance Company	Carleton Mutual Insurance Company
Certas Direct Insurance Company	Certas direct, compagnie d’assurances
Certas Home and Auto Insurance Company	Certas, compagnie d’assurances habitation et auto
Cherokee Insurance Company	Cherokee Insurance Company
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
Commonwell Mutual Insurance Group (The)	Commonwell Mutual Insurance Group (The)
Compagnie Française d’Assurance pour le Commerce Extérieur	Compagnie Française d’Assurance pour le Commerce Extérieur
Continental Casualty Company	Compagnie d’assurance Continental Casualty (La)
Co-operators General Insurance Company	Compagnie d’Assurance Générale Co-operators (La)
CorePointe Insurance Company	Compagnie d'Assurance CorePointe (La)
Coseco Insurance Company	Compagnie d’Assurance Coseco
CUMIS General Insurance Company	Compagnie d’Assurance Générale CUMIS (La)
DAS Legal Protection Insurance Limited	DAS Compagnie d'assurance de protection juridique limitée
Desjardins General Insurance Inc.	Desjardins Assurances Générales Inc.
Dominion of Canada General Insurance Company (The)	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
Equitable General Insurance Company	L’Équitable, Compagnie d’Assurances Générales
Esurance Insurance Company of Canada	Esurance du Canada, Compagnie d’Assurance
Everest Insurance Company of Canada	Compagnie d’Assurance Everest du Canada (La)
Factory Mutual Insurance Company	Factory Mutual Insurance Company
FCT Insurance Company Ltd.	Compagnie D’Assurances FCT Ltée
Federal Insurance Company	Compagnie d’assurances Fédérale
Federated Insurance Company of Canada	Federated, compagnie d’assurances 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
Fundy Mutual Insurance Company	Fundy Mutual Insurance Company
General Reinsurance Corporation	General Reinsurance Corporation
Germania Mutual Insurance Company	Germania Mutual Insurance Company
GMS Insurance Inc.	GMS Insurance Inc.
Gore Mutual Insurance Company	Gore Mutual Insurance Company
Great American Insurance Company	Compagnie d'Assurance Great American
Groupe Estrie-Richelieu, Compagnie d'assurance (Le)	Groupe Estrie-Richelieu, Compagnie d'assurance (Le)
Groupe Ledor	Groupe Ledor
Guarantee Company of North America (The)	Garantie, Compagnie d'Assurance de l'Amérique du Nord (La)
Hartford Fire Insurance Company Ltd.	Compagnie d'Assurance Incendie Hartford (La)
HDI Global SE Canada Branch	HDI Global SE (succursale canadienne)
Heartland Farm Mutual Inc.	Heartland Farm Mutual Inc.
Industrial-Alliance Insurance Auto and Home Inc.	Industrielle-Alliance, Assurance auto et habitation inc.
Industrial-Alliance Pacific General Insurance Corporation	Industrielle-Alliance Pacifique, Compagnie d'Assurances Générales
InnovAssur, General Insurance 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 Farm Insurance Inc.	Intact Assurance agricole inc.
Intact Insurance Company	Intact Compagnie d'assurance
International Insurance Company of Hannover Limited	International Insurance Company of Hannover Limited
Ironshore Insurance Ltd.	Les Assurances Ironshore
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 Mutual Insurance Company	Compagnie d'Assurance Liberté Mutuelle (La)
Lloyd's Canada	Lloyd's Canada
MAX Canada General Insurance Company	MAX Canada General Insurance Company
Mennonite Mutual Fire Insurance Company of Saskatchewan	Mennonite Mutual Fire Insurance Company of Saskatchewan

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 (The)	Compagnie d’Assurance Missisquoi (La)
Mitsui Sumitomo Insurance Company Ltd.	Compagnie d’Assurance Mitsui Sumitomo Limitée
Motors Insurance Corporation	Compagnie d’Assurance Motors (La)
Municipal Electric Association Reciprocal Insurance Exchange	Municipal Electric Association Reciprocal Insurance Exchange
Munich Reinsurance America Inc.	Réassurance Munich Amérique, Inc.
Mutual Fire Insurance Company of British Columbia (The)	Mutual Fire Insurance Company of British Columbia (The)
Mutuelle d’Eglise de l’Inter-Ouest (La)	Mutuelle d’Église de l’Inter-Ouest (La)
National Bank Life Insurance Company	Assurance-vie Banque Nationale, Compagnie d’assurance-vie
National Liability & Fire Insurance Company	National Liability & Fire Insurance Company
New Home Warranty Insurance (Canada) Corporation (The)	New Home Warranty Insurance (Canada) Corporation (The)
Nordic Insurance Company of Canada (The)	Nordique, Compagnie d’assurance du Canada (La)
Northbridge Commercial Insurance Corporation	Société d’assurance des entreprises Northbridge
Northbridge General Insurance Corporation	Société d’assurance générale Northbridge
Northbridge Personal Insurance Corporation	Société d’assurance des particuliers Northbridge
Novex Insurance Company	Novex Compagnie d’assurance
Old Republic Insurance Company of Canada	Ancienne République, Compagnie d’Assurance du Canada (L’)
Omega General Insurance Company	Omega Compagnie d’Assurance générale
Optimum Farm Insurance Inc.	Optimum Assurance Agricole Inc.
Optimum Insurance Company Inc.	Optimum Société d’Assurance Inc.
Optimum West Insurance Company	Optimum West Insurance Company
Orion Travel Insurance Company	Compagnie d'Assurance Voyage Orion
PAFCO Insurance Company	PAFCO compagnie d’assurance
Peace Hills General Insurance Company	Peace Hills General Insurance Company
Pembridge Insurance Company	Pembridge, compagnie d’assurance
Personal General Insurance Inc.	Personnelle, assurances générales Inc. (La)
Personal Insurance Company (The)	Personnelle, Compagnie d’Assurances (La)
Perth Insurance Company	Perth, Compagnie d’Assurance
Pilot Insurance Company	Pilot 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
Promutuel de L'estuaire	Promutuel de L'estuaire
Promutuel Réassurance	Promutuel Réassurance
Protective Insurance Company	Protectrice, société d'assurance (La)
Prysm General Insurance Inc.	Prysm assurances générales inc.
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
Red River Valley Mutual Insurance Company	Red River Valley Mutual Insurance Company
Royal & SunAlliance Insurance Company of Canada	Royal & SunAlliance du Canada, société d'assurances
S & Y Insurance Company	S & Y Compagnie d'Assurance
Safety National Casualty Corporation	Safety National Casualty Corporation
St. Paul Fire & Marine Insurance Company	Compagnie d'Assurance Saint Paul
Saskatchewan Mutual Insurance Company	Saskatchewan Mutual Insurance Company
SCOR Canada Reinsurance Company	SCOR Canada Compagnie de Réassurance
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	Société mutuelle d'assurance Sentry (La)
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 Nipponkoa Insurance Inc.	Assurances Sompo Nipponkoa du Japon Inc.
Sonnet Insurance Company	Compagnie d'assurance Sonnet
South Eastern Mutual Insurance Company	South Eastern Mutual Insurance Company
Sovereign General Insurance Company (The)	Souveraine, Compagnie d'Assurance Générale (La)
SSQ, General Insurance Company Inc.	SSQ, Société d'Assurances Générales Inc.
SSQ, Insurance Company Inc.	SSQ, Société d'assurance inc.
SSQ, Life Insurance Company Inc.	SSQ, Société d'assurance-vie inc.
Stanley Mutual Insurance Company	Stanley Mutual Insurance Company
Starr Insurance & Reinsurance Ltd.	Starr Insurance & Reinsurance Ltd.
State Farm Fire and Casualty Company	State Farm Fire and Casualty Company
State Farm Mutual Automobile Insurance Company	State Farm Mutual Automobile Insurance Company
Sunderland Marine Mutual Insurance Company	Société d'assurance mutuelle maritime Sunderland Limitée

TD Direct Insurance Inc.	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
Technology Insurance Company Inc.	Société d'assurance Technologie
Temple Insurance Company (The)	Compagnie d’assurance Temple (La)
T.H.E. Insurance Company	T.H.E. Insurance Company
Tokio Marine & Nichido Fire Insurance Company Ltd.	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 Insurance Company of Canada	Compagnie d'Assurance Travelers du Canada (La)
Trillium Mutual Insurance Company	Trillium Mutual Insurance Company
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
Unique General Insurance Inc. (L’)	Unique Assurances Générales Inc. (L’)
United General Insurance Corporation	United General Insurance Corporation
Virginia Surety Company Inc.	Virginia Surety Company Inc.
Waterloo Insurance Company	Waterloo, Compagnie d’Assurance
Wawanesa Mutual Insurance Company (The)	Compagnie Mutuelle d’Assurance Wawanesa (La)
Western Assurance Company	Western Assurance Company
Western Financial Insurance Company	Western Financial, Compagnie d’assurances
Westport Insurance Corporation	Société d’assurance Westport
Wynward Insurance Group	Wynward Insurance Group
XL Insurance Company SE	Compagnie d’assurance XL
XL Reinsurance America Inc.	Réassurance XL Amérique
XL Specialty Insurance Company	Compagnie d’assurance XL Spécialité
Zenith Insurance Company	Compagnie d’Assurance Zénith
Zurich Insurance Company	Zurich Compagnie d’Assurances SA

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