The Wawanesa Mutual Insurance Company

Consolidated Financial Statements
December 31, 2015

February 25, 2016

Independent Auditor's Report

To the Policyholders of
The Wawanesa Mutual Insurance Company

We have audited the accompanying consolidated financial statements of The Wawanesa Mutual Insurance Company and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2015 and the consolidated statements of operations, comprehensive income, changes in equity, and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Wawanesa Mutual Insurance Company and its subsidiaries as at December 31, 2015 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

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February 25, 2016

Appointed Actuary's Report

To the Policyholders of
The Wawanesa Mutual Insurance Company

I have valued the policy liabilities of the Company for its consolidated balance sheets as at December 31, 2015 and their change in the consolidated statements of operations for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policy obligations and the consolidated financial statements fairly present the results of the valuation.

Brett MacKinnon

Brett A. MacKinnon, FCAS, FCIA, MAAA
Winnipeg, Manitoba

The Wawanesa Mutual Insurance Company

Consolidated Balance Sheets

As at December 31

	Notes		2015		2014
			('000s)		
Assets					
Cash and cash equivalents	7	$	89,293	$	118,294
Accrued investment income			31,549		31,265
Receivables	8		696,631		641,847
Income taxes receivable			24,088		701
Reinsurance assets	9		31,071		90,123
Investments	10		7,207,239		7,021,289
Deferred acquisition expenses	11		231,884		220,046
Deferred income taxes	12		59,830		100,309
Property and equipment	13		71,429		64,386
Intangible assets	14		85,466		79,477
Other assets	15		7,059		7,386
Segregated funds net assets	16		259,839		247,328
Total assets		$	8,795,378	$	8,622,451

Approved by the Board of Directors

"S. Jeffrey Goy"
S. Jeffrey Goy
President and Chief Executive Officer

"Catherine M. Best"
Catherine M. Best
Chair, Audit Committee

The accompanying notes constitute an integral part of the consolidated financial statements.

The Wawanesa Mutual Insurance Company

Consolidated Balance Sheets

As at December 31

	Notes	2015	2014
		('000s)	
Liabilities			
Outstanding cheques		$ 126,811	$ 121,609
Trade and other payables	17	214,758	191,522
Income taxes payable		37	68,577
Reinsurance liabilities		21,706	22,284
Insurance contract liabilities	18	4,793,685	4,774,853
Deferred income taxes	12	36,321	39,388
Employee future benefits	19	108,096	151,113
Segregated funds contract liabilities		259,839	247,328
Total liabilities		5,561,253	5,616,674
Equity			
Retained earnings		2,891,196	2,603,813
Accumulated other comprehensive income		313,665	372,557
Policyholders' equity		3,204,861	2,976,370
Participating policyholders' account		29,264	29,407
Total equity		3,234,125	3,005,777
Total liabilities and equity		$ 8,795,378	$ 8,622,451

The accompanying notes constitute an integral part of the consolidated financial statements.

The Wawanesa Mutual Insurance Company

Consolidated Statements of Operations

For the year ended December 31

	Notes	2015	2015	2014	2014
		('000s)			
Revenue					
Gross premiums written			$ 2,865,959		$ 2,696,252
Premiums ceded to reinsurers			(116,780)		(142,104)
Net premiums written			2,749,179		2,554,148
Change in unearned premiums			(58,286)		(29,081)
Net premiums earned			2,690,893		2,525,067
Net investment income	10		485,382		401,872
Instalment service charges earned			42,485		40,491
			3,218,760		2,967,430
Expenses					
Claims and insurance benefits incurred - gross		$ 2,043,651		$ 2,133,014	
Claims and insurance benefits incurred - reinsurers' portion		(9,237)		(65,491)	
Net claims and insurance benefits incurred		2,034,414		2,067,523	
Other expenses incurred	20	755,840	2,790,254	679,065	2,746,588
Profit before income taxes			428,506		220,842
Provision for income taxes	12		141,163		56,702
Profit for the year			$ 287,343		$ 164,140
Profit for the year attributed to:					
Policyholders of the Company			$ 286,979		$ 160,320
Participating policyholders' interest			364		3,820
			$ 287,343		$ 164,140

The accompanying notes constitute an integral part of the consolidated financial statements.

The Wawanesa Mutual Insurance Company

Consolidated Statements of Comprehensive Income

For the year ended December 31

	2015	2014
	('000s)	
Profit for the year	$ 287,343	$ 164,140
Other comprehensive income (loss)		
Item that will not be reclassified subsequently to profit		
Remeasurement of employee defined benefit plans, net of income taxes of $19,238 (2014 - $(28,058))	50,028	(72,222)
Items that may be reclassified subsequently to profit		
Net unrealized gain on available-for-sale financial assets, net of income taxes of $5,502 (2014 - $69,411)	18,517	183,826
Net reclassifications to profit for available-for-sale financial assets, net of income taxes of $(70,373) (2014 - $(31,382))	(183,532)	(81,603)
Unrealized gain on translation of financial statement operations with U.S. dollar functional currency to Canadian dollar reporting currency	55,992	26,004
Total items that may be reclassified subsequently to profit	(109,023)	128,227
Total other comprehensive income (loss)	(58,995)	56,005
Total comprehensive income for the year	$ 228,348	$ 220,145
Total comprehensive income for the year attributed to:		
Policyholders of the Company	$ 228,087	$ 215,718
Participating policyholders' interest	261	4,427
	$ 228,348	$ 220,145

The accompanying notes constitute an integral part of the consolidated financial statements.

The Wawanesa Mutual Insurance Company

Consolidated Statements of Changes in Equity

For the year ended December 31

	Retained earnings	Remeasurement of employee defined benefit plans	Net unrealized gain on available-for-sale financial assets	Currency translation	Total accumulated other comprehensive income	Policyholders' equity	Participating policyholders' account	Total equity
				('000s)				
Balance at January 1, 2015	$ 2,603,813	$ (97,282)	$ 437,169	$ 32,670	$ 372,557	$ 2,976,370	$ 29,407	$ 3,005,777
Profit for the year	286,979	-	-	-	-	286,979	364	287,343
Other comprehensive income (loss)	-	50,028	(164,912)	55,992	(58,892)	(58,892)	(103)	(58,995)
Transfer (note 21)	404	-	-	-	-	404	(404)	-
Balance at December 31, 2015	$ 2,891,196	$ (47,254)	$ 272,257	$ 88,662	$ 313,665	$ 3,204,861	$ 29,264	$ 3,234,125
Balance at January 1, 2014	$ 2,443,100	$ (25,060)	$ 335,553	$ 6,666	$ 317,159	$ 2,760,259	$ 25,373	$ 2,785,632
Profit for the year	160,320	-	-	-	-	160,320	3,820	164,140
Other comprehensive income (loss)	-	(72,222)	101,616	26,004	55,398	55,398	607	56,005
Transfer (note 21)	393	-	-	-	-	393	(393)	-
Balance at December 31, 2014	$ 2,603,813	$ (97,282)	$ 437,169	$ 32,670	$ 372,557	$ 2,976,370	$ 29,407	$ 3,005,777

The accompanying notes constitute an integral part of the consolidated financial statements.

The Wawanesa Mutual Insurance Company

Consolidated Statements of Cash Flows

For the year ended December 31

Cash provided by (used in)	Note	2015	2014
		('000s)	
Operating activities			
Receipts			
Premiums received		$ 2,829,418	$ 2,688,303
Reinsurance claims recovered		68,201	149,570
Interest received		179,837	168,717
Dividends received		23,393	20,687
Other investment income received		34,411	35,709
		3,135,260	3,062,986
Payments			
Claims and insurance benefits paid		2,159,619	2,034,063
Reinsurance premiums ceded		115,367	142,075
Other expenses paid		712,425	645,940
Income taxes paid (received)		143,714	(57,824)
		3,131,125	2,764,254
Net cash provided by operating activities		4,135	298,732
Investing activities			
Fixed income securities purchased		(5,339,886)	(6,852,309)
Fixed income securities sold, redeemed or matured		5,198,971	6,451,455
Stocks purchased		(985,523)	(169,263)
Stocks sold or redeemed		1,114,871	293,313
Broker loans and policy loans advanced		(13,210)	(13,131)
Broker loans, policy loans and other loans repaid		7,835	12,305
Intangible assets acquired		(10,592)	(23,884)
Equipment purchased		(6,185)	(6,679)
Real estate improvements		(4,891)	(1,967)
Net cash used in investing activities		(38,610)	(310,160)
Effect of exchange rate changes on Cash and cash equivalents		272	1,063
Decrease in Cash and cash equivalents		(34,203)	(10,365)
Cash and cash equivalents - Beginning of year		(3,315)	7,050
Cash and cash equivalents - End of year		$ (37,518)	$ (3,315)
Cash and cash equivalents are comprised of:			
Cash and cash equivalents	7	$ 89,293	$ 118,294
Outstanding cheques		(126,811)	(121,609)

The accompanying notes constitute an integral part of the consolidated financial statements.

1 Corporate Information

The Wawanesa Mutual Insurance Company (Mutual Company) is a mutual company incorporated by a statute of Canada and domiciled in Canada.

Mutual Company has two operating insurance subsidiaries, Wawanesa General Insurance Company (General Company) and The Wawanesa Life Insurance Company (Life Company), along with a U.S. real estate holding company, Wawanesa Holdings U.S. Inc. (Holdings). These entities comprise the consolidated entity of The Wawanesa Mutual Insurance Company (the Company). The Company is organized into two business units based on their products and services, as follows:

- Mutual Company and General Company (P&C Company) sell property and casualty insurance in Canada and the United States, respectively. Products offered include automobile, personal and commercial property and farm insurance.

- Life Company offers a wide range of individual life insurance and annuity products, as well as group life and health insurance in Canada.

The registered office of the Company is 107 - 4th Street, Wawanesa, Manitoba, Canada.

The Company is regulated by the Office of the Superintendent of Financial Institutions, Canada (OSFI). General Company is regulated by the California Department of Insurance. These consolidated financial statements were approved by the Company's Board of Directors on February 25, 2016.

2 Reporting Responsibilities

The consolidated financial statements and accompanying notes are the responsibility of management.

The external auditors of the Company are required to conduct an examination in accordance with Canadian generally accepted auditing standards to enable their reporting to the policyholders as to whether the consolidated financial statements present fairly, in all material respects, the financial position and financial performance of the Company in accordance with International Financial Reporting Standards (IFRS).

The Appointed Actuary (the Actuary) is appointed by the Board of Directors pursuant to the Insurance Companies Act. The Actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. The Actuary is also required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policy obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion.

Policy liabilities, also referred to as Insurance contract liabilities, includes unearned premiums, unpaid claims and adjustment expenses.

3 Significant Accounting Policies

Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board (IASB). In addition, the consolidated financial statements have been prepared in accordance with the Insurance Companies Act which states that, except as otherwise specified by OSFI, the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles as set out in Part 1 of the CPA Canada Handbook, IFRS. None of the accounting requirements of OSFI are exceptions to IFRS. The significant accounting policies used in the preparation of these consolidated financial statements are summarized in this note.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale (AFS) financial assets, and financial assets and financial liabilities at fair value through profit or loss (FVTPL) with the exception of insurance contract liabilities and reinsurance recoverables which are measured on a discounted basis in accordance with accepted actuarial practice (which in the absence of an active market provides a reasonable proxy of fair value) as explained throughout this note.

The consolidated financial statements' values, including the notes to the consolidated financial statements, are presented in Canadian dollars ($) which is the presentation currency of the Company rounded to the nearest thousand ('000s), unless otherwise indicated. The functional currency of Mutual Company and Life Company is the Canadian dollar. The functional currency of General Company and Holdings is the U.S. dollar.

The Company presents its consolidated balance sheets on a non-classified basis in order of liquidity, with a distinction based on expectations regarding recovery or settlement within twelve months after the balance sheet date (current) and more than twelve months after the balance sheet date (non-current), presented in the notes.

The following balances are generally classified as current: Cash and cash equivalents, Accrued investment income, Receivables, Income taxes receivable and payable, Reinsurance assets, Investments, Deferred acquisition expenses, Other assets, Outstanding cheques, Trade and other payables and unearned premiums within Insurance contract liabilities.

The following balances are generally classified as non-current: Deferred income taxes, Property and equipment, Intangible assets, Reinsurance liabilities, Insurance contract liabilities excluding unearned premiums and Employee future benefits.

Financial assets and financial liabilities are offset and the net amount reported on the consolidated balance sheets only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and liabilities simultaneously. Income and expenses are not offset in the consolidated statements of operations unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

3 Significant Accounting Policies (continued)

Basis of consolidation

The Company's consolidated financial statements include the assets, liabilities, equity, revenues, expenses, other comprehensive income (OCI) and cash flows of the Mutual Company and its wholly-owned subsidiaries, General Company, Life Company, and Holdings as at December 31 each year. The financial accounting records of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

Segregated funds are legally separated from the general fund assets of the Company and cannot be used to settle obligations. As a result, Segregated funds net assets are presented as a single line item on the Company's consolidated balance sheets.

All inter-company balances, transactions, and profits and losses are eliminated in full.

Product classification

Property and casualty insurance contracts are those contracts where the P&C Company has accepted significant insurance risk from another party (the policyholders) by agreeing to indemnify the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline the P&C Company determines if it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. All of the P&C Company's property and casualty insurance contracts are classified as insurance contracts as defined by IFRS.

Contracts issued by Life Company are classified at contract inception as insurance, investment or service contracts, depending on the existence of significant insurance risk. Life Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that is more than the benefits payable if the insured event did not occur. When significant insurance risk exists, the contract is accounted for in accordance with IFRS 4 – "Insurance Contracts" (IFRS 4). Contracts under which Life Company does not accept significant insurance risk are classified as either investment contracts or service contracts. No contracts have been classified as investment contracts. Contracts issued by Life Company that do not transfer significant insurance risk and do not transfer financial risk from the policyholder to Life Company are classified as service contracts. Service contracts are accounted for in accordance with IAS 18 – "Revenue" (IAS 18). Investment contracts may be reclassified as insurance contracts after inception if insurance risk becomes significant. A contract that is classified as an insurance contract at contract inception remains as such until all rights and obligations under the contract are extinguished or expire.

3 Significant Accounting Policies (continued)

Insurance contract liabilities

Insurance contract liabilities includes unearned premiums, property and casualty unpaid claims, and Life Company insurance contract liabilities. Insurance contract liabilities are determined using accepted actuarial practices in accordance with the standards of the Canadian Institute of Actuaries (CIA). Annually, each insurance entity obtains an actuarial opinion on the appropriateness of the insurance contract liability amounts recorded in its financial statements. These opinions also incorporate related amounts for reinsurance recoverable, reinsurance liabilities and Deferred acquisition expenses. The bases used for estimating the Company's insurance contract liabilities are described below.

Unearned premiums

Unearned premiums are calculated on a pro rata basis, from the unexpired portion of the premiums written and are recognized over the term of the insurance contract in Net premiums earned on the consolidated statements of operations.

At the end of each reporting period, a liability adequacy test is performed, in accordance with IFRS, to validate the adequacy of unearned premiums and Deferred acquisition expenses. A premium deficiency would exist if unearned premiums are deemed insufficient to cover the estimated future costs associated with the unexpired portion of written insurance policies. A premium deficiency would be recognized immediately as a reduction of Deferred acquisition expenses to the extent that unearned premiums plus anticipated investment income is not considered adequate to cover all Deferred acquisition expenses and related insurance claims and expenses. If the premium deficiency is greater than the unamortized Deferred acquisition expenses, a liability is accrued for the excess deficiency.

Property and casualty unpaid claims

Unpaid claims are initially established by the case method as claims are reported. The estimates are regularly reviewed and updated as additional information on the estimated unpaid claims becomes known and any resulting adjustments are included in the consolidated statements of operations as incurred. A provision is also made for management's calculation of factors affecting future development of unpaid claims including claims incurred but not reported (IBNR) based on the volume of business currently in force and the historical experience on claims. Estimates of salvage and subrogation recoveries are included in the estimated unpaid claims. The unpaid claims are discounted for the time value of money utilizing a discount rate based on the expected return of fixed income securities held in the portfolio that approximates the cash flow requirements of the unpaid claims. To recognize the uncertainty inherent in determining the unpaid claims amounts, the P&C Company includes a Provision for Adverse Deviations (PFADs) relating to claim development and future investment income.

3 Significant Accounting Policies (continued)

Life Company insurance contract liabilities

Insurance contracts are those contracts that Life Company accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder for specified uncertain future insured events that adversely affect the policyholder.

Insurance contracts are issued by Life Company with or without discretionary participation features (DPF). DPF is a contractual right to receive potentially significant additional benefits based on the experience of blocks of similar products. This experience includes investment, policy termination rates, mortality and expenses. IFRS allows the non-guaranteed, or participating, elements of such contracts to be classified as either a liability or as equity, depending on the nature of our obligation to the policyholder. The contracts issued by Life Company contain constructive obligations to the policyholder with respect to the DPF of the contracts. Therefore Life Company has elected to classify these features as a liability and they have been included within Insurance contract liabilities.

Life Company's Insurance contract liabilities represent the estimated amounts that, together with future premiums and investment income, will be sufficient to pay future benefits, policyholder dividends, commissions, expenses and taxes (other than income taxes) on policies in force. The Life Company Appointed Actuary is responsible for determining the amount of Insurance contract liabilities using accepted actuarial practices according to the standards established by the CIA and any requirements of OSFI. Insurance contract liabilities, net of reinsurance assets, are determined using the Canadian Asset Liability Method (CALM), as permitted by IFRS 4.

Insurance contract liabilities are presented gross of Reinsurance assets on the consolidated balance sheets. Any adjustment is recorded as a change in Insurance contract liabilities in profit (loss).

Reinsurance assets

P&C Company uses various types of reinsurance for the property and casualty operations, primarily to limit the maximum exposure to catastrophic events. Estimates of amounts recoverable from reinsurers in respect of Insurance contract liabilities and their share of unearned premiums are recorded as Reinsurance assets on a gross basis on the consolidated balance sheets. Reinsurance assets are valued on a discounted basis, in accordance with accepted actuarial practice.

In the normal course of business, Life Company uses reinsurance to limit exposure to large losses. Reinsurance assets represent the benefit derived from reinsurance arrangements in force at the balance sheet date. The Reinsurance assets are measured consistently with the amounts associated with the insurance contracts and in accordance with the terms of each reinsurance contract.

Insurance ceded does not relieve the Company of its primary obligation to policyholders.

3 Significant Accounting Policies (continued)

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when there is an indication of impairment arising during the reporting period. Impairment occurs when there is objective evidence that the Company may not receive all the outstanding amounts due under the terms and conditions of the contract as a result of an event that occurred after initial recognition of the reinsurance asset. The Company must be able to reliably measure the impact from the event on the amounts that it will receive from the reinsurer. If impaired, the carrying value is reduced accordingly on the consolidated balance sheets and an impairment loss is recorded in the consolidated statements of operations.

Deferred acquisition expenses

Certain costs of acquiring and renewing insurance contracts, such as commissions and premium taxes, are deferred to the extent they are considered recoverable and are expensed in the accounting period in which the related premiums are recognized in profit (loss).

Segregated funds

Segregated funds are investment options available to annuity contractholders in which the benefit amount is directly linked to the fair value of the units held in the particular segregated fund. Although the underlying assets are registered in the name of Life Company, the annuity contractholder has no direct access to the specific assets. The contractual arrangements are such that the annuity contractholder bears the risks and rewards of the funds' investment performance, subject to any applicable minimum maturity value and death benefit guarantees.

The Company receives management fees from its segregated funds for services provided to annuity contractholders, which is included in Instalment service charges earned on the consolidated statements of operations. Annuity contractholder transfers between general funds and segregated funds are included in Claims and insurance benefits incurred – gross on the consolidated statements of operations. In addition, certain annuity contracts have minimum maturity value and death benefit guarantees from Life Company. Payments for such guarantees are included in amounts paid or credited to annuity contractholders and their beneficiaries in the consolidated statements of operations. Additional liabilities, if any, associated with these minimum guarantees are recorded in Insurance contract liabilities.

Structured settlements

In the normal course of claims adjudication, Mutual Company settles certain long-term claims losses through the purchase of annuities under structured settlement arrangements with life insurance companies. As Mutual Company does not retain any interest in the related insurance contract and obtains a legal release from the claimant, any gain or loss on the purchase of the annuity is recognized in the consolidated statements of operations at the date of purchase and the related claims liabilities are derecognized. However, Mutual Company remains exposed to the credit risk that the life insurance companies may fail to fulfill their obligations.

3 Significant Accounting Policies (continued)

Revenue recognition

Revenue is comprised of Net premiums earned, Net investment income and Instalment service charges earned.

Premiums written are deferred as unearned premiums and recognized in the consolidated statements of operations over the terms of the underlying policies on a pro rata basis. Premiums written are gross of any premium taxes and commissions.

Premiums ceded on insurance contracts are recognized as a reduction of gross premiums when payable or on the date the policy is effective.

For Life Company, gross premiums for all types of insurance contracts and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due. Expenses are recognized when incurred. Insurance contract liabilities are computed at the end of each period, resulting in benefits and expenses matching with the premium income. Insurance contract policyholders are charged a fee for policy administration services. Fees are also earned from the management of segregated fund assets and service contracts, specifically administrative services only (ASO) group health contracts. These fees are recognized as revenue over the period in which the related services are performed. If the fees are for services provided in future periods then they are deferred and recognized over those future periods.

Investment income is recorded as it accrues. Dividend income on common and preferred shares is recorded on the ex-dividend date. Distributions on pooled funds are recorded on the income distribution date. Realized gains and losses are recorded on the trade date and calculated as the net proceeds less average cost. Unrealized gains and losses are calculated by the change in fair value compared to the change in average cost on the period end date. The effective interest rate method is used to amortize premiums or discounts on the purchase of fixed income securities.

Rental revenue, on property leased to third parties, is recorded as earned for the fair value of the consideration received. Rental revenue is included in Net investment income on the consolidated statements of operations and included in other income within note 10.

Claims and insurance benefits incurred

Gross claims and insurance benefits incurred include all claims and insurance benefits occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, reduced for the value of salvage and subrogation, and any adjustments to claims outstanding from previous years.

Reinsurance claims and insurance benefits are recognized when the related gross insurance claim is recognized according to the terms of the relevant reinsurance contracts.

3 Significant Accounting Policies (continued)

Financial instruments

Cash and cash equivalents

Cash and cash equivalents are comprised of cash at the bank and short-term deposits. Short-term deposits include highly liquid investments that are readily convertible into cash and have maturities of less than three months when purchased. Cash and cash equivalents are carried at fair value.

Receivables

Receivables include policyholder balances, broker balances, amounts due from the Facility Association (FA), reinsurance recoverable on claims paid, dividends receivable, and other receivables and advances. Receivables are classified as loans and receivables. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are recorded at the fair value of consideration received net of any impairment provisions.

Policyholder and broker balances represent premiums due and are recognized when owed pursuant to the terms of the related insurance contract. When certain automobile owners are unable to obtain insurance via the voluntary insurance market, they are insured via the FA. Also, Mutual Company can choose to cede certain risks to FA administered risk sharing pools (RSP). The related risks associated with FA insurance policies and policies ceded by companies to the RSP are aggregated and shared by the entities in the Canadian property and casualty insurance industry, generally in proportion to market share and volume of business ceded to the RSP. Mutual Company applies the same accounting policies to FA and RSP insurance policies it assumes as it does to insurance policies issued by Mutual Company directly to policyholders.

In accordance with OSFI guidelines, assumed and ceded RSP premiums are reported in Gross premiums written.

Investments

Investments consist of fixed income securities, stocks, broker loans, policy loans and other loans. Fixed income securities include bonds, asset-backed securities, units in pooled bond index funds, and short-term securities such as treasury bills. Stocks include stocks listed on an exchange and units in equity pooled funds.

Fixed income securities and stocks are classified as AFS or designated as FVTPL based on management's intentions or characteristics of the instrument. The Company has classified all of its investments in fixed income securities and stocks as AFS, with the exception of fixed income securities and stocks that support Life Company insurance contract liabilities, which have been designated as FVTPL. The Company uses trade date accounting for purchases and sales of these investments. Financial assets are derecognized when the rights to receive cash flows from them have expired, or when the Company has transferred substantially all risks and rewards of ownership. Transaction costs directly attributable to the acquisition of financial assets are capitalized, and expensed upon disposition.

3 Significant Accounting Policies (continued)

AFS financial assets are initially measured at fair value on the consolidated balance sheets from the trade date. Subsequent to initial recognition, AFS financial assets are carried at fair value with changes in fair values recorded, net of income taxes, in OCI until the AFS financial asset is disposed of or has become impaired. When the AFS financial asset is disposed of or has become impaired, the accumulated fair value adjustments recognized in accumulated other comprehensive income (AOCI) are transferred to the consolidated statements of operations.

FVTPL financial assets are initially measured at fair value on the consolidated balance sheets from the trade date. Subsequent to initial recognition, FVTPL instruments are carried at fair value on the consolidated balance sheets with changes in the fair value recorded in profit (loss) in the period in which they occur.

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of fixed income securities are determined with reference to market prices primarily provided by third party independent pricing sources. Fair value of stocks listed on an exchange is determined using the last traded market price or current bid price on the exchange. The fair value of each pooled fund is based on the closing net asset value per unit as provided by the fund's service provider.

Broker loans, policy loans and other loans are classified as loans and receivables. These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. After initial measurement, these investments are measured at amortized cost, using the effective interest rate method, less provision for impairment.

Fair value of financial instruments

Financial assets and financial liabilities recorded at fair value on the consolidated balance sheets are measured and classified in a hierarchy consisting of three levels for disclosure purposes. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements for invested assets are categorized into levels within a fair value hierarchy based on the nature of the valuation inputs (Level 1, 2 or 3). The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the investment's interest rate approximates current observable market rates. Where other financial assets and financial liabilities are of longer duration, then fair value is determined using the discounted cash flow method using discount rates based on adjusted observable market rates. The three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

3 Significant Accounting Policies (continued)

- ***Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.***

  For stocks held in pooled funds, the Company defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition of the pooled fund, trading volumes are used as an indicator for stocks held outside of pooled funds, and the size of the bid/ask spread is used as an indicator of market activity for fixed maturity securities. Assets measured at fair value and classified as Level 1 include pooled funds, actively traded quoted stocks, segregated funds net assets, and all federal government and federal government backed fixed income securities and cash equivalents. These fixed income securities and cash equivalents are classified as Level 1 as they are traded using quoted prices in an active market, which is reflected in their narrow bid/ask spread. Fair value is based on market price data for identical assets obtained from the investment custodian, investment managers or dealer markets. The Company does not adjust the quoted price for such instruments.

- ***Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices).***

  Level 2 inputs include observable market information, including quoted prices for assets in markets that are considered less active. Assets measured at fair value and classified as Level 2 include inactive quoted stocks, provincial fixed income securities, municipal fixed income securities, corporate fixed income securities, asset-backed securities and all other cash equivalents. Fair value is based on or derived from market price data for same or similar instruments obtained from the investment custodian, investment managers or dealer markets.

- ***Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities.***

  Level 3 assets and liabilities would include financial instruments whose values are determined using internal pricing models, discounted cash flow methodologies, or similar techniques that are not based on observable market data, as well as instruments for which the determination of estimated fair value requires significant management judgement or estimation.

Impairment of financial assets

All financial assets other than FVTPL instruments are assessed for impairment at each reporting date. Impairment is recognized in profit (loss), when there is objective evidence that a loss event has occurred which has impaired future cash flows of an asset.

3 Significant Accounting Policies (continued)

AFS debt instruments

An AFS debt security would be identified as impaired when there is objective evidence suggesting that timely collection of the contractual principal or interest is no longer reasonably assured. This may result from a breach of contract by the issuer, such as a default or delinquency in interest or principal payments, or evidence that the issuer is in significant financial difficulty. Impairment is recognized through profit (loss). Subsequent declines in value continue to be recorded through profit (loss). Impairment losses previously recorded through profit (loss) are to be reversed if the fair value subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized.

AFS equity instruments

An AFS equity security would be identified as impaired if there has been a significant or prolonged decline in the fair value of the investment below its cost, or if there is objective evidence of a significant adverse change in the technological, market, economic or legal environment in which the issuer operates or the issuer is experiencing financial difficulties.

The accounting for an impairment that is recognized in profit (loss) is the same as described for AFS debt securities above with the exception that impairment losses previously recognized in profit (loss) cannot be subsequently reversed until the instrument is disposed of. Any subsequent increase in value is recorded in OCI.

Loans and receivables

Loans and receivables are considered impaired when there is objective evidence of deterioration in credit quality that indicates the Company no longer has reasonable assurance that the full amount of principal and interest will be collected. The Company then establishes specific provisions for losses and balances are subsequently measured at their net realizable amount based on discounting the cash flows at the original effective interest rate inherent in the loan or the fair value of the underlying security. Changes in the net realizable value of impaired loans are recognized in Net investment income. Policy loans are not subject to impairment losses because they are fully secured by the policy values on which the loans are made.

Trade and other payables

Trade and other payables are classified as other financial liabilities. Any such liabilities are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest rate method.

Comprehensive income

Comprehensive income consists of profit (loss) and OCI. OCI includes the remeasurement of employee defined benefit plans, net unrealized gain (loss) on AFS financial assets, net reclassifications to profit (loss) for AFS financial assets, and unrealized gain (loss) on the translation of financial statement operations with U.S. dollar functional currency.

3 Significant Accounting Policies (continued)

Income taxes

Income taxes are comprised of both current and deferred taxes. Income taxes are recognized in the consolidated statements of operations, except to the extent that they are related to items recognized in OCI or directly in equity. In this case, the tax is recognized in OCI or directly in equity, respectively.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities for the current and prior periods. The tax rates and tax laws used to compute these amounts are those that have been enacted or substantively enacted at the end of each reporting period.

Deferred income tax assets and liabilities are recorded for the expected future income tax consequences of events that have been included in the consolidated financial statements or income tax returns. Deferred income taxes are provided for using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between the tax and financial statement bases for assets and liabilities and for certain carryforward items, such as losses and tax credits not utilized from prior years. However, if the deferred income tax arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income, it is not accounted for.

Deferred income tax assets are recognized only to the extent that, in the opinion of management, it is probable that the deferred income tax assets will be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates, on the date the changes have been enacted or substantively enacted.

In determining the impact of taxes, the Life Company is also required to comply with the standards of the CIA. Deferred income tax assets and liabilities arising from temporary timing differences are computed without discounting. The insurance contract liabilities include an amount to convert deferred income taxes to a discounted basis for timing differences related to these liabilities.

Property and equipment

Property and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses, if any. Replacement costs are capitalized when incurred if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All repairs and maintenance costs are charged to profit (loss) during the period in which they occur.

3 Significant Accounting Policies (continued)

Depreciation is calculated over the useful lives of the assets as follows:

Buildings	5% diminishing balance basis
Furniture and equipment	20% diminishing balance basis
Automobiles	30% diminishing balance basis
Computer hardware	30% diminishing balance basis
Building components	Straight-line basis (5 - 20 years)
Leasehold improvements	Straight-line over the term of the lease plus one renewal option

Land is not subject to depreciation and is carried at cost. Leasehold improvements in progress are carried at cost and depreciation commences upon completion of the project. The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each reporting date.

Impairment reviews are performed when there are indicators that the net recoverable amount of an asset may be less than the carrying value. The net recoverable amount is determined as the higher of an asset's fair value less cost to sell and value in use. Impairment is recognized in profit (loss), when there is objective evidence that a loss event has occurred which has impaired future cash flows of an asset. In the event that the value of previously impaired assets recover, the previously recognized impairment loss is recovered in profit (loss) at that time.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in profit (loss).

Intangible assets

Intangible assets consist of certain acquired and internally developed software, some of which may not have yet been put into use. Intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses, if any. Input costs directly attributable to the development or implementation of the asset are capitalized if it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost can be measured reliably. Finite life intangible assets are tested for impairment when events or circumstances indicate that the carrying value may not be recoverable. In addition, intangible assets not yet in use are tested for impairment annually. When the recoverable amount is less than the net carrying value an impairment loss is recognized in profit (loss).

Intangible assets, once functional, are amortized on a straight-line basis over their useful lives (3 - 10 years).

Research costs are recognized as an expense in the period incurred.

3 Significant Accounting Policies (continued)

Employee future benefits

The Company operates registered defined benefit pension plans which specify a monthly benefit upon retirement that is predetermined by a formula based on the employee's earnings history (final average earnings), tenure of service and age. The Canadian employees' plan is indexed and the U.S. employees' plan may be indexed at the discretion of the Board of Directors. The defined benefit pension plans are pre-funded by payments which require employee and employer contributions for the Canadian plan and employer contributions only for the defined benefit plan in the U.S. Contributions to the defined benefit pension plans are made to separately administered funds and the employer contributions are determined by periodic actuarial calculations taking into account the recommendations of qualified actuaries. The Company also operates a supplemental plan for some of its Canadian employees which specifies a monthly benefit upon retirement that is predetermined by a formula based on the employee's earnings history (final average earnings), tenure of service and age.

The Company also provides life insurance, dental and extended health benefit plans for retired employees. These other post-employment benefit (OPEB) plans are unfunded.

Plan assets are assets that are held by a long-term employee benefit fund in cash and pooled funds. Plan assets are not available to creditors of the Company nor can they be paid directly to the Company. The fair value of each pooled fund is based on the closing net asset value per unit as provided by the fund's service provider. Pension plan assets are governed by the regulations of the Manitoba Pension and Benefits Act and the Employee Retirement Income Security Act (ERISA) for the Canadian and U.S. plans, respectively. The assets of the supplemental plan follow Income Tax Act of Canada requirements.

Responsibility for governance of the pension plans, including investment decisions in accordance with the Investment Policy Statements and adherence to contribution schedules, lies jointly with the Company and the Pension Committee for the Canadian plan. For the U.S. plan and the supplemental plan it lies with the Company's Pension Administrators Committee. The Pension Committee is comprised of representatives of the Company and plan participants in accordance with pension regulations.

The defined benefit obligation is measured as the present value of the estimated future cash outflows, using a discount rate based on market yields for high quality corporate fixed income securities that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related liability. The resulting surplus or deficit is recorded as an asset or liability on the consolidated balance sheets.

Costs charged (or credited where relevant) in the consolidated statements of operations include:

- Current service cost (including plan amendments, settlements, and curtailments, if any); and
- Net interest expense on accrued benefit liability (asset).

3 Significant Accounting Policies (continued)

The current service cost comprises the present value of additional benefits attributable to employees' services provided during the period. Plan amendments arise when additional benefits are granted and the cost of providing additional benefits is recognized as incurred. The net interest expense is based on the accrued benefit asset or liability.

The accrued benefit asset (liability) is the fair value of plan assets out of which the obligations are to be settled directly, less the present value of the defined benefit obligation, and is restricted to the present value of the economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

By design, the defined benefit pension and OPEB plans expose the Company to the typical risks faced by defined benefit plans such as investment performance, changes to the discount rates used to value the obligations, longevity of plan members, and future price and medical cost inflation. Pension and benefit risk is managed by establishing policies, regular monitoring, re-evaluation and potential adjustments of these policies as future events unfold.

Actuarial gains and losses arise from the experience adjustments and changes in assumptions underlying the liability calculations and experience gains or losses on the assumptions made at the beginning of the period. Actuarial gains and losses and any change in the asset ceiling are recognized in the consolidated statements of comprehensive income.

The Company also provides a defined contribution plan (401k) for U.S. employees. Contributions are expensed in the period in which they are paid or payable. Once the contributions have been paid, the Company has no further payment obligations.

Provisions and contingent liabilities

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense of any provision is recognized in the consolidated statements of operations net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

3 Significant Accounting Policies (continued)

Leases

The Company has entered into commercial property leases on its real estate properties. The Company, as a lessor, has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and therefore accounts for them as operating leases.

The Company, as a lessee, leases commercial property on certain property, equipment and intangible assets. Leases in which the Company has substantially all of the risks and rewards of ownership are classified as finance leases, and are capitalized at the commencement of the lease at the present value of the minimum lease payments. Leased equipment is depreciated in accordance with the Company's property and equipment depreciation policy. Leased intangible assets, once functional, are amortized on a straight-line basis over their useful lives. Leases in which the Company has determined that it does not retain any of the significant risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged as an expense in the consolidated statements of operations on a straight-line basis over the period of the lease.

Foreign exchange transactions

Foreign currency transactions are translated at the rate of exchange in effect on the dates they occur.

Gains and losses arising as a result of foreign currency transactions are recognized in profit (loss).

Translation of foreign operations

For the purpose of the consolidated financial statements, the results and financial position of the U.S. operations are expressed in Canadian dollars, which is the functional currency of the parent, and the presentation currency of the consolidated financial statements.

The Company translates the assets, liabilities, income and expenses of its U.S. operations which have a functional currency of U.S. dollars, to Canadian dollars on the following basis:

- Assets and liabilities are translated at the closing rate of exchange in effect at the balance sheet dates.
- Income and expense items are translated using the average rate for the month in which they occur, which is considered to be a reasonable approximation of actual rates.
- Equity items are translated at their historical rates.
- The translation adjustment from the use of different rates is included as a separate component of equity.

4 Changes in Accounting Policies

Adoption of new and amended accounting standards

Effective January 1, 2015, the Company adopted the following new and amended accounting standards:

IAS 19R - "Employee Benefits"

In November 2013, the IASB issued a narrow scope amendment to IAS 19R. The amendment applies to contributions from employees or third parties to defined benefit plans. The amendment allows contributions independent of the number of years of service to be recognized as a reduction in the service cost in the period in which the related service is rendered instead of attributed to period of service using the same attribution method as used for the gross benefit. The Company has determined that there is no material impact to the consolidated financial statements.

Annual Improvement Cycles

The annual improvement cycles for 2010-2012 and 2011-2013 were issued by the IASB and included minor amendments to IFRS 1 - "First-time Adoption of International Financial Reporting Standards", IFRS 3 - "Business Combinations", IFRS 8 - "Operating Segments", IFRS 13 - "Fair Value Measurement", IAS 16 - "Property, Plant and Equipment", IAS 24 - "Related Party Disclosures", IAS 38 - "Intangible Assets" and IAS 40 - "Investment Property". The Company has determined that there is no material impact to the consolidated financial statements.

Future accounting changes

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee (IFRIC) that are mandatory for annual reporting periods beginning on or after January 1, 2016. The standards that may be applicable to the Company are:

IFRS 4 - "Insurance Contracts"

In July 2014, the IASB published a revised exposure draft (2014 ED) on the accounting for insurance contracts which builds on the previous consultations undertaken. The 2014 ED is the result of deliberations at the IASB using comments received from constituents. The ED continues to propose a new standard on accounting for insurance contracts, which would replace IFRS 4. The proposals represent a comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on the financial reporting of insurers.

A final standard is expected in 2016 with implementation not anticipated before 2019. The Company continues to monitor developments in this area.

4 Changes in Accounting Policies (continued)

In December 2015, the IASB issued an exposure draft with proposed amendments to the existing IFRS 4 intended to mitigate accounting mismatches from the adoption of IFRS 9 – "Financial Instruments" (IFRS 9) before the new insurance contracts standard is issued. Entities that issue insurance contracts within the scope of IFRS 4 will be provided with two options, the overlay and the deferral approaches.

The overlay approach will permit insurers who meet certain criteria to exclude from profit (loss) and recognize in OCI the difference between the amounts that would be recognized in profit (loss) in accordance with IFRS 9 and the amounts recognized in profit (loss) in accordance with IAS 39 – "Financial Instruments: Recognition and Measurement" (IAS 39). The deferral approach will allow insurers whose liabilities are predominantly arising from issuing insurance contracts the option to temporarily defer adoption of IFRS 9 until the new insurance contracts standard is issued, or until January 1, 2021 at the latest. The Company is evaluating the impact the proposed changes will have on the consolidated financial statements.

IFRS 7 - "Financial Instruments: Disclosures"

IFRS 7 was amended in December 2011 to require additional financial instrument disclosures upon transition from IAS 39 to IFRS 9. The amendments are effective on adoption of IFRS 9. The amendments issued are permitted to be early adopted where IFRS 9 is also early adopted. OSFI has indicated that it will not allow early adoption of IFRS 9 for federally regulated financial institutions. The Company is evaluating the impact this amendment will have on the consolidated financial statements.

IFRS 9 - "Financial Instruments"

In July 2014, the IASB issued the final version of IFRS 9 which will replace IAS 39 for annual periods beginning on or after January 1, 2018. This standard provides guidance on the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting.

This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 and requires financial assets to be recorded at amortized cost or fair value depending on the Company's business model for managing the assets and their associated cash flow characteristics. All financial assets are to be measured at fair value on the consolidated balance sheets if they are not measured at amortized cost. IFRS 9 allows financial assets or financial liabilities not designated at amortized cost to be recognized as FVTPL or as fair value through OCI.

At initial recognition, the Company may irrevocably designate a financial asset as measured at fair value through profit or loss, if doing so eliminates or significantly reduces a measurement recognition inconsistency that would otherwise arise from measuring assets or liabilities and recognizing gains or losses on them on a different basis. Where such equity instruments are measured at fair value through OCI that do not clearly represent a return of investment, the dividends are recognized in profit (loss) under Net investment income; however, other gains and losses associated with such instruments remain in AOCI indefinitely.

4 Changes in Accounting Policies (continued)

This standard introduces an expected credit loss model, which applies to all financial assets unless designated as FVTPL. This impairment model requires a 12 month expected credit loss provision at initial recognition. Subsequently, a significant increase to credit risks of a financial asset will result in an increase of the impairment provision to the financial asset's lifetime expected credit loss. In the event that significant credit risks are reduced, the impairment model allows for the provision to return to the financial asset's 12 month expected credit loss. Changes in the impairment provision will flow through profit (loss).

Requirements for financial liabilities were added in October 2010 which largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated as FVTPL would generally be recorded in OCI.

This standard also replaces the rule-based hedge accounting requirements in IAS 39 to more closely align the accounting with risk management activities.

Early application is permitted, however OSFI has indicated that it will not allow early adoption of this standard for federally regulated financial institutions. The Company is evaluating the impact this standard will have on the consolidated financial statements.

IFRS 15 – "Revenue from Contracts with Customers"

IFRS 15 was issued in May 2014, and is intended to replace IAS 18, IAS 11 – "Construction Contracts", and related IFRICs. The standard was issued as a result of an ongoing project to align revenue recognition between IFRS and U.S. Generally Accepted Accounting Principles, and applies to revenue arising from contracts with customers, including service contracts. IFRS 15 contains a scope exception which excludes insurance contracts within the scope of IFRS 4 and revenue arising from financial instruments, therefore this standard will have a limited impact on the Company. This standard is effective for annual periods beginning on or after January 1, 2018. Early application is permitted.

IFRS 16 – "Leases"

IFRS 16 was issued in January 2016 and is intended to replace IAS 17 – "Leases", and related IFRICs. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted only when also applying IFRS 15. The Company is evaluating the impact this standard will have on the consolidated financial statements.

IAS 1 – "Presentation of Financial Statements"

In December 2014, IAS 1 was amended to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. These amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. The Company does not expect these amendments to significantly impact the consolidated financial statements.

4 Changes in Accounting Policies (continued)

IAS 12 – "Income Taxes"

In January 2016, IAS 12 was amended to clarify guidance in the standard related to the measurement of deductible temporary differences for unrealized losses on debt instruments measured at fair value, the estimation of probable future taxable profits, and the assessment of deferred tax assets in combination with other deferred tax assets. These amendments are effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted. The Company is evaluating the impact this amendment will have on the consolidated financial statements.

Annual Improvement Cycles

The annual improvements process is used to make necessary but non-urgent changes to IFRSs that are not included in other projects.

The annual improvement 2012 – 2014 cycle was issued in September 2014 by the IASB, and included minor amendments to IFRS 5 – "Non-Current Assets Held for Sale and Discontinued Operations", IFRS 7 and IAS 19R. These amendments are effective for annual periods beginning on or after January 1, 2016. The Company does not expect these amendments to significantly impact the consolidated financial statements.

5 Significant Accounting Judgements, Estimates and Assumptions

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect reported amounts of assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the periods covered by the consolidated financial statements.

Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. Changes in estimates are recorded in the accounting period in which they are determined.

Judgements

a) Impairment of AFS financial assets

In the process of applying the Company's accounting policies, management has made the following judgements, aside from those involving estimations and assumptions, which have the most significant effect on the amounts recognized in the consolidated financial statements.

The Company assesses whether an AFS financial asset is impaired based on management's best estimate by determining whether there is a significant or prolonged decline in the fair value below cost. The determination of what is significant or prolonged requires judgement.

5 Significant Accounting Judgements, Estimates and Assumptions (continued)

b) Measurement of income taxes

Management exercises judgement in estimating the provision for income taxes. The Company is subject to income tax laws in various federal, provincial and state jurisdictions where it operates. Various tax laws are potentially subject to different interpretations by the Company and the relevant tax authority. To the extent that the Company's interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.

Significant management judgement is also required to determine the deferred tax balances. Management is required to determine the amount of deferred tax assets and liabilities that can be recognized, based on their best estimate of the likely timing that the temporary difference will be realized, and of the likelihood that taxable profits will exist in the future.

Estimates and assumptions

The key estimates and assumptions that have a significant risk of causing a material adjustment are discussed below:

a) Valuation of property and casualty insurance contract liabilities

The estimation of the ultimate liability arising from claims made under property and casualty insurance contracts is the P&C Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the P&C Company will ultimately pay for such claims. The ultimate cost of claims liabilities is estimated by using a range of standard actuarial claims projection techniques in accordance with Canadian accepted actuarial practice. Sensitivity of these assumptions and the impact on net insurance contract liabilities and equity are fully disclosed in note 26.

b) Valuation of Life Company insurance contract liabilities

The estimation of the ultimate insurance contract liabilities is Life Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of these liabilities. The liabilities have been determined by the Life Company Appointed Actuary using CALM. This method requires the use of assumptions for future experience including those related to mortality, morbidity, policy terminations, expense levels, interest rates and equity market performance. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recorded in the accounting period in which they are determined. Sensitivity of these assumptions and the impact on net insurance contract liabilities and profit (loss) are fully disclosed in note 26.

5 Significant Accounting Judgements, Estimates and Assumptions (continued)

c) *Valuation of pension and OPEB obligations*

The cost of defined benefit pension plans and OPEB plans is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, future salary increases, mortality rates, future pension increases and, for the OPEB plans, medical costs. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed annually. Details of the key assumptions used in the estimates are contained in note 19.

6 Select Operating Information

Profit before income taxes

The table below highlights the Company's Profit before income taxes by business unit.

								2015
		P&C Company		**Life Company**		**Inter-company eliminations**		**Total**
				('000s)				
Revenue								
Net premiums earned	$	2,586,377	$	105,910	$	(1,394)	$	2,690,893
Net investment income		460,062		25,320		-		485,382
Instalment service charges earned		38,350		4,715		(580)		42,485
		3,084,789		135,945		(1,974)		3,218,760
Expenses								
Net claims and insurance benefits incurred		1,934,266		101,990		(1,842)		2,034,414
Other expenses incurred		725,489		30,483		(132)		755,840
		2,659,755		132,473		(1,974)		2,790,254
Profit before income taxes	$	425,034	$	3,472	$	-	$	428,506

6 Select Operating Information (continued)

								2014
		P&C Company		**Life Company**		**Inter-company eliminations**		**Total**
				('000s)				
Revenue								
Net premiums earned	$	2,420,500	$	106,137	$	(1,570)	$	2,525,067
Net investment income		323,837		78,035		-		401,872
Instalment service charges earned		36,719		4,156		(384)		40,491
		2,781,056		188,328		(1,954)		2,967,430
Expenses								
Net claims and insurance benefits incurred		1,922,214		146,638		(1,329)		2,067,523
Other expenses incurred		651,323		28,367		(625)		679,065
		2,573,537		175,005		(1,954)		2,746,588
Profit before income taxes	$	207,519	$	13,323	$	-	$	220,842

6 Select Operating Information (continued)

P&C Company's underwriting results

The table below highlights the P&C Company's underwriting results within Profit before income taxes.

	2015	2014
	('000s)	
Net premiums earned	$ 2,586,377	$ 2,420,500
Instalment service charges earned	38,350	36,719
	2,624,727	2,457,219
Net claims incurred	1,934,266	1,922,214
Other expenses incurred	725,489	651,323
	2,659,755	2,573,537
Underwriting loss	(35,028)	(116,318)
Net investment income	460,062	323,837
Profit before income taxes	$ 425,034	$ 207,519

7 Cash and Cash Equivalents

Cash and cash equivalents presented on the consolidated balance sheets and the consolidated statements of cash flows consist of the following:

	2015	2014
	('000s)	
Cash	$ 67,871	$ 83,025
Short-term deposits	21,422	35,269
	$ 89,293	$ 118,294

8 Receivables

	2015	2014
	('000s)	
Policyholder balances	$ 645,978	$ 598,837
Broker balances	33,520	31,117
Due from the Facility Association	6,700	5,982
Reinsurance recoverable on claims paid	4,408	3,684
Dividends receivable	2,162	1,298
Other	3,863	929
	$ 696,631	$ 641,847

All amounts are receivable within one year.

9 Reinsurance

Reinsurance assets

	2015	2014
	('000s)	
Current	$ 21,050	$ 44,659
Non-current	10,021	45,464
	$ 31,071	$ 90,123

The Company does not have a significant accounts receivable balance with any one reinsurance company. The largest amount owing for outstanding losses from one reinsurer is $6,698 (2014 - $43,036). This reinsurer has an A credit rating and the Company has no concerns regarding the collectability from this reinsurer. No other significant amounts are owing from any one reinsurer. The P&C Company holds non-owned deposits and letters of credit totalling $14,266 (2014 - $32,892) to cover amounts relating to any unregistered reinsurers' portion.

Certain figures in the consolidated statements of operations are shown net of the following amounts related to reinsurance ceded to other companies.

	2015	2014
	('000s)	
Earned premiums ceded	$ 115,492	$ 138,775

Earned premiums ceded disclosed above are on an earned basis and differ from Premiums ceded to reinsurers as disclosed in the consolidated statements of operations by $1,288 (2014 - $3,329) due to the change in unearned reinsurance ceded.

10 Investments and Net Investment Income

a) Carrying and fair value of investments

The carrying and fair values of the Company's investment portfolio by financial instrument categories are as follows:

					2015
	Classified as AFS	**Designated as FVTPL**	**Classified as loans and receivables**	**Total carrying value**	**Total fair value**
			(‘000s)		
Fixed income securities					
Canadian	$ 3,732,263	$ 512,567	$ -	$ 4,244,830	$ 4,244,830
Foreign	1,103,774	28,414	-	1,132,188	1,132,188
	4,836,037	540,981	-	5,377,018	5,377,018
Stocks					
Preferred					
Canadian	6,154	-	-	6,154	6,154
Foreign	2,512	-	-	2,512	2,512
Common					
Canadian	751,179	53,954	-	805,133	805,133
Foreign	919,819	28,122	-	947,941	947,941
	1,679,664	82,076	-	1,761,740	1,761,740
Broker loans	-	-	50,752	50,752	52,510
Policy loans	-	-	17,654	17,654	17,654
Other loans	-	-	75	75	76
	-	-	68,481	68,481	70,240
	$ 6,515,701	$ 623,057	$ 68,481	$ 7,207,239	$ 7,208,998

10 Investments and Net Investment Income (continued)

					2014
	Classified as AFS	**Designated as FVTPL**	**Classified as loans and receivables**	**Total carrying value**	**Total fair value**
			('000s)		
Fixed income securities					
Canadian	$ 3,647,489	$ 505,619	$ -	$ 4,153,108	$ 4,153,108
Foreign	966,414	19,982	-	986,396	986,396
	4,613,903	525,601	-	5,139,504	5,139,504
Stocks					
Preferred					
Canadian	13,119	-	-	13,119	13,119
Common					
Canadian	873,295	55,819	-	929,114	929,114
Foreign	851,741	24,704	-	876,445	876,445
	1,738,155	80,523	-	1,818,678	1,818,678
Broker loans	-	-	45,583	45,583	46,181
Policy loans	-	-	17,130	17,130	17,130
Other loans	-	-	394	394	401
	-	-	63,107	63,107	63,712
	$ 6,352,058	$ 606,124	$ 63,107	$ 7,021,289	$ 7,021,894

10 Investments and Net Investment Income (continued)

b) Fair value hierarchy

The Company has categorized its assets measured at fair value into the three-level fair value hierarchy as summarized below, based upon the priority of the inputs to the respective valuation technique as defined in note 3:

	Level 1	Level 2	2015 Total
		('000s)	
AFS			
Fixed income securities	$ 1,283,906	$ 3,552,131	$ 4,836,037
Stocks	1,679,664	-	1,679,664
FVTPL			
Cash equivalents	21,422	-	21,422
Fixed income securities	82,434	458,547	540,981
Stocks	82,076	-	82,076
Segregated funds net assets	259,839	-	259,839
	$ 3,409,341	$ 4,010,678	$ 7,420,019

	Level 1	Level 2	2014 Total
		('000s)	
AFS			
Fixed income securities	$ 1,111,551	$ 3,502,352	$ 4,613,903
Stocks	1,738,155	-	1,738,155
FVTPL			
Cash equivalents	35,269	-	35,269
Fixed income securities	81,087	444,514	525,601
Stocks	80,523	-	80,523
Segregated funds net assets	247,328	-	247,328
	$ 3,293,913	$ 3,946,866	$ 7,240,779

All fair value measurements relate to recurring measurements. The fair values of Cash and cash equivalents, Accrued investment income, Receivables and Trade and other payables approximate their carrying values due to their short-term nature or are carried at fair value. The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

The Company has not adjusted the quoted price for any instruments included in Level 1 or Level 2. There are no investments that meet the Level 3 fair value measurement criteria. No investments were transferred between levels in 2015 or 2014.

10 Investments and Net Investment Income (continued)

c) Maturity schedule of fixed income securities

				2015
One year or less	One to five years	Five to ten years ('000s)	More than ten years	Total
$ 272,605	$ 2,609,943	$ 1,835,066	$ 659,404	$ 5,377,018

				2014
One year or less	One to five years	Five to ten years ('000s)	More than ten years	Total
$ 113,857	$ 2,656,469	$ 1,775,335	$ 593,843	$ 5,139,504

10 Investments and Net Investment Income (continued)

d) Net investment income

	2015	2014
	('000s)	
Net realized gain on sale of AFS financial assets	$ 253,905	$ 112,985
Change in fair value of FVTPL financial assets	(2,814)	44,925
Interest income		
AFS fixed income securities	128,712	124,932
FVTPL fixed income securities	17,928	17,579
Broker loans, policy loans and other loans	2,871	2,871
Cash and cash equivalents	664	693
	150,175	146,075
Dividends and distributions income		
Dividends on AFS stocks	24,206	20,710
Distributions on AFS stocks held in pooled funds	63,635	76,843
Distributions on FVTPL stocks held in pooled funds	3,403	5,915
	91,244	103,468
Foreign currency loss	(253)	(138)
Other income	4,407	5,048
Investment expense	(10,936)	(10,240)
Interest expense	(346)	(251)
	(7,128)	(5,581)
	$ 485,382	$ 401,872

10 Investments and Net Investment Income (continued)

e) Net realized gain on sale of AFS financial assets

	2015	2014
	('000s)	
Net market realized gain - fixed income securities		
Canadian	$ 63,886	$ 42,844
Foreign	1,876	3,465
	65,762	46,309
Net market realized gain - stocks		
Preferred		
Canadian	(1,250)	(549)
Foreign	(51)	-
Common		
Canadian	43,491	16,332
Foreign	142,694	50,477
	184,884	66,260
Net foreign currency realized gain	3,259	416
	$ 253,905	$ 112,985

Included in net realized gain on sale of AFS financial assets for the year are write-downs of impaired AFS financial assets of $48,606 (2014 - $19,176). The impairment losses were based on management's best estimate of whether objective evidence of impairment exists, using available market data. Recovery of previously recognized write-downs for impaired AFS debt securities during the year was nil (2014 - nil).

The financial assets in the table below are AFS financial assets where the investments' underlying cost is greater than the fair value, however, the loss has not been recognized in profit (loss) either because management has concluded there is no objective evidence of impairment or because the loss is not considered to be significant or prolonged.

	2015		2014	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
		('000s)		
Fixed income securities	$ 1,022,039	$ 18,959	$ 125,800	$ 1,274
Stocks	287,445	20,289	79,531	6,104
	$ 1,309,484	$ 39,248	$ 205,331	$ 7,378

10 Investments and Net Investment Income (continued)

General provisions made for anticipated future losses of principal and interest on investments are included as a component of Life Company Insurance contract liabilities and are $10,222 (2014 - $10,237).

f) Change in fair value of FVTPL financial assets

	2015	2014
	('000s)	
Fixed income securities		
Canadian	$ (440)	$ 40,519
Foreign	(17)	216
	(457)	40,735
Stocks		
Common		
Canadian	(6,621)	1,566
Foreign	4,264	2,624
	(2,357)	4,190
	$ (2,814)	$ 44,925

Net fair value gains (losses) on FVTPL financial assets relate entirely to assets designated to be in this category upon initial recognition.

g) Securities lending

The Company engages in securities lending to generate fee income which is included within Other income, within Net investment income. Certain securities from its portfolio are loaned to other institutions for short periods of time. These loaned securities are recognized on the consolidated balance sheets as Investments. An agreement between the Company and its custodian limits lending activity to approved creditors and specifies suitable types of collateral. The collateral pledged by the borrower exceeds the value of the assets on loan.

10 Investments and Net Investment Income (continued)

When securities are loaned, the Company is exposed to counterparty risk which is the risk that the borrower will not return the loaned securities, or if the collateral is liquidated, it may be for less than the value of the loan. The Company mitigates this risk through a guarantee provided by its custodian. When cash is used as collateral for securities lending, some additional risks exist. A Common Investment Account (Account) is created and managed by the custodian for all participating clients. Yield risk, which is the risk that the yield earned on the Account is insufficient to cover the rate committed to the borrower, is shared with the custodian and mitigated by the relatively short duration of the investment pool and the short duration of the loans. Principal risk is the risk that the Account is impaired in some way. This risk is shared by participants in the Account, but is mitigated by the conservative nature of the Account and high credit quality of the assets purchased. Gap or duration risk exists should borrowers return loans, forcing liquidation of the Account, potentially at a loss. This risk is borne by the Company, but is mitigated by the custodian managing the Account with appropriate levels of liquidity.

At December 31, 2015, the Company had securities on loan with a fair value of $872,514 (2014 - $957,912) backed by collateral with a fair value of $905,758 (2014 - $992,827).

11 Deferred Acquisition Expenses

The movements in Deferred acquisition expenses during the year were as follows:

	2015	2014
	('000s)	
At January 1	$ 220,046	$ 212,779
Acquisition expenses deferred	470,954	452,767
Acquisition expenses amortized	(459,988)	(446,110)
Foreign exchange adjustment	872	610
At December 31	$ 231,884	$ 220,046

12 Income Taxes

a) Effective tax rate

The provision for income taxes reflects an effective tax rate that differs from the combined tax rate for Canadian federal and provincial corporate taxes for the following:

	2015	2014
	('000s)	
Profit before income taxes	$ 428,506	$ 220,842
Combined statutory tax rate	26.53%	26.14%
Tax payable based on statutory tax rate	113,683	57,728
Effect of:		
Permanent differences	(3,250)	(3,127)
Impact of prior year assessments	(8,241)	484
Deferred income tax rate changes	(1,260)	460
Capital taxes	101	(102)
Write down of deferred tax assets	36,604	-
Other	3,526	1,259
	$ 141,163	$ 56,702
Provision for income taxes		
Current	$ 114,158	$ 53,336
Deferred	27,005	3,366
	$ 141,163	$ 56,702

In fiscal 2015, the enacted statutory tax rate for the Company increased from 26.14% to 26.53% (2014 – 26.07% to 26.14%) due to changes in the federal, provincial and state tax rates in jurisdictions where the Company carries on business.

All income taxes payable and/or receivable amounts are due within one year.

12 Income Taxes (continued)

b) Deferred income taxes

Deferred income tax assets and liabilities are comprised of:

		2015		2014
		('000s)		
Deferred income tax assets				
Insurance contract liabilities	$	33,483	$	49,107
Employee future benefits		25,338		50,346
Other		1,009		856
Total deferred income tax assets	$	59,830	$	100,309
Deferred income tax liabilities				
Insurance contract liabilities	$	16,696	$	16,800
Invested assets		11,469		15,336
Other		8,156		7,252
Total deferred income tax liabilities	$	36,321	$	39,388

The Company expects that the Deferred income tax assets will be realized in the normal course of operations. At December 31, 2015, a deferred tax asset of $44,747 has not been recognized by General Company, as there is uncertainty as to the timing of the availability of future taxable profits arising from its tax jurisdiction. This amount includes an unused tax loss carryforward of $8,143 which does not expire until 2035.

The net movement of the deferred income taxes is as follows:

		2015		2014
		('000s)		
At January 1	$	60,921	$	39,678
Provision for deferred income taxes		(27,005)		(3,366)
Foreign exchange adjustment		5,122		1,694
OCI		(15,529)		22,915
At December 31	$	23,509	$	60,921

13 Property and Equipment

2015

	Land	Buildings and building components	Leasehold improve-ments	Furniture and equipment	Auto-mobiles	Computer hardware	Total
				('000s)			
Cost							
At January 1	$ 12,025	$ 71,594	$ 4,103	$ 16,339	$ 6,550	$ 22,038	$ 132,649
Additions	-	4,105	887	1,463	1,653	3,472	11,580
Disposals	-	-	-	-	(1,300)	-	(1,300)
Foreign exchange adjustment	1,156	3,860	411	374	134	478	6,413
At December 31	13,181	79,559	5,401	18,176	7,037	25,988	149,342
Accumulated depreciation							
At January 1	-	38,276	1,118	11,820	3,118	13,931	68,263
Disposals	-	-	-	-	(977)	-	(977)
Depreciation	-	1,805	450	1,079	1,267	2,814	7,415
Foreign exchange adjustment	-	2,345	133	266	61	407	3,212
At December 31	-	42,426	1,701	13,165	3,469	17,152	77,913
Net book value at December 31	$ 13,181	$ 37,133	$ 3,700	$ 5,011	$ 3,568	$ 8,836	$ 71,429

2014

	Land	Buildings and building components	Leasehold improve-ments	Furniture and equipment	Auto-mobiles	Computer hardware	Total
				('000s)			
Cost							
At January 1	$ 11,530	$ 68,207	$ 3,152	$ 15,333	$ 6,222	$ 16,368	$ 120,812
Additions	-	1,803	794	846	1,245	5,581	10,269
Disposals	-	-	-	-	(972)	(99)	(1,071)
Foreign exchange adjustment	495	1,584	157	160	55	188	2,639
At December 31	12,025	71,594	4,103	16,339	6,550	22,038	132,649
Accumulated depreciation							
At January 1	-	35,668	707	10,696	2,584	11,654	61,309
Disposals	-	-	-	-	(744)	(74)	(818)
Depreciation	-	1,628	371	1,019	1,263	2,185	6,466
Foreign exchange adjustment	-	980	40	105	15	166	1,306
At December 31	-	38,276	1,118	11,820	3,118	13,931	68,263
Net book value at December 31	$ 12,025	$ 33,318	$ 2,985	$ 4,519	$ 3,432	$ 8,107	$ 64,386

14 Intangible Assets

	2015	2014
	('000s)	
Cost		
At January 1	$ 99,013	$ 75,117
Additions	10,574	23,896
At December 31	109,587	99,013
Accumulated amortization		
At January 1	19,536	15,287
Amortization	4,585	4,249
At December 31	24,121	19,536
Net book value at December 31	$ 85,466	$ 79,477

Intangible assets of $62,581 (2014 - $52,008) have not yet been put into use and are currently not being amortized. No impairment loss (2014 – $766) was recognized during the year on any intangible assets.

15 Other Assets

	2015	2014
	('000s)	
Prepaid expenses and other	$ 7,059	$ 7,386

16 Segregated Funds Net Assets

a) Segregated funds net assets by category

	2015	2014
	('000s)	
Institutional pooled fund units	$ 259,850	$ 247,409
Less: Due to Life Company	686	81
Due from the investment manager for units sold	(675)	-
Segregated funds net assets	$ 259,839	$ 247,328

16 Segregated Funds Net Assets (continued)

b) Changes in Segregated funds net assets

	2015	2014
	('000s)	
Segregated funds net assets – at January 1	$ 247,328	$ 221,096
Additions		
Proceeds from sale of redeemable units	44,581	37,291
Net unrealized gains (losses)	(4,431)	16,418
Net realized gains	5,841	5,069
Investment income	8,133	7,070
	54,124	65,848
Deductions		
Payments on redemption of redeemable units	36,911	35,191
Management fees	4,329	3,970
Withholding taxes	373	455
	41,613	39,616
Net increase to segregated funds for the year	12,511	26,232
Segregated funds net assets – at December 31	$ 259,839	$ 247,328

17 Trade and Other Payables

		2015		2014
		('000s)		
Trade and accrued payables	$	125,179	$	99,327
Premium taxes payable		43,220		39,689
Finance lease commitments		25,859		28,282
Premiums received in advance		15,445		19,732
Other		5,055		4,492
	$	214,758	$	191,522
Current	$	192,617	$	167,010
Non-current		22,141		24,512
	$	214,758	$	191,522

The carrying amounts above reasonably approximate fair value at the balance sheet date.

Finance lease commitments

The Company has finance leases for some computer hardware and intangible assets. These leases have varying terms of renewal and purchase options, both of which are at the option of the Company.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2015				2014			
		Minimum payments		Present value of payments		Minimum payments		Present value of payments
				('000s)				
Within one year	$	3,761	$	3,718	$	3,818	$	3,770
After one year but not more than five years		12,446		11,595		12,478		11,554
More than five years		12,204		10,479		15,255		12,725
	$	28,411	$	25,792	$	31,551	$	28,049

18 Insurance Contract Liabilities

a) Property and casualty, and Life Company insurance contract liabilities

	2015			2014		
	Insurance contract liabilities	Reinsurers' portion	Net	Insurance contract liabilities	Reinsurers' portion	Net
			('000s)			
Property and casualty						
Unearned premiums	$ 1,415,819	$ 6,684	$ 1,409,135	$ 1,317,700	$ 5,396	$ 1,312,304
Unpaid claims	2,738,142	24,256	2,713,886	2,840,202	126,943	2,713,259
	4,153,961	30,940	4,123,021	4,157,902	132,339	4,025,563
Life Company						
Insurance contract liabilities	639,724	(16,011)	655,735	616,951	(18,633)	635,584
Insurance contract liabilities	$ 4,793,685	$ 14,929	$ 4,778,756	$ 4,774,853	$ 113,706	$ 4,661,147
Current	$ 2,417,081	$ 33,161	$ 2,383,920	$ 2,316,270	$ 44,274	$ 2,271,996
Non-current	2,376,604	(18,232)	2,394,836	2,458,583	69,432	2,389,151
	$ 4,793,685	$ 14,929	$ 4,778,756	$ 4,774,853	$ 113,706	$ 4,661,147

b) Property and casualty unearned premiums

The movements in unearned premiums for the year were:

	2015			2014		
	Unearned premiums	Reinsurers' portion	Net	Unearned premiums	Reinsurers' portion	Net
			('000s)			
At January 1	$ 1,317,700	$ 5,396	$ 1,312,304	$ 1,268,735	$ 2,067	$ 1,266,668
Gross premiums written	2,777,617	96,692	2,680,925	2,609,346	123,524	2,485,822
Premiums earned	(2,719,328)	(95,404)	(2,623,924)	(2,576,683)	(120,195)	(2,456,488)
Foreign exchange adjustment	39,830	-	39,830	16,302	-	16,302
At December 31	$ 1,415,819	$ 6,684	$ 1,409,135	$ 1,317,700	$ 5,396	$ 1,312,304

Gross premiums written and premiums earned include respective instalment service charges.

18 Insurance Contract Liabilities (continued)

c) Property and casualty unpaid claims

	2015			2014		
('000s)	Gross unpaid claims	Reinsurers' portion	Net	Gross unpaid claims	Reinsurers' portion	Net
Provision for reported claims undiscounted	$ 2,287,432	$ 23,647	$ 2,263,785	$ 2,414,107	$ 128,572	$ 2,285,535
Effect of discounting	(150,537)	(641)	(149,896)	(160,259)	(8,151)	(152,108)
PFADs	214,313	1,250	213,063	214,717	6,522	208,195
Provision for claims IBNR	386,934	-	386,934	371,637	-	371,637
	$ 2,738,142	$ 24,256	$ 2,713,886	$ 2,840,202	$ 126,943	$ 2,713,259

Management believes that the unpaid claims provision is appropriately established in the aggregate and is adequate to cover the ultimate net cost on a discounted basis. The determination of this provision, which includes unpaid claims, adjustment expenses and expected salvage and subrogation, requires an assessment of future claims development. This assessment takes into account the consistency of the P&C Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claims arise and the delay inherent in claims reporting. This provision is an estimate and as such is subject to variability that may arise from future events, such as the receipt of additional claims information, changes in judicial interpretation of contracts or significant changes in frequency and severity of claims. This estimate is principally based on the P&C Company's historical experience and may be revised as additional experience becomes available. Any such changes would be reflected in the consolidated statements of operations for the period in which the change occurred.

This estimate does reflect the time value of money. In that respect, the P&C Company determines the discount rate based upon the expected return of fixed income securities held in the portfolio that approximates the cash flow requirements of the unpaid claims. The discount rate applied for Canadian operations was 2.33% (2014 – 2.54%) and for U.S. operations 2.09% (2014 – 1.56%). To recognize the uncertainty inherent in determining unpaid claim amounts, the P&C Company includes PFADs relating to claim development, reinsurance recoveries and future investment income. The PFADs selected are all within the ranges recommended by the Canadian Institute of Actuaries.

18 Insurance Contract Liabilities (continued)

The movements in unpaid claims for the year were:

			2015
	Gross unpaid claims	**Reinsurers' portion** ('000s)	**Net**
At January 1	$ 2,840,202	$ 126,943	$ 2,713,259
Changes in estimates for losses occurring in prior years	(8,963)	(9,937)	974
Provision for claims occurring in the current year	1,970,856	2,009	1,968,847
Paid on claims	(2,063,953)	(94,759)	(1,969,194)
At December 31	$ 2,738,142	$ 24,256	$ 2,713,886

			2014
	Gross unpaid claims	**Reinsurers' portion** ('000s)	**Net**
At January 1	$ 2,790,523	$ 176,238	$ 2,614,285
Changes in estimates for losses occurring in prior years	(6,452)	(25,777)	19,325
Provision for claims occurring in the current year	2,001,277	84,642	1,916,635
Paid on claims	(1,945,146)	(108,160)	(1,836,986)
At December 31	$ 2,840,202	$ 126,943	$ 2,713,259

18 Insurance Contract Liabilities (continued)

d) Life Company insurance contract liabilities and reinsurance assets

i) Insurance contract liabilities and reinsurance assets composition

	2015	2014
	('000s)	
Insurance contract liabilities		
Gross insurance contract liabilities	$ 622,917	$ 603,139
Reinsurance liabilities	20,797	21,668
Insurance contract liabilities	643,714	624,807
Other policy liabilities(1)	16,807	13,812
Total insurance contract liabilities	660,521	638,619
Reinsurance assets(2)	4,786	3,035
Net insurance contract liabilities	$ 655,735	$ 635,584

(1) Consists of policyholder amounts on deposit, benefits payable and provision for unreported claims.
(2) Reinsured benefits payable and provision for unreported claims.

Life Company insurance contract liabilities of $639,724 (2014 - $616,951) consists of gross insurance contract liabilities, and other policy liabilities. The reinsurers' portion of $(16,011) (2014 - $(18,633)) consists of reinsurance liabilities and reinsurance assets, in which Life Company is in a net liability position.

Life Company insurance contract liabilities of $11,659 (2014 - $8,715) related to group life and health (life insurance, AD&D and LTD benefits) for Company employees have been reclassified to Trade and other payables.

18 Insurance Contract Liabilities (continued)

ii) Insurance contract liabilities

	2015			2014		
	Gross liabilities	Reinsurance liabilities (assets)	Total liabilities	Gross liabilities	Reinsurance liabilities (assets)	Total liabilities
			('000s)			
Participating						
Individual life	$ 263,507	$ 39,261	$ 302,768	$ 251,874	$ 38,248	$ 290,122
Individual annuity	41,219	-	41,219	43,100	-	43,100
Non-participating						
Individual life	175,382	3,126	178,508	160,935	4,267	165,202
Individual annuity	107,480	-	107,480	109,237	-	109,237
Group life and health	35,329	(21,590)	13,739	37,993	(20,847)	17,146
	$ 622,917	$ 20,797	$ 643,714	$ 603,139	$ 21,668	$ 624,807

18 Insurance Contract Liabilities (continued)

iii) Assets supporting liabilities and capital and surplus

The following table shows the assets supporting liabilities for the product lines shown (including insurance contract and other policy liabilities), and assets supporting capital and surplus as at December 31:

	Fixed income securities		Stocks				2015
	FVTPL	**AFS**	**FVTPL**	**AFS** ('000s)	**Policy loans**	**Other**	**Total**
Participating							
Individual life	$ 207,982	$ -	$ 76,070	$ -	$ 15,954	$ 2,762	$ 302,768
Individual annuity	36,577	-	-	-	-	4,642	41,219
Non-participating							
Individual life	167,648	-	6,006	-	1,700	3,154	178,508
Individual annuity	97,137	-	-	-	-	10,343	107,480
Group life and health	24,828	-	-	-	-	570	25,398
Other, including capital and surplus	6,809	118,447	-	25,319	-	19,819	170,394
	$ 540,981	$ 118,447	$ 82,076	$ 25,319	$ 17,654	$ 41,290	$ 825,767

18 Insurance Contract Liabilities (continued)

	Fixed income securities		Stocks				2014
	FVTPL	AFS	FVTPL	AFS ('000s)	Policy loans	Other	Total
Participating							
Individual life	$ 198,143	$ -	$ 75,126	$ -	$ 15,464	$ 1,389	$ 290,122
Individual annuity	37,969	-	-	-	-	5,131	43,100
Non-participating							
Individual life	156,928	-	5,397	-	1,666	1,211	165,202
Individual annuity	98,074	-	-	-	-	11,163	109,237
Group life and health	25,380	-	-	-	-	481	25,861
Other, including capital and surplus	9,107	116,325	-	26,518	-	18,860	170,810
	$ 525,601	$ 116,325	$ 80,523	$ 26,518	$ 17,130	$ 38,235	$ 804,332

Segregated funds net assets have been excluded from total assets in the above tables.

iv) Change in insurance contract liabilities

			2015			2014
	Gross liabilities	Reinsurance liabilities (assets)	Total liabilities	Gross liabilities	Reinsurance liabilities (assets)	Total liabilities
			('000s)			
At January 1	$ 603,139	$ 21,668	$ 624,807	$ 542,075	$ 14,665	$ 556,740
Normal change						
New business	2,625	(1,579)	1,046	1,213	(1,184)	29
In force	16,558	1,418	17,976	55,191	7,657	62,848
Management action and assumption changes	595	(710)	(115)	4,660	530	5,190
Change in year	19,778	(871)	18,907	61,064	7,003	68,067
At December 31	$ 622,917	$ 20,797	$ 643,714	$ 603,139	$ 21,668	$ 624,807

18 Insurance Contract Liabilities (continued)

v) Management action and assumption changes

Each assumption is reviewed annually for continued appropriateness. Management action and assumption changes can increase or decrease insurance contract liabilities. The full impact of management action and assumption changes is recognized in profit (loss) immediately. The impact and description of these actions and changes are shown below:

				2015
	Gross liabilities	Total liabilities ('000s)	Impact on profit (loss)	Description
Mortality	$ 290	$ 560	$ (411)	Update of expected mortality assumption
Morbidity	(460)	(215)	158	Refinement of the disabled life recovery rates
Policy termination	1,805	2,090	(1,532)	Lowering of Term to 100 termination rates
Investment	(2,515)	(2,830)	2,074	Change in asset mix and investment strategy related to long-term liabilities
Other	1,475	280	(206)	Largely due to an increase in premium tax rates
	$ 595	$ (115)	$ 83	

18 Insurance Contract Liabilities (continued)

				2014
	Gross liabilities	**Total liabilities** ('000s)	**Impact on profit (loss)**	**Description**
Mortality	$ (485)	$ (425)	$ 313	Reduction in expected mortality assumption
Morbidity	220	100	(74)	Refinement of the disabled life recovery rates
Policy termination	475	475	(349)	Refinement of lapse rates for renewable term life insurance
Investment	3,350	3,935	(2,893)	Largely due to the decline in reinvestment interest rates
Other	1,100	1,105	(813)	All other management actions and assumption changes
	$ 4,660	$ 5,190	$ (3,816)	

19 Employee Future Benefits

Total cash payments

Total cash payments for employee future benefits, consisting of cash contributed by the Company to its funded pension plans, cash payments made for benefits incurred by retired employees under the unfunded OPEB plans, and cash contributed to the defined contribution plan, were $23,005 (2014 - $21,059).

The Company expects to contribute $18,358 to the defined benefit plans in 2016 and $1,105 to the defined contribution plan in 2016.

The non-supplemental pension plans are subject to minimum funding requirements by the Manitoba Pension and Benefits Act in Canada and ERISA in the U.S. It should be noted that both the defined benefit obligation as well as the plan assets fluctuate over time, which can result in the plans being underfunded. In the event plans may be underfunded, statutory regulations may require the Company to reduce the underfunded position through additional contributions to plan assets. The Company's funding policy for the funded pension plans is to make annual contributions equal to or greater than those required by the applicable regulations and plan provisions that govern the funding of the plans. The supplemental plan is funded in accordance with the plan's trust agreement, which requires funding on a wind-up basis.

Defined benefit plans

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the Canadian employees' defined benefit pension plan for funding purposes was as of December 31, 2013. Generally, the Canadian employees' defined benefit pension plan requires a valuation every three years. However, when fluctuations in the defined benefit obligation and plan assets result in an underfunded position not meeting minimum funding requirements, a valuation is required annually until minimum funding requirements are achieved. The next required valuation of the Canadian employees' defined benefit pension plan will be as at December 31, 2016. The Canadian employees' supplemental plan and the U.S. employees' defined benefit pension plan require a valuation as at December 31 each year.

19 Employee Future Benefits (continued)

The amounts recognized in the consolidated statements of operations are as follows:

	2015	2014	2015	2014
	Pension plans		OPEB plans	
	(‘000s)			
Current service cost	$ 32,531	$ 18,060	$ 5,983	$ 5,724
Net interest on net accrued benefit liability (asset)	1,957	(2,796)	3,927	4,592
Cost of termination benefits	583	-	-	-
At December 31	$ 35,071	$ 15,264	$ 9,910	$ 10,316

Net interest on net accrued benefit liability is interest cost of $29,192 (2014 - $26,788) less expected return on pension plan assets of $23,308 (2014 - $25,068) for the pension plans.

The amounts recognized in the consolidated statements of comprehensive income are as follows:

	2015	2014	2015	2014
	Pension plans		OPEB plans	
	(‘000s)			
Actuarial gain on plan assets	$ 10,372	$ 27,144	$ -	$ -
Actuarial gain (loss) on financial assumption changes	50,414	(113,517)	2,379	(3,973)
Actuarial gain (loss) on demographic assumption changes	1,483	(17,350)	3,965	9,868
Actuarial gain (loss) arising from plan member experience	1,071	(4,194)	192	156
Change in effect of asset ceiling test	(610)	1,586	-	-
At December 31	$ 62,730	$ (106,331)	$ 6,536	$ 6,051

19 Employee Future Benefits (continued)

The amounts recognized on the consolidated balance sheets are as follows:

	2015	2014	2015	2014
	Pension plans		OPEB plans	
	(‘000s)			
Present value of the defined benefit obligations	$ (623,192)	$ (614,260)	$ (98,802)	$ (95,279)
Fair value of plan assets	614,508	558,426	-	-
Effect of the asset ceiling test	(610)	-	-	-
Total accrued benefit liability	$ (9,294)	$ (55,834)	$ (98,802)	$ (95,279)

The accrued benefit liability is included on the consolidated balance sheets as follows:

	2015	2014	2015	2014	2015	2014
	Pension plans		OPEB plans		Total	
	(‘000s)					
Employee future benefits	$ (9,294)	$ (55,834)	$ (98,802)	$ (95,279)	$ (108,096)	$ (151,113)

19 Employee Future Benefits (continued)

The movements in the defined benefit obligations are as follows:

	2015	2014	2015	2014
	Pension plans		OPEB plans	
	('000s)			
At January 1	$ 614,260	$ 443,810	$ 95,279	$ 91,723
Current service cost	32,531	18,060	5,983	5,724
Interest cost	25,265	22,196	3,927	4,592
Contributions by plan participants	4,514	3,877	-	-
Benefits paid	(16,545)	(13,297)	(1,205)	(1,239)
Actuarial loss (gain) on financial assumption changes	(50,414)	113,517	(2,379)	3,973
Actuarial loss (gain) on demographic assumption changes	(1,483)	17,350	(3,965)	(9,868)
Actuarial loss (gain) arising from plan member experience	(1,071)	4,194	(192)	(156)
Foreign exchange loss	16,135	4,553	1,354	530
At December 31	$ 623,192	$ 614,260	$ 98,802	$ 95,279

19 Employee Future Benefits (continued)

The movements in the fair value of pension plan assets are as follows:

	2015	2014
	('000s)	
At January 1	$ 558,426	$ 490,817
Expected return on plan assets	23,308	25,068
Contributions by employer	20,379	19,069
Contributions by plan participants	4,514	3,877
Benefits paid	(16,545)	(13,297)
Actuarial gains	10,372	27,144
Foreign exchange gains	14,054	5,748
At December 31	$ 614,508	$ 558,426

The actual return on plan assets during the year was $33,680 (2014 - $52,212) compared to the expected amount of $23,308 (2014 - $25,068).

The pension plan assets at December 31 are invested as follows:

	2015		2014	
	('000s)	%	('000s)	%
Canadian equities	$ 104,317	17	$ 112,706	20
Foreign equities	292,982	48	247,044	45
Canadian debt	150,189	24	151,636	27
Foreign debt	46,729	8	29,204	5
Other	20,291	3	17,836	3
Total plan assets	$ 614,508	100	$ 558,426	100

19 Employee Future Benefits (continued)

The principal actuarial assumptions calculated on a weighted average basis used in determining the pension benefit and other post-employment benefit obligations for the Company's plans are as follows:

	2015	2014	2015	2014
		Pension plans		OPEB plans
	%	%	%	%
Economic assumptions:				
Future salary increases	3.3	3.7	-	-
Inflation assumption	1.7	2.2	-	-
Discount rate – beginning of year	4.1	5.1	4.1	5.0
– end of year	4.3	4.1	4.3	4.1
Select medical care cost trend rate	-	-	5.8	5.8
Ultimate medical care cost trend rate	-	-	4.5	4.5
Year ultimate trend is reached	-	-	2034	2034
The average life expectancy in years of a pensioner retiring at age 65, at the end of the reporting period:				
Male	22.4	22.4	22.4	22.4
Female	24.8	24.8	24.8	24.8

19 Employee Future Benefits (continued)

Measurement uncertainty exists in valuing the components of employee future benefits. Each assumption is determined by management based on current market conditions and plan experience information available at the time, however, the long-term nature of the exposure and future fluctuations in the actual results makes the valuation uncertain.

Changes in the assumptions would impact the defined benefit obligation as follows:

	1% Increase	1% Decrease	1% Increase	1% Decrease
	Pension plans		OPEB plans	
Defined benefit obligation				
Future salary increases	$ 39,620	$ (34,145)	$ -	$ -
Inflation assumption	74,184	(63,029)	-	-
Discount rate	(92,509)	120,790	(17,342)	23,104
Assumed medical care cost trend rates	-	-	22,271	(17,028)
Increase in average life expectancy by one year				
Male	6,777	-	1,517	-
Female	7,806	-	1,788	-

The weighted average duration of the defined benefit obligation is 18.1 years (2014 – 18.8 years) for the pension plans and 19.9 (2014 – 21.5 years) years for the OPEB.

Defined contribution plan

The total cost recognized for the Company's defined contribution plan is as follows:

	2015	2014
	('000s)	
Plan providing pension benefits	$ 875	$ 750

20 Other Expenses Incurred

		2015		2014
		('000s)		
Commissions	$	405,336	$	386,229
Salaries and employee benefits		149,899		110,007
Premium taxes		89,494		85,364
Operational		65,217		56,196
Administrative		34,710		29,778
Facility Association		8,959		9,504
Other		2,225		1,987
	$	755,840	$	679,065

21 Participating Policyholders' Account

Life Company has both participating and non-participating policies. Life Company maintains its participating business separately from the non-participating business. The Participating policyholders' account is $29,264 (2014 - $29,407), which includes AOCI of $1,031 (2014 - $1,134).

Participating policies are those that entitle the holder of the policy to participate in the profits of the participating business. Each year, the Board of Directors sets apart a portion of Participating policyholders' account to be paid as dividends to the participating policyholders. The dividends paid to the participating policyholders during the year were $4,037 (2014 - $3,926).

A portion of the Participating policyholders' account is also transferred to the Company's retained earnings each year. The amount transferred, which is limited by legislation, was $404 (2014 - $393).

22 Contingent Liabilities

The Company is subject to litigation arising in the normal course of conducting its insurance business. The Company is of the opinion that this litigation will not have a significant effect on the financial position, financial performance or cash flows of the Company.

Mutual Company has settled some insurance claims by purchasing annuities (structured settlements) from life insurers. Mutual Company guarantees the future annuity payments and thus is exposed to a credit risk to the extent any of the life insurers fail to fulfill their obligations. The risk is managed by acquiring annuities from several Canadian life insurers. To December 31, 2015, no information has come to Mutual Company's attention to suggest any financial weakness in life insurers from which it has purchased annuities. Consequently, no provision for credit risk is required. The credit risk exposure at December 31, 2015 is estimated at the fair value of the annuities of $187,331 (2014 - $172,772). The net risk to Mutual Company is the credit risk related to the life insurance companies that the annuities are purchased from. This risk is reduced to the extent of coverage provided by Assuris, the life insurance compensation insurance plan. No defaults have occurred, and Mutual Company considers the possibility of default to be remote.

23 Related Party Transactions

The Company enters into transactions with its key management personnel in the normal course of business.

Compensation of key management personnel

Key management personnel of the Company include all directors and senior management. The summary of compensation for key management personnel is as follows:

	2015	2014
	('000s)	
Salaries, fees and other short-term employment benefits	$ 4,363	$ 4,097
Post-employment benefits	871	559
	$ 5,234	$ 4,656

Pension and OPEB

The Company has defined benefit plans, defined contribution and other post-employment benefit plans providing post-employment benefits to most of its employees. The Company pays all expenses associated with the operation of these plans in the normal course of business.

Segregated Funds

Life Company provides investment management and administrative services to its segregated funds and charged management fees for these services totalling $4,005 (2014 - $3,670).

Balances between Life Company and its segregated funds are settled on a regular basis and the outstanding amount is insignificant at December 31, 2015 and 2014.

24 Premium Rate Regulation

Substantially all of the P&C Company's automobile business and its U.S. property business are subject to rate regulation by various provincial and state regulators. This business comprises approximately 54% (2014 - 54%) of gross premiums written.

Regulation of premium rates is based on the cost of providing insurance coverage which recognizes claims and other costs including anticipated profit margins. Insurance premiums can be subject to mandatory rate rollbacks and mandatory rate assessments imposed by provincial or state legislation or regulation. This could result in lower future premium rates or reductions to premium rates charged by the P&C Company in prior periods. In addition, the P&C Company is required, under the legislation of certain jurisdictions, to participate in risk sharing pools which may positively or negatively impact underwriting results. The impact of the participation is insignificant to the overall consolidated financial statements.

At various points throughout the year, the P&C Company will have applications pending with certain regulators for automobile premium rate changes. All are in the normal course of business. The P&C Company is not aware of any proposed or pending rate rollbacks related to prior years.

25 Capital Management

The Company's capital management objective is to ensure that the Company is capitalized in a manner which provides a strong financial position for its policyholders and at the same time exceeds the regulatory capital requirements. Annually, the Board of Directors review available capital as defined for regulatory purposes to ensure it is meeting regulatory requirements. Management performs a similar review on a quarterly basis.

The capital structure of the Company is comprised of Retained earnings, AOCI and the Participating policyholders' account.

Mutual Company is a Canadian property and casualty insurance company and is subject to regulation by OSFI. OSFI expects Canadian property and casualty insurance companies to establish an internal target capital ratio above the supervisory target capital ratio of 150% when applying the Minimum Capital Test (MCT). The operating results and financial position of the P&C Company are included in the MCT calculation. As at December 31, 2015 and 2014, the P&C Company's MCT exceeded the supervisory target capital ratio required by OSFI as well as the Company's internal target.

	2015	2014
	('000s)	
Total capital available	$ 3,062,617	$ 2,803,621
Total minimum capital required	947,783	919,792
Excess capital available over minimum capital required	$ 2,114,834	$ 1,883,829
Ratio	323%	305%

25 Capital Management (continued)

Life Company, as a Canadian life insurance company, is also subject to regulation by OSFI and is required to meet the Minimum Continuing Capital and Surplus Requirements (MCCSR) as established by OSFI. OSFI expects life insurance companies to establish an internal target capital ratio above the supervisory target capital ratio of 150%. As at December 31, 2015 and 2014, Life Company's MCCSR was in compliance with the supervisory target capital ratio required by OSFI as well as the Company's internal target.

	2015 ('000s)	2014
Capital available		
Share capital	$ 36,500	$ 36,500
Retained earnings	76,459	73,562
Participating policyholders' account, less AOCI	28,233	28,273
Other	573	2,495
	$ 141,765	$ 140,830
Capital required		
Asset default and market risks	$ 16,071	$ 15,715
Insurance risks	28,537	28,017
Interest rate risks	10,455	9,918
	$ 55,063	$ 53,650
Ratio	257%	262%

General Company is regulated by the California Department of Insurance and is subject to the capital requirements as measured by the National Association of Insurance Commissioners (NAIC). The NAIC utilizes a risk based capital formula to assess compliance with its capital requirements. The California Department of Insurance requires that the Total Adjusted Capital of American property and casualty insurance companies not fall below 200% of the Authorized Control Level as measured by NAIC. As at December 31, 2015 and 2014, General Company's Total Adjusted Capital of 456% (2014 - 692%) exceeds the minimum capital required by the California Department of Insurance.

26 Insurance and Financial Risk Management

As a key principle of the Company's Enterprise Risk Management practice, the Board of Directors, the Risk Management Committee, and senior management have identified the importance of risk management in the achievement of the Company's objectives. The Risk Committee, of the Board of Directors, ensures that management has put appropriate risk management processes in place. To that end, a process of identification, documentation, and quantification involving the risks facing the Company has been adopted. Particular interest is taken in those risks that pose the largest threat to the long-term growth and financial stability of the organization.

26 Insurance and Financial Risk Management (continued)

Risk Committee of the Board of Directors

The Board of Directors has overall responsibility for the Enterprise Risk Management Policy, framework, and risk appetite. Additionally, the Board of Directors has responsibility to ensure that a process is in place to identify risks and that appropriate means of monitoring those risks are established, and that the Company's risk management practice has the appropriate level of independence and visibility. To fulfill these responsibilities, the Board of Directors has created a Risk Committee devoted to the governance of the Company's Enterprise Risk Management practice.

Risk Management Committee

The Risk Management Committee has overall responsibility for the risk management activities within the Company. These include reviewing and approving the Enterprise Risk Management Policy, Risk Framework, and Statement of Risk Appetite. Other responsibilities include the identification of material risks, establishing a program for stress testing, establishing a mechanism for escalating risk relevant concerns, and ensuring that risk management principles, as provided within the Enterprise Risk Management Policy, are organizationally "front of mind" when formulating the strategic plan.

Senior management

Senior management acts as risk owners, facilitating the creation and review of risk assessments, reinforcing the Company's culture of risk awareness, and providing input into the continuing development and improvement of the overall approach to risk management.

Internal Audit

The principles established by the Company's Enterprise Risk Management Policy identify risk management as being subject to a process of review, with the goal being the refinement of the approaches and methodologies utilized within the risk management practice. In support of this principle, Internal Audit acts as a key business partner in reviewing branch internal controls and workflows in the claims, underwriting, service, accounting, and privacy areas. This ensures that areas reviewed are adequately controlled in accordance with Company policies, including those policies established for the purposes of risk management.

Property and casualty insurance risk management

The P&C Company issues contracts insuring automobiles, as well as property and farm coverages. For all lines, policies are issued for both personal and commercial exposures.

The most significant insurance risks that the P&C Company must manage relate to product management, policy liabilities (including the impact of changes to the discount rate), and catastrophe and reinsurance risk. In categorizing the Company's most relevant risks, delineation is made between insurance risk and financial risk.

26 Insurance and Financial Risk Management (continued)

Product management and pricing

The risk associated with product management is that the complex nature of the market for insurance policies underwritten by the Company is not completely identified and accounted for by those charged with the decision making responsibility regarding the products offered. This can ultimately lead to a financial obligation that differs from the income stream generated by the insurance operation.

The degree of risk is influenced by the Company's ability to manage various forces, including, but not limited to, rate adequacy, underwriting concentration, adverse selection, competitive position, and policyholder price change sensitivity.

During rate and product reviews, the Company accounts for several factors including claims frequency and severity trends, premium and exposure trends, social and legal trends, expense ratios, capital requirements, investment income, policyholder preferences, class plan design, underwriting criteria, and general loss experience. These factors are reviewed on a regular basis to ensure they are reflective of current trends and market climate. The market is also periodically reviewed to determine whether there are additional product offerings that warrant introduction.

Rate regulation is in place in Canada and the U.S. For Canada, outside of Quebec, the automobile insurance product is regulated. In the U.S. all lines of business offered by the Company are regulated.

The P&C Company may choose to adjust prices to below what it feels is necessary to operate profitably for a line or jurisdiction in order to maintain a competitive position. However, the P&C Company attempts to keep a pricing level which supports long-term growth and financial stability.

26 Insurance and Financial Risk Management (continued)

The table below shows the P&C Company's current distribution of gross premiums written by region and line of business. The P&C Company's exposure to insurance risks varies significantly by geographic region and may change over time.

					2015
	Automobile	Personal property	Commercial property ('000s)	Farm	Total
Province					
British Columbia	$ -	$ 194,059	$ 37,532	$ 8,567	$ 240,158
Alberta	539,563	214,026	60,643	92,261	906,493
Saskatchewan	-	76,016	21,490	43,399	140,905
Manitoba	-	77,941	21,618	22,472	122,031
Ontario	405,040	153,821	39,012	1,102	598,975
Quebec	40,598	26,767	-	-	67,365
New Brunswick	73,349	28,462	4,129	-	105,940
Nova Scotia	47,584	19,934	5,126	-	72,644
Prince Edward Island	9,122	1,034	691	-	10,847
Yukon	4,368	2,224	441	37	7,070
Northwest Territories	325	-	-	-	325
Nunavut	88	-	-	-	88
Total Canada	1,120,037	794,284	190,682	167,838	2,272,841
State					
California	424,486	36,670	-	-	461,156
Oregon	7,357	-	-	-	7,357
Total U.S.	431,843	36,670	-	-	468,513
	$ 1,551,880	$ 830,954	$ 190,682	$ 167,838	$ 2,741,354

26 Insurance and Financial Risk Management (continued)

					2014
	Automobile	Personal property	Commercial property ('000s)	Farm	Total
Province					
British Columbia	$ -	$ 178,183	$ 35,564	$ 7,814	$ 221,561
Alberta	533,148	206,858	49,980	85,832	875,818
Saskatchewan	-	70,549	19,643	40,802	130,994
Manitoba	-	73,362	18,303	20,823	112,488
Ontario	416,751	146,760	31,999	1,062	596,572
Quebec	33,957	25,231	-	-	59,188
New Brunswick	74,870	27,871	3,848	-	106,589
Nova Scotia	47,371	19,599	4,432	-	71,402
Prince Edward Island	8,951	1,032	576	-	10,559
Yukon	4,435	2,098	347	36	6,916
Northwest Territories	342	-	-	-	342
Nunavut	98	-	-	-	98
Total Canada	1,119,923	751,543	164,692	156,369	2,192,527
State					
California	344,301	30,153	-	-	374,454
Oregon	6,124	-	-	-	6,124
Total U.S.	350,425	30,153	-	-	380,578
	$ 1,470,348	$ 781,696	$ 164,692	$ 156,369	$ 2,573,105

Policy liabilities

The risk associated with policy liabilities is that the dynamics involved in the emergence of the loss experience will not be fully represented within the assessment of the policy liabilities by those charged with the responsibility of conducting the assessment. This includes, but is not limited to, claim development (both in terms of claim counts and loss dollars), regulation, inflation (economic, social, and legal), the impact of catastrophes, and any changes to the claim handling process.

26 Insurance and Financial Risk Management (continued)

Ultimate reserves are determined as of December 31 on an accident year basis. Standard actuarial loss projection methods are used to estimate ultimate losses. The choice of selected results for each accident year of each line of business depends on an assessment of the methodology that has been most appropriate to observed historical developments. Data utilized for development purposes is gross premiums written by line, based on calendar accident year as of December 31. For purposes of determining the required reserve at December 31, estimated ultimate losses are reduced by the paid loss at December 31. Required reserves are discounted to reflect the time value of money and include a provision for adverse deviation. A portion of the amounts recorded as policy liabilities are based on estimates and are subject to revision in future reporting periods.

Other key circumstances affecting the reliability of assumptions include variation in interest rate and changes in the settlement patterns. The property and casualty insurance contract liabilities are sensitive to the key assumptions shown below. It has not been possible to estimate the sensitivity of certain assumptions such as uncertainty in the estimation process.

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net unpaid claims liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate insurance contract liabilities, but to demonstrate the impact due to changes in assumptions, the assumptions had to be changed on an individual basis.

					2015
	Change in assumption	Impact on gross insurance contract liabilities	Impact on net insurance contract liabilities	Impact on profit before tax	Impact on equity
			('000s)		
Net loss ratio	+1%	$ 801	$ 794	$ (26,247)	$ (19,284)
Discount rate	-1%	67,279	66,683	(66,683)	(48,991)

					2014
	Change in assumption	Impact on gross insurance contract liabilities	Impact on net insurance contract liabilities	Impact on profit before tax	Impact on equity
			('000s)		
Net loss ratio	+1%	$ 1,838	$ 1,756	$ (24,572)	$ (18,149)
Discount rate	-1%	65,967	63,019	(63,019)	(46,546)

The method used for deriving sensitivity information and significant assumptions did not change from the prior period.

26 Insurance and Financial Risk Management (continued)

The following table shows the estimate of cumulative incurred claims, including both claims reported and IBNR for each successive accident year at each balance sheet date, together with cumulative payments to date. The P&C Company has elected to present its claims development on an accident year basis as this is consistent with how the business is managed. The P&C Company has elected to translate claims payments made in U.S. dollars using the average rate for the month in which they are paid, and estimated claims at the rate of exchange applicable at the end of each valuation year.

26 Insurance and Financial Risk Management (continued)

The following table represents the development of claims on a gross basis as of December 31, 2015:

Accident year	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
						('000s)				
Estimate of cumulative incurred claims for the most recent nine years:										
At end of accident year	$ 1,418,682	$ 1,495,186	$ 1,632,584	$ 1,734,269	$ 1,904,869	$ 1,803,111	$ 2,019,497	$ 1,992,050	$ 1,961,138	
One year later	1,397,437	1,482,383	1,623,972	1,682,285	1,840,860	1,756,717	2,004,807	1,979,788		
Two years later	1,394,948	1,476,972	1,637,656	1,681,490	1,830,682	1,768,023	2,024,759			
Three years later	1,387,091	1,490,776	1,652,652	1,698,540	1,839,419	1,773,037				
Four years later	1,385,929	1,498,169	1,668,571	1,700,722	1,831,589					
Five years later	1,390,104	1,499,273	1,666,649	1,696,695						
Six years later	1,392,568	1,507,692	1,655,526							
Seven years later	1,370,639	1,506,228								
Eight years later	1,389,009									
Current estimate of cumulative incurred claims:	1,389,009	1,506,228	1,655,526	1,696,695	1,831,589	1,773,037	2,024,759	1,979,788	1,961,138	15,817,769
Cumulative payments to date	(1,355,017)	(1,430,802)	(1,546,011)	(1,555,625)	(1,622,069)	(1,495,370)	(1,691,255)	(1,513,071)	(1,036,369)	(13,245,589)
Gross property and casualty insurance contract liabilities at December 31, 2015 at the consolidated balance sheets exchange rate	$ 33,992	$ 75,426	$ 109,515	$ 141,070	$ 209,520	$ 277,667	$ 333,504	$ 466,717	$ 924,769	$ 2,572,180
Effect of discounting and PFADs on above	1,351	12,880	3,993	(3,466)	7,237	9,278	8,652	8,857	9,718	58,500
Discounted gross unpaid claims in respect of years prior to 2007										107,462
Total gross unpaid claims										$ 2,738,142
Current estimate of surplus/(deficiency)	29,673	(11,042)	(22,942)	37,574	73,280	30,074	(5,262)	12,262		

26 Insurance and Financial Risk Management (continued)

The following table represents the development of claims on a net of reinsurance basis as of December 31, 2015:

Accident year	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
						('000s)				
Estimate of cumulative incurred claims for the most recent nine years:										
At end of accident year	$ 1,389,939	$ 1,495,070	$ 1,570,250	$ 1,658,900	$ 1,777,772	$ 1,749,935	$ 1,838,272	$ 1,906,490	$ 1,959,111	
One year later	1,366,712	1,482,228	1,572,380	1,624,977	1,735,984	1,718,976	1,840,018	1,903,877		
Two years later	1,365,481	1,476,842	1,586,989	1,631,545	1,735,115	1,738,308	1,864,648			
Three years later	1,357,605	1,490,644	1,601,764	1,647,602	1,745,137	1,743,578				
Four years later	1,356,442	1,498,034	1,617,642	1,650,144	1,737,640					
Five years later	1,360,618	1,499,138	1,615,688	1,646,028						
Six years later	1,363,082	1,507,557	1,604,602							
Seven years later	1,359,848	1,506,092								
Eight years later	1,359,535									
Current estimate of cumulative incurred claims:	1,359,535	1,506,092	1,604,602	1,646,028	1,737,640	1,743,578	1,864,648	1,903,877	1,959,111	15,325,111
Cumulative payments to date	(1,325,542)	(1,430,667)	(1,495,107)	(1,505,182)	(1,529,459)	(1,466,064)	(1,533,988)	(1,449,110)	(1,035,307)	(12,770,426)
Net property and casualty insurance contract liabilities at December 31, 2015 at the consolidated balance sheets exchange rate	$ 33,993	$ 75,425	$ 109,495	$ 140,846	$ 208,181	$ 277,514	$ 330,660	$ 454,767	$ 923,804	$ 2,554,685
Effect of discounting and PFADs on above	1,351	12,880	3,992	(3,470)	7,216	9,277	8,643	8,712	9,736	58,337
Discounted net unpaid claims in respect of years prior to 2007										100,864
Total net unpaid claims										$ 2,713,886
Current estimate of surplus/(deficiency)	30,404	(11,022)	(34,352)	12,872	40,132	6,357	(26,376)	2,613		

26 Insurance and Financial Risk Management (continued)

Catastrophe and reinsurance risk

The P&C Company has in place a comprehensive reinsurance program designed to protect the organization from the impact of catastrophic risk. The program provides reinsurance coverage in the event of a covered loss up to $1,300,000 subject to an appropriate deductible. In determining the protection purchased, the P&C Company analyzes its exposure to these risks (primarily earthquake and wind/hail) on an annual basis using state-of-the-art modeling provided through Risk Management Solutions Inc. (RMS). To ensure reinsurance is collectible, the P&C Company limits participation to reinsurers that are A rated or better based on A.M. Best or Standard & Poor's rating.

The Board of Directors has approved and annually reviews the Reinsurance Risk Management Policy which deals with the types of reinsurance programs placed and the practices management follows in managing and placing these programs.

The P&C Company has reinsurance in force during the year to limit its liability as follows:

- In the event of a series of claims arising out of a single occurrence the P&C Company has obtained reinsurance with an upper amount of $1,300,000, which limited its liability to $50,000 (2014 - $40,000) in the event of a series of claims arising out of a single occurrence.
- A drop down contract provides per occurrence protection up to $25,000 (2014 - $15,000) excess of $25,000 on a second and third occurrence basis. Maximum reinsurer's liability is $50,000 (2014 - $30,000) for all loss occurrences.
- Aggregate protection up to $75,000 after satisfaction of a $100,000 deductible, after a $5,000 deductible is applied to each qualifying event. No loss shall be included for more than $20,000 on any one catastrophe loss occurrence.
- In the event of a single liability claim exceeding $5,000, the P&C Company has obtained reinsurance with an upper amount of $15,000 for each occurrence, with a maximum reinsurer's liability of $60,000 on all such occurrences during the term of the contract.
- Unless otherwise noted, all other reinsurance comparative values remain unchanged.

The table below sets out the concentration of property and casualty unpaid claims by type of contract:

	2015			2014		
('000s)	Gross unpaid claims	Reinsurers' portion	Net	Gross unpaid claims	Reinsurers' portion	Net
Automobile	$ 2,123,223	$ 12,555	$ 2,110,668	$ 2,074,427	$ 39,402	$ 2,035,025
Personal property	368,447	9,176	359,271	488,002	69,253	418,749
Commercial property	167,441	1,163	166,278	172,439	6,331	166,108
Farm	79,031	1,362	77,669	105,334	11,957	93,377
At December 31	$ 2,738,142	$ 24,256	$ 2,713,886	$ 2,840,202	$ 126,943	$ 2,713,259

26 Insurance and Financial Risk Management (continued)

There was no impairment of reinsurance assets at year end (2014 - nil).

Life Company insurance risk management

Life Company maintains a comprehensive set of risk management policies to identify, monitor and mitigate, where possible, risks that are material to Life Company. Insurance risk is the uncertainty of product performance due to differences between the actual experience and expected assumptions affecting amounts of claims, benefits payments, expenses and the cost of embedded options and guarantees related to insurance risks.

Concentration risk

The geographic concentration of Life Company's insurance contract liabilities is concentrated in Canada.

Underwriting and liability risk

Insurance contract liabilities are determined using CALM. Liabilities are set equal to the balance sheet value of the assets that would be required to support them. Under CALM, changes in the market value of assets supporting liabilities due to fluctuating credit spreads are offset in the insurance contract liabilities, except to the extent they are the result of changes in credit ratings. Changes in credit ratings that reflect higher or lower defaults will increase or decrease insurance contract liabilities accordingly.

In calculating the insurance contract liabilities, the Life Company Appointed Actuary is required to make assumptions about future mortality, morbidity, policyholder behaviour, expenses and taxes, investment returns, policyholder dividends, reinsurance and currency over the life of the product. CALM also requires assumptions about future asset purchases when projected cash inflows exceed cash outflows, and assumptions about asset divestitures (or asset borrowing) when projected liability cash flows exceed inflows.

These assumptions are made up of two components: best estimate of future experience and margins for uncertainty. Best estimate assumptions represent the most likely outcome as determined by the Life Company Appointed Actuary based on Life Company and industry experience, and other external factors where appropriate. Margins for uncertainty are applied to the best estimate assumptions to allow for misestimation of those best estimate assumptions and for the potential deterioration from those best estimates. Ranges for margins for uncertainty are prescribed by the CIA in its actuarial Standards of Practice. The Life Company Appointed Actuary determines the appropriate margins based on the risk characteristics of the business. These margins vary by assumption and by type of business.

Margins for uncertainty are released into profit (loss) as the risk for misestimation reduces over time. They represent, therefore, deferred income so long as actual experience is equal to, or better than, the expected experience.

26 Insurance and Financial Risk Management (continued)

The process of determining insurance contract liabilities necessarily involves the risk that actual results will deviate from assumed results. The risk varies in proportion to the length of the period covered by each assumption and the potential volatility of actual results. Life Company utilizes reinsurance primarily to limit the mortality or morbidity exposure on a single life. Additional amounts of mortality risk may also be reinsured where it is in the financial interest of Life Company to do so. All of the reinsurance business is transacted with companies registered in Canada which are subject to regulation by OSFI. All reinsurance arrangements are approved by senior management.

Reinsurance ceded does not discharge Life Company of its liability as the primary insurer. Failure of reinsurers to honour their obligations could result in losses to Life Company. A contingent liability exists should an assuming company be unable to meet its obligations. All recoverable amounts are with reinsurers with an A.M. Best credit rating of A- (Excellent) or higher (2014 – A- (Excellent) or higher).

Best estimate assumptions

Best estimate assumptions are made with respect to mortality, morbidity, investment returns, policyholder behaviour, expenses and certain taxes. Actual experience is monitored to assess whether the assumptions remain appropriate. Best estimate assumptions are reviewed annually and changed as warranted. The Life Company has appropriate risk management procedures and policies in place to monitor these assumptions.

Sensitivities to profit of changes in assumptions

The insurance contract liabilities remain sensitive to changes in assumptions, including those relating to market risk. The sensitivity to profit from changes in significant assumptions used in determining the insurance contract liabilities are shown below.

Type	Description	2015	2014
		('000s)	
Mortality	2% increase in life insurance mortality rates	$ 1,264	$ 1,190
	2% decrease in annuity mortality rates	109	132
Morbidity	5% increase in morbidity rates	568	511
Policy Termination	10% adverse change in future termination rates	12,443	11,975
Expenses	5% increase in expense levels	2,428	2,724

26 Insurance and Financial Risk Management (continued)

Financial risk management

Credit risk

Credit risk is the possibility of financial loss, resulting from the failure of a debtor to honour its obligation to the Company.

The following table summarizes the Company's maximum exposure to credit risk on the consolidated balance sheets. The maximum credit exposure is the carrying value of the asset net of any allowances for loss.

	2015	2014
	('000s)	
Fixed income securities		
Federal	$ 1,365,437	$ 1,191,772
Provincial	774,674	803,889
Municipal	329,338	345,653
Corporate rated A or higher	2,224,628	2,290,859
Corporate rated below A	682,941	507,331
	5,377,018	5,139,504
Cash equivalents	21,422	35,269
Accrued investment income	31,549	31,265
Receivables	696,631	641,847
Reinsurance assets	31,071	90,123
Broker loans	50,752	45,583
	831,425	844,087
Maximum credit risk exposure on the consolidated balance sheets	$ 6,208,443	$ 5,983,591

The Company is exposed to credit risk principally through its investment in fixed income securities, and balances receivable from brokers and reinsurers.

The Company's Investment Policy Statements, which are approved by the Investment Committee of the Board of Directors, limit the credit risk of the fixed income securities portfolios by requiring sound asset diversification, restricting the amount exposed to any one issuer and requiring portfolios of high quality. The portfolios are monitored regularly and reviewed quarterly with the Investment Committee.

As at December 31, 2015, 87.30% (2014 - 90.13%) of the Company's investments in fixed income securities were assigned a rating of A or better.

26 Insurance and Financial Risk Management (continued)

Another potential source of credit risk for insurance contracts is premiums due from policyholders. The Company's credit exposure to any one individual policyholder is not material.

The Company monitors its exposure to brokers and has procedures to ensure that it works only with brokers who maintain their account on a current basis.

The P&C Company provides loans to brokers in order to finance the purchase of additional business, orderly succession of brokerage ownership, and significant infrastructure investments. Collateral for the loans varies depending on the structure of each transaction, but generally includes a general security agreement securing a first charge on all assets of the brokerage including the insurance book of business, a pledge of shares, and personal guarantees. The P&C Company reviews the loans on an annual basis to determine if the broker will be able to make the required payments.

The Segregated funds net assets consist of institutional pooled funds and do not expose the Company to credit risk. The risks and rewards of the investment performance of the segregated funds reside with the annuity contractholders, subject to any applicable minimum maturity value and death benefit guarantees.

There are no material financial assets that are past due as at December 31, 2015.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, equity risk and currency risk.

i) Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. Changes in interest rate levels generally impact the financial results to the extent that reinvestment yields are different than the original yields on fixed income securities. Changes in interest rates will affect the fair value of the fixed income securities. During periods of rising interest rates, the market value of the existing fixed income securities will generally decrease. During periods of declining interest rates the opposite is true. For investments classified as AFS, these increases and decreases in fixed income securities will result in corresponding increases and decreases in OCI until the securities are sold and any gain or loss is realized or the securities are written down to reflect an impairment loss. The primary technique for measuring interest rate risk related to fixed income securities is duration analysis.

Changes in interest rates also have an impact on the rate used to discount property and casualty unpaid claims. Consequently, changes in interest rates will affect the carrying value of the unpaid claims. During periods of rising interest rates, the carrying value of unpaid claims will generally decrease and profit will increase. During periods of declining interest rates the opposite is true.

26 Insurance and Financial Risk Management (continued)

Interest rate risk exists on life insurance contracts to the extent that the cash flows from the assets supporting the liabilities do not match the policy obligations in timing and amount. Life Company's exposure to future changes in interest rates is significantly reduced for many lines of the life insurance business due to the practice of matching cash flows on the assets with those of the corresponding liabilities. To manage Life Company interest rate risk, insurance product lines with similar liability profiles and the assets supporting those liabilities are grouped into separate funds and designated as FVTPL. Techniques for measuring interest rate risk include duration analysis, cash flow analysis and yield curve sensitivity testing. Interest rate sensitivity is provided for in the insurance contract liabilities for all policies, with an adequate provision to absorb moderate changes in interest rates.

The approximate impact of an increase of 100 basis points in the yield curve would increase the profit of the Company by $59,083 (2014 - $54,407) and decrease the OCI of the Company by $165,873 (2014 - $160,400). The approximate impact of a decrease of 100 basis points in the yield curve would decrease the profit of the Company by $55,006 (2014 - $63,956) and increase OCI of the Company by $152,162 (2014 - $172,168).

The allowed duration range for fixed income securities is outlined in the Company's Investment Policy Statements. Interest rate risk is regularly monitored by management and compliance with the Investment Policy Statements is reported to the Investment Committee of the Board of Directors on a quarterly basis.

ii) Equity risk

Equity risk is where fluctuations in the value of equity securities affect the level and timing of recognition of gains and losses on securities held, and cause changes in realized and unrealized gains and losses. General economic conditions, political conditions and many other factors can also adversely affect the stock and fixed income securities markets and, consequently, the value of the equity securities and fixed income securities held.

The Company's equity portfolios are managed by independent professional investment managers. The Company has investment policies regarding diversification by geographic sector and capitalization to limit and monitor its individual issuers' equity exposure. Aggregate exposure to single issuers and total equity positions are monitored on a quarterly basis.

The Company's stock portfolio is benchmarked to and is considered correlated with the following indices. A 1% movement in the indices with all other variables held constant would have the following estimated effect on the fair values of the Company's stock holdings.

26 Insurance and Financial Risk Management (continued)

		2015		2014	
Stock portfolio	**Benchmarked index**	**AFS**	**FVTPL**	**AFS**	**FVTPL**
			('000s)		
Canadian preferred	BMO 50 Preferred Share Retractable Index	$ 62	$ -	$ 131	$ -
Canadian common	S&P/TSX Composite Total Return Index	7,512	540	8,733	558
Foreign equities	MSCI World Index ($Cdn)	9,223	281	8,517	247

Life Company annuity contracts with segregated fund investment options have equity risk related to management fee income and minimum guarantees. Management fee income is generated on the segregated fund assets under administration. A decline in the market value of these assets results in a decrease in management fee income. These contracts have a guaranteed minimum amount payable on death or maturity. The guarantee varies by contract and ranges from 75% to 100% of the deposits to the contract less an adjustment for withdrawals. Adverse changes in the equity markets may increase the payments related to these minimum guarantees and increase insurance contract liabilities.

iii) Currency risk

Currency risk represents the risk that the Company incurs losses due to exposure to foreign currency fluctuations. Changes in the foreign currency to Canadian dollar exchange rates impact the fair value of financial instruments denominated in foreign currencies. General Company and Holdings hold U.S. dollar denominated financial instruments and Mutual Company holds securities denominated in a number of currencies other than the Canadian dollar. Mutual Company also has pooled funds denominated in Canadian dollars that have underlying securities denominated in currencies other than the Canadian dollar.

As at December 31, had the exchange rate between the Canadian dollar and the U.S. dollar increased or decreased by 10%, the profit of the Company would have increased or decreased by $57 (2014 - $52). Had the exchange rate between the Canadian dollar and foreign currencies to which the Company is exposed increased or decreased by 10%, the increase or decrease in OCI would have been as follows:

26 Insurance and Financial Risk Management (continued)

	2015 Estimated impact of 10% change (+/-)	2014 Estimated impact of 10% change (+/-)
	(000's)	
U.S. dollar	$ 93,670	$ 84,428
Euro	6,381	4,256
Japanese yen	6,299	5,068
Hong Kong dollar	2,668	2,289
British pound	2,637	4,918
Other currencies	6,422	6,734

The P&C Company utilizes a comprehensive risk model to evaluate company-wide capital requirements. This model incorporates all material risks facing the P&C Company, and several less material, but known, risks. The exposure to currency risk, while not deemed a material risk, is incorporated into the model and evaluated on an annual basis. Economic scenario data is paired with both asset and liability exposures to assist in the evaluation of currency risk. The economic scenario data provides a reasonable distribution of anticipated fluctuation in foreign exchange rates over the next year, and allows for the determination of anticipated movements in assets and liabilities sensitive to such movements.

A limit on foreign equity securities has been established by the Investment Committee of the Board of Directors and is set out in the Company's Investment Policy Statements. Currency risk is regularly monitored by management and compliance with the Investment Policy Statements is reported to the Investment Committee on a quarterly basis.

Liquidity risk

Liquidity risk is the risk of having insufficient cash resources to meet financial obligations without raising funds at unfavourable rates or selling assets on a forced basis. Liquidity risk arises from the general business activities and in the course of managing the assets and liabilities. The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The liquidity requirements of the Company's business are met primarily by funds generated from operations, asset maturities, and income and other returns received on securities. Cash provided from these sources is used primarily for claims and claim adjustment expense payments and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements.

26 Insurance and Financial Risk Management (continued)

Liquidity guidelines have been established by the Investment Committee and are set out in the Company's Investment Policy Statements. The guidelines require that a portion of the investment portfolio be in readily marketable securities. Liquidity risk is regularly monitored by management and reported to the Investment Committee of the Board of Directors on a quarterly basis.

The following table summarizes the undiscounted cash flows of financial assets and liabilities by contractual or expected maturity.

					2015
	One year or less	One to two years	Two to five years	More than five years	No maturity date
			('000s)		
Financial Assets					
Cash and cash equivalents	$ 89,293	$ -	$ -	$ -	$ -
Accrued investment income	31,549	-	-	-	-
Receivables	696,403	-	-	-	228
Income taxes receivable	24,088	-	-	-	-
Reinsurance assets	21,050	2,723	4,782	1,907	-
Fixed income securities	491,889	555,897	2,406,805	2,962,178	903
Stocks - preferred	-	-	-	-	8,666
Stocks - common	-	-	-	-	1,753,074
Broker loans, policy loans and other loans	7,915	7,834	18,867	29,046	18,132
	$ 1,362,187	$ 566,454	$ 2,430,454	$ 2,993,131	$ 1,781,003
Financial Liabilities					
Outstanding cheques	$ 126,811	$ -	$ -	$ -	$ -
Trade and other payables	175,263	-	-	-	-
Income taxes payable	37	-	-	-	-
Reinsurance liabilities	(5,427)	472	3,310	135,663	-
Property and casualty unpaid claims	887,514	514,350	873,644	398,858	-
Life Company insurance contract liabilities	113,749	8,988	9,081	1,273,319	-
Finance lease commitments	3,761	3,293	9,153	12,204	-
Non-Financial Liabilities					
Operating lease commitments	3,856	3,523	8,659	1,422	-
	$ 1,305,564	$ 530,626	$ 903,847	$ 1,821,466	$ -

26 Insurance and Financial Risk Management (continued)

					2014
	One year or less	One to two years	Two to five years ('000s)	More than five years	No maturity date
Financial Assets					
Cash and cash equivalents	$ 118,294	$ -	$ -	$ -	$ -
Accrued investment income	31,265	-	-	-	-
Receivables	641,653	-	-	-	194
Income taxes receivable	701	-	-	-	-
Reinsurance assets	44,659	13,625	23,927	9,541	-
Fixed income securities	342,694	466,634	2,565,515	2,733,241	866
Stocks - preferred	-	-	-	-	13,119
Stocks - common	-	-	-	-	1,805,559
Broker loans, policy loans, and other loans	7,406	7,554	18,121	25,351	17,593
	$ 1,186,672	$ 487,813	$ 2,607,563	$ 2,768,133	$ 1,837,331
Financial Liabilities					
Outstanding cheques	$ 121,609	$ -	$ -	$ -	$ -
Trade and other payables	143,508	-	-	-	-
Income taxes payable	68,577	-	-	-	-
Reinsurance liabilities	(3,733)	635	3,300	138,053	-
Property and casualty unpaid claims	890,999	531,653	933,342	429,750	-
Life Company insurance contract liabilities	107,571	9,660	9,765	1,212,522	-
Finance lease commitments	3,818	3,325	9,153	15,255	-
Non-Financial Liabilities					
Operating lease commitments	3,748	3,534	9,148	3,726	-
	$ 1,336,097	$ 548,807	$ 964,708	$ 1,799,306	$ -