

Financial Statements of

**FACILITY ASSOCIATION ALBERTA
NON-GRID RISK SHARING POOL**

October 31, 2006

Auditors' Report

To the Members of
Facility Association
Alberta Non-Grid Risk Sharing Pool

We have audited the balance sheet of Facility Association – Alberta Non-Grid Risk Sharing Pool as at October 31, 2006 and the statements of operations, of amounts due to/(from) members and of cash flows for the year then ended. These financial statements are the responsibility of the management of Facility Association. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Facility Association – Alberta Non-Grid Risk Sharing Pool as at October 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario
March 13, 2007



Eckler Ltd.

Consultants and Actuaries

ACTUARY'S REPORT

To the Members of
Facility Association
Alberta Non-Grid Risk Sharing Pool

I have valued the policy liabilities of Facility Association Alberta Non-Grid Risk Sharing Pool for its balance sheet as at 31 October 2006, and their changes in its statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

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

Toronto, Ontario
13 March 2007

Cynthia M. Potts

Fellow, Canadian Institute of Actuaries

**FACILITY ASSOCIATION
ALBERTA NON-GRID RISK SHARING POOL**

Balance Sheet

As at October 31, 2006

(\$000's)

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	\$ 606	\$ 305
Funds held by members (Note 5)	55,591	21,993
Accounts receivable from members	3,341	2,968
Accounts receivable from other pools	476	266
Other assets	1	-
Amounts due from members	58,600	28,038
	<u>\$ 118,615</u>	<u>\$ 53,570</u>

LIABILITIES

Unearned premiums	\$ 40,077	\$ 21,099
Premium deficiency reserve	6,300	8,207
Provision for unpaid and unreported claims (Note 7)	67,803	20,723
Other accounts payable	16	37
Due to Facility Association - Residual Market Segment	65	107
Accounts payable to members	4,354	3,397
	<u>\$ 118,615</u>	<u>\$ 53,570</u>

APPROVED BY THE BOARD


..... Director


..... Director

The attached notes form an integral part of these financial statements.

**FACILITY ASSOCIATION
ALBERTA NON-GRID RISK SHARING POOL**

Statement of Operations

Year ended October 31, 2006

(\$000's)

	<u>Year ended October 31, 2006</u>	<u>Thirteen months ended October 31, 2005</u>
UNDERWRITING REVENUE		
Premiums written	\$ 89,133	\$ 39,735
Change in unearned premiums	(18,978)	(21,099)
PREMIUMS EARNED	70,155	18,636
UNDERWRITING EXPENSES		
Claims and claims expenses incurred (Note 7)	76,630	26,020
Premium deficiency adjustment	(1,907)	8,207
Expense allowance	25,721	12,109
TOTAL UNDERWRITING EXPENSES	100,444	46,336
UNDERWRITING LOSS	(30,289)	(27,700)
ADMINISTRATIVE EXPENSES	273	338
DEFICIENCY OF REVENUE OVER EXPENSES FOR THE PERIOD	\$ (30,562)	\$ (28,038)

The attached notes form an integral part of these financial statements.

**FACILITY ASSOCIATION
ALBERTA NON-GRID RISK SHARING POOL**

Statement of Amounts Due to/(from) Members

Year ended October 31, 2006
(\$000's)

	<u>Year ended October 31, 2006</u>	<u>Thirteen months ended October 31, 2005</u>
BALANCE, BEGINNING OF PERIOD	\$ (28,038)	\$ -
DEFICIENCY OF REVENUE OVER EXPENSES FOR THE PERIOD	<u>(30,562)</u>	<u>(28,038)</u>
BALANCE, END OF PERIOD	\$ (58,600)	\$ (28,038)

The attached notes form an integral part of these financial statements.

**FACILITY ASSOCIATION
ALBERTA NON-GRID RISK SHARING POOL**

Statement of Cash Flows

Year ended October 31, 2006

(\$000's)

	<u>Year ended October 31, 2006</u>	<u>Thirteen months ended October 31, 2005</u>
OPERATING		
Net result from statement of operations	\$ (30,562)	\$ (28,038)
Changes in balances arising from operating activities		
Accounts receivable from members	(373)	(2,968)
Accounts receivable from other pools	(210)	(266)
Other assets	(1)	-
Unearned premiums	18,978	21,099
Premium deficiency reserve	(1,907)	8,207
Provision for unpaid and unreported claims	47,080	20,723
Other accounts payable	(21)	37
Due to Facility Association - Residual Market Segment	(42)	107
Accounts payable to members	957	3,397
NET INCREASE IN CASH DURING THE PERIOD	33,899	22,298
CASH, BEGINNING OF PERIOD	22,298	-
CASH, END OF PERIOD	\$ 56,197	\$ 22,298
Cash consists of:		
Cash	\$ 606	\$ 305
Cash held by members	55,591	21,993
	\$ 56,197	\$ 22,298

The attached notes form an integral part of these financial statements.

FACILITY ASSOCIATION
ALBERTA NON-GRID RISK SHARING POOL
Notes to the Financial Statements
October 31, 2006
(\$000's)

1. NATURE OF THE FACILITY ASSOCIATION

The Alberta Non-Grid Risk Sharing Pool is managed by the Facility Association (“the Association”).

The Association is an unincorporated non-profit association created on June 28, 1977. The Association manages and accounts for the operations of certain insurance pools on behalf of member insurance companies.

The results of the operations of these insurance pools, including administration costs incurred by the Association and investment income earned on assets invested by the Association, are all allocated to members who account for their shares of insurance pool operations in their own financial statements. The insurance pool operations do not encompass all costs and revenues related to underwriting the underlying insurance business. Various related costs and revenues are not accounted for within the insurance pools but rather, are incurred by members directly and recorded only in each member’s own financial statements. The Association administers the sharing between members of the results of operations (“experience”) of the insurance pools and periodically assesses members to fund operating deficits or pays excess funds to members, all in accordance with the Association’s Plan of Operation. Amounts due to and from members do not bear interest.

The related costs and revenues not accounted for in these financial statements are described in Note 2.

The Association’s generation of revenue from underwriting automobile risks is impacted by regulation of automobile premium rates by provincial government regulatory authorities.

Provincial government rate regulatory approval processes can result in the prescription of premium rates at levels other than those the Association deems appropriate for the risks to be underwritten by it. Further, to the extent that insurance companies regard premium rates in the general insurance marketplace to be inadequate there will tend to be increased usage of the Association’s pools.

The Association’s claim costs are also influenced by provincial government actions to the extent legislation or regulations are passed that specify the nature and extent of benefits and other requirements that impact claims costs and the settlement process.

The impact of such government regulation on the results and financial position of the Association’s insurance pools is not determinable.

FACILITY ASSOCIATION
ALBERTA NON-GRID RISK SHARING POOL
Notes to the Financial Statements
October 31, 2006
(\$000's)

2. BASIS OF FINANCIAL STATEMENT PRESENTATION

The Association manages the following insurance pools:

- The Residual Market Segment, which provides a residual automobile insurance market for owners and operators of personal and commercial motor vehicles, who may otherwise have difficulty in obtaining such insurance, in the following provinces and territories: Alberta, Ontario, Nova Scotia, Prince Edward Island, New Brunswick, Newfoundland and Labrador, Yukon, Northwest Territories, Nunavut.
- The Uninsured Automobile Funds for New Brunswick, Newfoundland and Labrador, Nova Scotia and P.E.I., which fund claims for damages made by persons who cannot obtain satisfaction for damages under a contract of automobile insurance and where there is no other insurance or where other insurance is inadequate with respect to the damages claimed.
- Risk sharing pools, operating in Ontario, Alberta (two pools) and New Brunswick which provide a means for individual automobile insurance underwriters to transfer certain of the personal use automobile insurance exposures they underwrite in the respective province that may be deemed of higher risk but which do not qualify for the Residual Market Segment.

The Ontario Risk Sharing Pool has operated since January 1, 1993.

The two Alberta Risk Sharing Pools commenced operations as at October 1, 2004. A "Grid Pool" provides a means for Alberta automobile insurance underwriters to transfer personal use automobile insurance exposures that are subject to the statutory maximum premium. A "Non-Grid Pool" provides a means for individual Alberta automobile insurance underwriters to transfer certain of the personal use automobile insurance exposures they underwrite that may be deemed to be of higher risk but do not qualify for the Residual Market Segment. Their first statutory financial statements were for the thirteen month period ended October 31, 2005. Consistent with Facility Association's usual fiscal reporting period, their second statutory financial statements are for a reporting period of 12 months ended October 31, 2006.

The New Brunswick "First Chance" Risk Sharing Pool commenced operations January 1, 2005. The "First Chance" Pool provides a means for individual New Brunswick automobile insurance writers to transfer certain of the personal use automobile insurance policies they underwrite that are eligible for the "First Chance" discount in that province. Its first statutory financial statements were for the ten month period ended October 31, 2005. Consistent with Facility Association's usual fiscal reporting period, their second statutory financial statements are for a reporting period of 12 months ended October 31, 2006.

The financial statements contained herein are strictly for the Alberta Non-Grid Risk Sharing Pool operations of the Association (the "Pool").

The results of the operations and financial positions of the Facility Association - Residual Market Segment and the Uninsured Automobile Funds and other risk sharing pools are not included in these financial statements. They are shown in separate financial statements.

FACILITY ASSOCIATION
ALBERTA NON-GRID RISK SHARING POOL
Notes to the Financial Statements
October 31, 2006
(\$000's)

2. BASIS OF FINANCIAL STATEMENT PRESENTATION (continued)

These financial statements account for the financial results of members' participation in risks transferred to the Pool and of the Association's cost of managing the participation of members in sharing the Pool's insurance exposures. These financial statements do not account for any expenses incurred or revenue earned directly by members in respect of their participation.

No provision for income taxes is recorded in these financial statements. The results of operations of the Pool are included in the members income for tax assessment purposes.

3. FORMATION AND OPERATION OF THE POOL

The Pool was established in the Province of Alberta on October 1, 2004 under the Plan of Operation (the "Plan") of the Facility Association.

Risks cannot be underwritten in the Residual Market Segment unless they qualify as a residual market risk as defined in the Plan. For risks that qualify for the Pools, members issue policies on their own account and may transfer whole policies to the Risk Sharing Pool, in accordance with the transfer rules set out in the Plan.

The member company which issues the initial policy (the primary writer) remains responsible for servicing the policy including any settlement of claims which may arise from the policy.

Members share in the experience of the Risk Sharing Pool in the proportion their retained private passenger vehicles bears to industry retained private passenger vehicles in accordance with the relevant provisions of the Plan.

An excess of Pool revenue over expenses increases the equity of members and a deficiency of Pool revenue over expenses decreases the equity of members.

The Association funds the operations of the Pool through a monthly sharing between members of the net of premiums received and claims and expenses paid.

4. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, the most significant of which are summarized below:

Premiums earned

Premiums are included in revenue on a monthly pro rata basis over the terms of the policies.

FACILITY ASSOCIATION
ALBERTA NON-GRID RISK SHARING POOL
Notes to the Financial Statements
October 31, 2006
(\$000's)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provision for unpaid and unreported claims

The provision is an estimate of the amount required to pay all anticipated claims and related expenses. The provision is determined by the Association's Actuary (the "Actuary"), using accepted actuarial estimation techniques. These techniques take into consideration prior claims experience and estimates of future trends in the severity of claims settlements. In the absence of sufficient historical experience, consideration is given to the experience of the Association and experience of the voluntary market.

Claims related balances are carried on a discounted basis and include provisions for adverse deviation, all in accordance with actuarial practice accepted in Canada.

Deferred premium acquisition costs

Deferred premium acquisition costs are primarily commissions related to the acquisition of Risk Sharing Pool business. The costs are deferred in relation to the unexpired portion of policies in force, subject to a test of recoverability. Premium tax is not a deferrable expense for the purpose of the Association's financial statements because premium tax is paid by individual member companies on the basis of their direct written premiums, excluding premiums ceded to the Association and including their share of the Association's written premiums.

Premium Deficiency Reserve

A premium deficiency reserve is recorded to the extent of any excess of estimated losses and expenses, relating to the unexpired portion of policies in force, over the value of unearned premiums carried for these policies.

Funds held by members

The Association manages the ongoing funding requirements of the Pool through a monthly cash settlement between members of their respective shares of premiums transferred and of payments being made on claims and for expenses. The balance of amounts shared to date is recorded as funds held by members.

FACILITY ASSOCIATION
ALBERTA NON-GRID RISK SHARING POOL
Notes to the Financial Statements
October 31, 2006
(\$000's)

5. FUNDS HELD BY MEMBERS

The balance of funds held by members at October 31, 2006 is the aggregate of the following amounts shared since the inception of the Pool:

<u>Fiscal Period</u>	<u>Premiums Transferred</u>	<u>Claims & Claims Adjusting Exp.</u>	<u>Expenses Paid</u>	<u>Funds held by Members</u>
2006	\$ 89,133	\$ 29,550	\$ 25,985	\$ 33,598
2005	\$ 39,735	\$ 5,297	\$ 12,445	\$ 21,993
Total	\$ 128,868	\$ 34,847	\$ 38,430	\$ 55,591

6. ROLE OF THE ACTUARY

The Actuary is appointed by the Board of Directors of the Association. With respect to the preparation of these financial statements, the Actuary is required to carry out a valuation of the policy liabilities and report thereon to the members. The valuation is carried out in accordance with accepted actuarial practice. The scope of the valuation encompasses only the policy liabilities. The policy liabilities consist of a provision for unpaid claims and adjustment expenses on the expired portion of policies and of future obligations on the unexpired portion of policies. In performing the valuation of the liabilities for these future events, which are by their very nature inherently variable, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, expenses and other matters, taking into consideration the circumstances of the Association and the nature of the insurance policies. Procedures are put in place by the actuary to ensure that the data used in the valuation is sufficient and reliable for the valuation of policy liabilities. The Actuary also makes use of the management information provided by the Association and uses the work of the auditor with respect to the verification of the underlying data used in the valuation. The valuation is necessarily based on estimates and consequently, the final values may vary significantly from those estimates.

7. PROVISION FOR UNPAID AND UNREPORTED CLAIMS

The provision for unpaid claims consists of estimates of the costs of claims reported but not yet settled. These estimates are established on a case basis by the claims adjusters of the members.

The provision for unreported claims, which is determined by the Association's actuary, consists of:

- an estimate to allow for future loss development on reported claims, taking into account past claims experience and current trends in claims costs; and
- an estimate for claims incurred but not yet reported (IBNR).

FACILITY ASSOCIATION
ALBERTA NON-GRID RISK SHARING POOL
Notes to the Financial Statements
October 31, 2006
(\$000's)

7. PROVISION FOR UNPAID AND UNREPORTED CLAIMS (continued)

(a) Nature of unpaid and unreported claims/Measurement uncertainty

The establishment of the provision for unpaid and unreported claims is based on both known facts and the interpretation of current and anticipated circumstances. It is a complex and dynamic process influenced by a large variety of factors. These factors include the experience of the Association and the experience of the voluntary market involving claim payment patterns, loss payments, pending levels of unpaid claims, claims severity and claim frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Association's members retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be.

Consequently, the establishment of the provision for unpaid and unreported claims process relies on the judgement and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provision necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

The estimation of the Pool's provision for unpaid and unreported claims and other policy liabilities involves a particularly high degree of measurement uncertainty because the Pool has only recently been introduced and its reporting relationships with members are in a formative stage. Further, underwriting results are impacted by recently promulgated legislation. To date, there is limited claims experience available to indicate how legislative changes are impacting and will impact the Pool's results of operations. It is impracticable to evaluate the extent of such measurement uncertainty.

(b) Composition of provision for unpaid and unreported claims

	2006	2005
Case reserves	\$ 29,354	\$ 7,454
IBNR and development provision	38,449	13,269
	\$ 67,803	\$ 20,723

FACILITY ASSOCIATION
ALBERTA NON-GRID RISK SHARING POOL
Notes to the Financial Statements
October 31, 2006
(\$000's)

7. PROVISION FOR UNPAID AND UNREPORTED CLAIMS (continued)

(c) Activity in provision for unpaid and unreported claims

Provision for unpaid and unreported claims, end of period			
claims, beginning of period	\$	20,723	\$ -
Incurred for:			
Current period claims		80,713	26,020
Prior period claims		(4,083)	-
Payments attributable to:			
Current period claims		(24,093)	(5,297)
Prior period claims		(5,457)	-
Provision for unpaid and unreported claims, end of period	\$	67,803	\$ 20,723

(d) Discounting of provision for unpaid and unreported claims

The discounting of the provision is comprised of the application of a nil% (2005-nil%) discount rate to the undiscounted estimate of \$58,941 (2005 - \$18,015) and the addition of provisions for adverse deviation in future claim settlement amounts.

(e) Fair values

The fair values of provisions for unpaid and unreported claims and of other policy liabilities are not readily determinable given the absence of any regular market for such liabilities. Further, their fair value would be impacted by the income generation potential of related invested premiums. Those investment amounts are held by members, not by the Pool.

The fair values of funds held by members and of other amounts due to and from members reflect the results of operations shared by members (as described in Notes 1 and 3), including provisions for unpaid and unreported claims and other policy liabilities. Accordingly, these fair values are also not readily determinable.

Other payable and receivable amounts are short-term and their recorded amounts approximate their fair value.