

Financial Statements of

**FACILITY ASSOCIATION
ONTARIO RISK SHARING POOL**

October 31, 2008

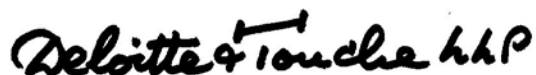
Auditors' Report

To the Members of
Facility Association
Ontario Risk Sharing Pool

We have audited the balance sheet of Facility Association – Ontario Risk Sharing Pool as at October 31, 2008 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 – Ontario Risk Sharing Pool as at October 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants
February 20, 2009

ACTUARY'S REPORT

To the Members of
Facility Association
Ontario Risk Sharing Pool

I have valued the policy liabilities of Facility Association Ontario Risk Sharing Pool for its balance sheet as at 31 October 2008 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
20 February 2009



Cynthia M. Potts
Fellow, Canadian Institute of Actuaries

**FACILITY ASSOCIATION
ONTARIO RISK SHARING POOL**

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**FACILITY ASSOCIATION
ONTARIO RISK SHARING POOL**



Balance Sheet

As at October 31, 2008

(\$000's)

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash	\$ 1,271	\$ 1,192
Funds held by members (Note 6)	10,415	-
Accounts receivable from members	7,667	5,914
Other assets	175	10
Amounts due from members	723,324	579,392
	\$ 742,852	\$ 586,508
LIABILITIES		
Funds held by members (Note 6)	\$ -	\$ 2,369
Unearned premiums	112,680	87,828
Premium deficiency reserve	36,227	14,902
Provision for unpaid and unreported claims (Note 8)	584,863	474,210
Other accounts payable	710	481
Due to Facility Association - Residual Market Segment	142	205
Accounts payable to members	8,230	6,513
	\$ 742,852	\$ 586,508

APPROVED BY THE BOARD


 Director

 Director

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

**FACILITY ASSOCIATION
ONTARIO RISK SHARING POOL**

Statement of Operations

Year ended October 31, 2008

(\$000's)

	<u>2008</u>	<u>2007</u>
UNDERWRITING REVENUE		
Premiums transferred to the Pool	\$ 234,690	\$ 179,739
Change in unearned premiums	(24,853)	(535)
PREMIUMS EARNED	<u>209,837</u>	<u>179,204</u>
UNDERWRITING EXPENSES		
Claims and claims expenses incurred (Note 8)	264,324	188,448
Premium deficiency	21,325	9,306
Expense allowance	66,722	50,970
Bad and doubtful accounts	24	50
TOTAL UNDERWRITING EXPENSES	<u>352,395</u>	<u>248,774</u>
UNDERWRITING LOSS	(142,558)	(69,570)
ADMINISTRATIVE EXPENSES	1,374	900
DEFICIENCY OF REVENUE OVER		
EXPENSES FOR THE YEAR AND COMPREHENSIVE LOSS	<u>\$ (143,932)</u>	<u>\$ (70,470)</u>

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

**FACILITY ASSOCIATION
 ONTARIO RISK SHARING POOL
 Statement of Amounts Due to/(from) Members
 Year ended October 31, 2008
 (\$000's)**

	<u>2008</u>	<u>2007</u>
BALANCE, BEGINNING OF YEAR	\$ (579,392)	\$ (508,922)
DEFICIENCY OF REVENUE OVER EXPENSES FOR THE YEAR AND COMPREHENSIVE LOSS	<u>(143,932)</u>	<u>(70,470)</u>
BALANCE, END OF YEAR	<u>\$ (723,324)</u>	<u>\$ (579,392)</u>

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

**FACILITY ASSOCIATION
ONTARIO RISK SHARING POOL**

Statement of Cash Flows

Year ended October 31, 2008

(\$000's)

	<u>2008</u>	<u>2007</u>
OPERATING		
Net result from statement of operations	\$ (143,932)	\$ (70,470)
Changes in balances arising from operating activities		
Accounts receivable from members	(1,753)	563
Other assets	(165)	3
Unearned premiums	24,852	535
Premium deficiency reserve	21,325	9,306
Provision for unpaid and unreported claims	110,653	48,370
Other accounts payable	229	403
Due to Facility Association - Residual Market Segment	(63)	(56)
Accounts payable to members	1,717	(2,698)
NET INCREASE/(DECREASE) IN CASH DURING THE YEAR	12,863	(14,044)
CASH, BEGINNING OF YEAR	(1,177)	12,867
CASH, END OF YEAR	\$ 11,686	\$ (1,177)
Cash consists of:		
Cash	\$ 1,271	\$ 1,192
Funds held by members	10,415	(2,369)
	\$ 11,686	\$ (1,177)

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

**FACILITY ASSOCIATION
ONTARIO RISK SHARING POOL**
Notes to the Financial Statements
October 31, 2008
(\$000's)

1. NATURE OF THE FACILITY ASSOCIATION

The Ontario 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; rather, they are incurred by members directly and recorded only in each member’s own financial statements. The Association administers the sharing among 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 affected by the 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 claims 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 affect 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.

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 obtaining such insurance, in the following provinces and territories: Alberta,

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2. BASIS OF FINANCIAL STATEMENT PRESENTATION (continued)

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 Prince Edward Island, 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), New Brunswick, and Nova Scotia which provide a means for individual automobile insurance underwriters to transfer certain of the personal use automobile insurance policies they underwrite in the respective provinces 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 on 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 policies they underwrite that may be deemed to be of higher risk but do not qualify for the Residual Market Segment.

The New Brunswick "First Chance" Risk Sharing Pool commenced operations on 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.

The Nova Scotia Inexperienced Drivers Risk Sharing Pool commenced operations on January 1, 2007. The "Inexperienced Drivers" Pool provides a means for individual Nova Scotia automobile insurance writers to transfer certain of the personal use automobile insurance policies they underwrite for inexperienced drivers in that province. Its first statutory financial statements were for the ten-month period ended October 31, 2007.

The financial statements contained herein are strictly for the Ontario 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.

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.

**FACILITY ASSOCIATION
ONTARIO RISK SHARING POOL**
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2. BASIS OF FINANCIAL STATEMENT PRESENTATION (continued)

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 Ontario on January 1, 1993 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 do not qualify for the Residual Market Segment, members issue policies on their own accounts and may transfer the whole of the policy or a portion thereof to the Risk Sharing Pool, in accordance with the transfer rules set out in the Plan.

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

Members share in the experience of the Pool in accordance with their share of the market and their usage of the Pool weighted at 50% each.

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 among members of the net of premiums received and claims and expenses paid.

4. CHANGES IN ACCOUNTING POLICIES AND THEIR IMPACT

Effective November 1, 2007, the Association adopted Canadian Institute of Chartered Accountants (CICA) accounting standards related to Capital Disclosures (Section 1535), Financial Instruments – Disclosure (Section 3862), Financial Instruments – Presentation (Section 3863), collectively (the "Standards"). These new standards place greater emphasis on disclosures regarding the management of capital and the nature and significance of risks arising from financial instruments and how the Association manages those risks.

5. SIGNIFICANT ACCOUNTING POLICIES

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

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Notes to the Financial Statements
October 31, 2008
(\$000's)

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Premiums earned

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

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.

Financial instruments

In accordance with CICA Handbook Section 3855, all financial assets are classified as loans or receivables, held to maturity, held for trading or available for sale. Loans and receivables are measured at amortized cost using the effective interest method. The Association has classified the following financial assets of the Pool as loans and receivables: funds held by members, accounts receivable from members, amounts due from members and other assets. Held to maturity assets are also measured at amortized cost using the effective interest method. The Association has not classified any financial assets of the Pool as held to maturity. Held for trading instruments are measured at fair value with gains and losses recognized in the excess/deficiency of revenue over expenses for the year. The Association has classified cash as held for trading. Available for sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income (OCI). The Association has not classified any financial assets as available for sale.

Financial liabilities are classified as either held for trading or other. Held for trading financial instruments are measured at fair value with gains and losses recognized in net income. Financial liabilities classified as other are measured at amortized cost using the effective interest method. Gains and losses are reported in net income in the period that the liability is derecognized. The Association has classified the following Pool financial liabilities as other liabilities: other accounts payable, due to Facility Association Residual Market Segment and accounts payable to members.

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(\$000's)

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Section 3855 requires embedded derivatives be recognized by separating them from their host contracts and measuring on the balance sheet at fair value. Changes in fair value are recognized in net income. The Association has not identified any material embedded derivatives that require separate accounting treatment in the financial statements.

Fair value represents the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Quoted market prices are the most reliable source of fair value for actively traded securities. Where market prices are unavailable, management's best estimate based on a range of methodologies and assumptions may be used. Because these estimates involve uncertainties, the fair values may not reflect the amount realizable on immediate settlement.

Transaction costs are added to the carrying amount of the financial instrument.

Regular way purchase and sales of financial assets are recognized and derecognized, as applicable, using trade date accounting.

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.

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6. FUNDS HELD BY MEMBERS

The balance of funds held by members at October 31, 2008 is the aggregate of the following transactions since the inception of the Pool:

<u>Fiscal Year</u>	<u>Premiums For Risks Transferred</u>	<u>Claims & Claims Adjusting Exp. Paid</u>	<u>Expenses Paid</u>	<u>Funds Held by Members</u>
2008	\$ 234,690	\$ 153,671	\$ 68,235	\$ 12,784
2007	179,739	140,078	51,846	(12,185)
2006	171,605	116,061	48,604	6,940
2005	151,689	102,290	43,718	5,681
2004	170,485	110,731	50,018	9,736
2003	153,162	113,925	45,966	(6,729)
2002	123,508	103,782	37,587	(17,861)
2001	91,262	97,228	28,127	(34,093)
2000	69,081	79,384	20,876	(31,179)
1993 to 1999	1,074,010	689,414	307,275	77,321
Total	\$ 2,419,231	\$ 1,706,564	\$ 702,252	\$ 10,415

Fair values

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. These amounts are due on demand and accordingly are recorded at their face amounts.

7. 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 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

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(\$000's)

7. ROLE OF THE ACTUARY (continued)

necessarily based on estimates, and, consequently, the final values may vary significantly from those estimates.

8. 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-by-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).

(a) Nature of unpaid and unreported claims and related 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 environments, 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, because the longer the span between 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 the risk that the actual results will deviate, perhaps substantially, from the best estimates made.

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ONTARIO RISK SHARING POOL**
Notes to the Financial Statements
October 31, 2008
(\$000's)

8. PROVISION FOR UNPAID AND UNREPORTED CLAIMS (continued)

(b) Composition of provision for unpaid and unreported claims

	<u>2008</u>	<u>2007</u>
Case reserves	\$ 332,671	\$ 282,658
IBNR and development provision	252,192	191,552
	<u>\$ 584,863</u>	<u>\$ 474,210</u>

(c) Activity in provision for unpaid and unreported claims

	<u>2008</u>	<u>2007</u>
Provision for unpaid and unreported claims, beginning of year	\$ 474,210	\$ 425,840
Incurred for:		
Current year's claims	262,203	204,397
Prior years' claims	2,121	(15,949)
Payments attributable to:		
Current year's claims	(71,561)	(57,544)
Prior years' claims	(82,110)	(82,534)
Provision for unpaid and unreported claims, end of year	<u>\$ 584,863</u>	<u>\$ 474,210</u>

(d) Discounting of provision for unpaid and unreported claims

The discounting of the year-end provision is comprised of the application of a **0%** (2007 – 0%) discount rate to the undiscounted estimate of **\$523,141** (2007 – \$425,465) and the addition of provisions for adverse deviations in 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 affected by the income-generation potential of related invested premiums. However, those investment amounts are held by the members, not by the Pool.

FACILITY ASSOCIATION
ONTARIO RISK SHARING POOL
Notes to the Financial Statements
October 31, 2008
(\$000's)

9. FUTURE CHANGES IN ACCOUNTING POLICIES

The Accounting Standards Board (AcSB) has issued an exposure draft proposing to incorporate International Financial Reporting Standards (IFRS) into the CICA Handbook over a period expected to end in 2011. After this transitional period, the Association will cease to use Canadian GAAP and will adopt IFRS on November 1, 2011. The Association's October 31, 2012 financial statements will be the first of the Association's to be in accordance with IFRS. These financial statements will include 2011 comparative figures also reported in accordance with IFRS. The Association monitors this transition to IFRS and is analyzing the impact that the adoption of IFRS will have on its financial statements.

The AcSB also issued Section 3064, Goodwill and intangible assets. This new section will have no effect on these financial statements.

10. FAIR VALUES

The recording of fair values for unpaid and unreported claims, funds held by members and due to and from members are as disclosed in the respective notes above. Other payable and receivable amounts are short-term and their recorded amounts approximate their fair value.

11. RISKS AND RISK MANAGEMENT

The Association pools are subject to various risks and manages such risks as described below:

- (a) Funds held by members and amounts due to and from members are subject to liquidity risk arising from the potential failure of a member or members to respond to a cash call or assessment by the Association. This exposure is mitigated through such obligations being joint and several on all members.
- (b) Various underwriting and claims-related amounts are subject to risks of incorrect processing that could cause financial statement misstatements or operational difficulties, including requirements to correct amounts previously received from or paid to insureds. These risks are managed through the Association conducting periodic audits at servicing carriers and ceding companies.

12. MANAGEMENT OF CAPITAL

Facility Association is not required to maintain its own capital. Facility Association allocates its transactions and balances to member companies and those member companies are required to maintain appropriate capital, in accordance with insurance regulatory requirements.