

*Combined Financial Statements of*

**FACILITY ASSOCIATION**

*October 31, 2004*

## Auditors' Report

To the Members of  
Facility Association

We have audited the balance sheet of Facility Association as at October 31, 2004 and the statements of operations, amounts due to (from) members and 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 as at October 31, 2004 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

Toronto, Ontario  
March 4, 2005  
July 22, 2005 in respect of Note 10(c)



Eckler Partners Ltd.

## ACTUARY'S REPORT

To the Members of Facility Association:

I have valued the policy liabilities of Facility Association for its balance sheet as at 31 October 2004, 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  
4 March 2005

Cynthia M. Potts  
Fellow, Canadian Institute of Actuaries

# FACILITY ASSOCIATION

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# FACILITY ASSOCIATION

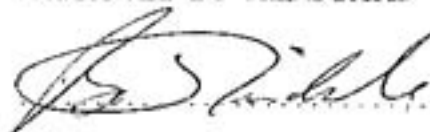
## Balance Sheet

As at October 31, 2004

(\$'000)

	2004	2003
<b>ASSETS</b>		
Cash and cash equivalents	\$ 242,955	\$ 97,991
Bonds (Note 6)	1,066,520	845,132
Premiums and other receivables	263,759	356,832
Accrued investment income	8,575	12,572
Deferred premium acquisition expenses	33,951	-
Amounts due from members	444,660	855,587
	<u>\$ 2,060,420</u>	<u>\$ 2,168,114</u>
<b>LIABILITIES</b>		
Cash held by members	\$ 2,805	\$ 12,541
Servicing carrier operating fees payable and other liabilities	41,222	65,523
Unearned premiums	523,836	599,916
Premium deficiency reserve	-	150,108
Provision for unpaid and unreported claims (Note 7)	1,492,557	1,340,026
	<u>\$ 2,060,420</u>	<u>\$ 2,168,114</u>

### APPROVED BY THE BOARD

 Director

 Director

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

# FACILITY ASSOCIATION

## Statement of Operations

Year ended October 31, 2004

(\$'000)

	<u>2004</u>	<u>2003</u>
REVENUE OF INSURANCE POOLS		
Premiums written	\$ 1,158,671	\$ 1,230,082
Change in unearned premiums	76,080	(357,224)
PREMIUMS EARNED	<u>1,234,751</u>	<u>872,858</u>
EXPENSES OF INSURANCE POOLS		
Claims and claims expenses incurred (Note 7)	813,828	1,087,281
Servicing carrier operating fees	103,467	113,789
Commissions	127,536	130,636
Change in deferred premium acquisition expenses	(33,951)	-
Premium deficiency adjustment	(150,108)	107,891
Motor vehicle reports	9,815	8,263
Bad and doubtful accounts (net of recoveries) (Note 8)	6,923	(545)
TOTAL UNDERWRITING EXPENSES	<u>877,510</u>	<u>1,447,315</u>
NET UNDERWRITING GAIN (LOSS)	357,241	(574,457)
ADMINISTRATIVE EXPENSES	4,526	3,779
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES BEFORE NET INVESTMENT INCOME	<u>352,715</u>	<u>(578,236)</u>
INVESTMENT INCOME	57,738	34,325
LESS INVESTMENT EXPENSES	588	471
NET INVESTMENT INCOME	<u>57,150</u>	<u>33,854</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES FOR THE YEAR	<u>\$ 409,865</u>	<u>\$ (544,382)</u>

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

**FACILITY ASSOCIATION**  
**Statement of Amounts Due to (from) Members**  
Year ended October 31, 2004  
(\$'000)

	<u>2004</u>	<u>2003</u>
BALANCE, BEGINNING OF YEAR	\$ (855,587)	\$ (437,425)
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES FOR THE YEAR	409,865	(544,382)
AMOUNTS FROM (PAID TO) MEMBERS, NET	<u>1,062</u>	<u>126,220</u>
BALANCE, END OF YEAR	<u>\$ (444,660)</u>	<u>\$ (855,587)</u>

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

# FACILITY ASSOCIATION

## Statement of Cash Flows

Year ended October 31, 2004

(\$'000)

	<u>2004</u>	<u>2003</u>
<b>OPERATING</b>		
Net result from statement of operations	\$ 409,865	\$ (544,382)
Changes in items not affecting cash		
Premiums and other receivables	93,073	(269,969)
Change in deferred premium acquisition expenses	(33,951)	-
Premium deficiency reserve	(150,108)	107,891
Accrued investment income	3,997	(4,839)
Servicing carrier operating fees payable and other liabilities	(24,301)	39,694
Unearned premiums	(76,080)	357,224
Provision for unpaid and unreported claims	152,531	576,487
	<u>375,026</u>	<u>262,106</u>
<b>FINANCING</b>		
Amounts due from Members, net	1,062	126,220
<b>INVESTING</b>		
Increase in bonds	(221,388)	(448,650)
<b>NET INCREASE (DECREASE) IN CASH DURING THE YEAR</b>	<b>154,700</b>	<b>(60,324)</b>
<b>CASH, CASH EQUIVALENTS AND CASH HELD BY MEMBERS, BEGINNING OF YEAR</b>	<b>85,450</b>	<b>145,774</b>
<b>CASH, CASH EQUIVALENTS AND CASH HELD BY MEMBERS, END OF YEAR</b>	<b>\$ 240,150</b>	<b>\$ 85,450</b>
Cash consists of:		
Cash	\$ 164,960	\$ 71,919
Cash equivalents (Note 6)	77,995	26,072
Cash held by members	(2,805)	(12,541)
	<u>\$ 240,150</u>	<u>\$ 85,450</u>

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

# **FACILITY ASSOCIATION**

## **Notes to the Financial Statements**

**October 31, 2004**  
**(\$'000)**

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### **1. NATURE OF THE FACILITY ASSOCIATION**

The Facility 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. As described in Note 2 below, these financial statements do not include any amounts in respect of the newly formed Alberta Risk Sharing Pool.

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.

### **2. BASIS OF FINANCIAL STATEMENT PRESENTATION**

These financial statements present the results of operations, cash flows and financial position of the insurance pools managed and accounted for by the Association on behalf of members. Specific accounting policies applied by the Association are described in Note 4.

The pools are as follows:

- 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 Ontario Risk Sharing Pool, which provides a means for individual Ontario 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.
- The Alberta Risk Sharing Pool, that commenced operations as at October 1, 2004. This pool is not included in these financial statements. Its first statutory financial statements will be provided for the thirteen month period ended October 31, 2005 and its financial results will first be incorporated into the combined financial statements of the Association as at that date.

# **FACILITY ASSOCIATION**

## **Notes to the Financial Statements**

**October 31, 2004**  
**(\$'000)**

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### **2. BASIS OF FINANCIAL STATEMENT PRESENTATION (continued)**

- 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.

Various costs, related to business underwritten in the insurance pools, are incurred by individual members directly and accordingly, are not reflected in these financial statements.

All the premiums, claims and expenses of the insurance pools are allocated to member companies who are required by regulation to record these amounts in their books. Member companies of the Residual Market Segment pay premium taxes and health levies directly to the provinces based on their share of Residual Market premiums. They also pay certain other costs such as association dues, directly. Accordingly, these costs are not recorded in these financial statements.

Investment income earned by members on amounts due to the Association and certain premium levies charged by members in respect of uninsured automobile exposures are also not reflected in these financial statements.

No provision for income taxes has been recorded in these financial statements. The results of operations of the insurance pools, including administrative expenses incurred by the Association and investment income earned on insurance pool assets invested by the Association, are included in the members' income for tax assessment purposes.

### **3. FORMATION AND OPERATIONS OF THE INSURANCE POOLS**

Legislation enabling operations of the Residual Market Segment came into effect as follows: October 1, 1979 in Alberta under The Alberta Insurance Act; December 1, 1979 in Ontario under An Act to Provide for Compulsory Automobile Insurance; July 1, 1981 in Nova Scotia under The Nova Scotia Insurance Act; September 1, 1982 in Prince Edward Island under The Prince Edward Island Insurance Act; July 1, 1983 in New Brunswick under The New Brunswick Insurance Act; November 1, 1985 in Newfoundland and Labrador under The Newfoundland Insurance Act; April 30, 1986 in the Yukon under The Insurance Act of the Yukon; December 1, 1986 in the Northwest Territories under The Northwest Territories Insurance Act; and on April 1, 1999 in Nunavut under The Nunavut Act.

The Ontario Risk Sharing Pool was established in the Province of Ontario on January 1, 1993.

The Uninsured Automobile Funds commenced as follows: March 1, 1990 in New Brunswick; July 1, 1994 for Newfoundland and Labrador; July 14, 1994 for P.E.I. and July 1, 1996 for Nova Scotia.

The operations of the Association are conducted in accordance with the Plan of Operation (the "Plan") approved by the member automobile insurance underwriters. Within each of the jurisdictions noted above, every insurer licensed to write automobile liability insurance is a member of the Association.

**FACILITY ASSOCIATION**  
**Notes to the Financial Statements**  
October 31, 2004  
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**3. FORMATION AND OPERATIONS OF THE INSURANCE POOLS (continued)**

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 account and may transfer the whole policy or a portion thereof to the Risk Sharing Pool, in accordance with the transfer rules set out in the Plan.

Members share in the experience of the Residual Market Segment in accordance with their participation ratio, reflecting their share of the market, by province. Members share in the experience of the Risk Sharing Pool in accordance with their share of the market and their usage of the Risk Sharing Pool weighted at 50% each.

The member who issues the initial policy (the primary writer) remains responsible for servicing the policy including any settlement of claims which may arise from the policy. In the case of Residual Market Segment business, all underwriting and claims settlement are conducted by a small number of members designated as servicing carriers.

Servicing carriers are compensated through operating fees, in respect of their underwriting and general administrative services, and claims servicing fees. Members who transfer risk to the Risk Sharing Pool receive an expense allowance which is established annually by the Board of Directors.

The Uninsured Automobile Funds are governed by the respective Provincial Insurance Acts. The responsibilities of the Association are to manage claims recording, adjustment and payment processes, allocate to members their share of experience and to assess members to fund underwriting deficits.

**4. SUMMARY OF 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 earned on a monthly pro rata basis over the terms of the policies.

*Provision for unpaid and unreported claims*

An estimate of the amount required to pay all anticipated claims is included in these financial statements. These provisions are determined by the Association's actuary, using appropriate actuarial estimation techniques. These techniques take into consideration prior claims experience and estimates of future trends in the severity of claims settlements.

Claims related balances are carried on a discounted basis in accordance with accepted actuarial practice in Canada.

**FACILITY ASSOCIATION**  
**Notes to the Financial Statements**  
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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Servicing carriers' fees*

In accordance with the Association's Plan of Operation, servicing carriers are reimbursed on a formula basis for their operating, servicing and claims adjusting costs. Operating fees relate to underwriting and are charged to operations when the premiums are written. Claims adjusting costs are determined based on the loss ratio experienced in each policy year and are expensed on an ongoing basis. Additional claims adjusting fees are paid based on emerging loss experience. The additional fees are calculated annually and expensed in the year of calculation.

*Valuation of investments*

Short-term investments (which relate entirely to the Residual Market Segment) are carried at cost which approximates market value. Short-term investments with maturities of three months or less from the date of acquisition are treated as cash equivalents. Bonds are carried at amortized cost unless there is an other than temporary impairment in value in which case they are carried at estimated realizable value.

*Deferred acquisition costs*

Deferred acquisition costs are primarily commissions related to the acquisition of Residual Market Segment 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, including their share of the Association's written premiums. However, premium tax is considered in the test of adequacy of the unearned premiums.

*Premium deficiency reserve*

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

*Cash 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 cash held by members.

*Amounts due from members*

Amounts due from members represents the accumulated deficiency of revenue over expenses in the insurance pools. These amounts are recorded by members in their individual financial statements.

**FACILITY ASSOCIATION**  
**Notes to the Financial Statements**  
October 31, 2004  
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**5. 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, except as described in Note 8(d), and regulatory requirements. 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 auditors with respect to the verification of the underlying data used in the valuation. The valuation is necessarily based on estimates, consequently, the final values may vary significantly from those estimates.

**6. INVESTMENTS**

The carrying amounts and fair values of investments are summarized as follows:

	<u>2004</u>		<u>2003</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash equivalents	\$ 77,995	\$ 77,995	\$ 26,072	\$ 26,072
Bonds				
Government of Canada				
Due in 1 year or less	\$ -	\$ -	\$ -	\$ -
1 year to 5 years	132,951	133,128	501,413	501,781
After 5 years	-	-	16,475	16,367
Canadian provincial, municipal and public authorities				
Due in 1 year or less	10,238	10,713	6,289	6,312
1 year to 5 years	152,637	153,284	62,315	63,720
After 5 years	-	-	19,994	26,440
Canadian corporate				
Due in 1 year or less	-	-	16,452	16,674
1 year to 5 years	708,113	710,171	169,437	171,666
After 5 years	62,581	62,344	52,757	53,321
<b>Total bonds</b>	<b>\$1,066,520</b>	<b>\$1,069,640</b>	<b>\$ 845,132</b>	<b>\$ 856,281</b>

**FACILITY ASSOCIATION**  
**Notes to the Financial Statements**  
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**(\$'000)**

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**6. INVESTMENTS (continued)**

Fair value represents the amount at which an investment could be exchanged in an arm's length transaction between willing parties under no compulsion to act. Fair values are determined as follows:

*(i) Short-term investments*

The fair value of short-term investments approximates their carrying amount.

*(ii) Bonds*

The fair values of bonds are based on quoted market values. The fair values of bonds fluctuate with changes in market interest rates. When the carrying amount is greater than fair value, the carrying amount of these financial instruments has not been reduced to fair value as such market rate variations are considered temporary in nature and management intends to hold such investments to maturity.

Details of significant terms, conditions, and the credit quality of investments are as follows:

*(i) Short-term investments*

These investments have an average interest rate of 2.11% (2003 - 3.20%). These investments must be invested in short-term securities issued by the Government of Canada, a Canadian province or a Canadian municipality or public authority having a rating of A or better, or a Canadian chartered bank having a rating of R-1 or better.

*(ii) Bonds*

These investments have an average interest rate of 3.81% (2003 - 4.73%). The Association limits its long-term investments to securities issued or guaranteed by the Government of Canada, any province or municipality or public authority of Canada having a rating of A or better, and corporations having a rating of A or better.

The Association engages periodically in securities lending, in accordance with criteria set out in its investment policies. As at October 31, 2004, securities lent amounted to \$22,314 and \$23,904 of collateral was held.

**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 servicing carriers in the Residual Market Segment and by claims adjusters of the member companies in the Risk Sharing Pool.

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**  
**Notes to the Financial Statements**  
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**7. PROVISION FOR UNPAID AND UNREPORTED CLAIMS (continued)**

*(a) Nature of unpaid and unreported claims*

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 time 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 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.

*(b) Structured settlements*

In the normal course of claims settlements, the Association's servicing carriers will, where appropriate, purchase annuities from life insurers to provide for fixed and recurring payment to residual market claimants. The related claims provisions are removed from the balance sheet when an annuity is purchased. As a result of these arrangements, the Association is exposed to credit risk to the extent that the life insurers fail to fulfill their obligations. The risk is managed by acquiring annuities from life insurers with proven financial stability.

The maximum exposure is for the discounted value of the payments outstanding on such annuities that are still in force. The Association does not have an estimate of the undiscounted outstanding payments. The servicing carriers' estimate of the original purchase value of annuities in force is \$87 million (2003 - \$72 million).

The Association believes the potential exposure to any defaults by life insurers, taken together with the coverage provided by the life insurance industry's consumer protection plan, can currently be assessed as minimal.

**FACILITY ASSOCIATION**  
**Notes to the Financial Statements**  
October 31, 2004  
(\$'000)

**7. PROVISION FOR UNPAID AND UNREPORTED CLAIMS (continued)**

(c) *Composition of provision for unpaid and unreported claims*

	<u>Current Accident Period</u>	<u>Prior Accident Periods</u>	<u>Total</u>
<b><u>Unpaid claims – beginning of year</u></b>			
Residual Market Segment	\$ -	\$1,012,882	\$ 1,012,882
Uninsured Automobile Funds	-	6,747	6,747
Risk Sharing Pool	-	320,397	320,397
<b>Total Facility Association</b>	<b>\$ -</b>	<b>\$1,340,026</b>	<b>\$ 1,340,026</b>
<b><u>Incurred during year</u></b>			
Residual Market Segment	\$ 915,410	\$ (217,976)	\$ 697,434
Uninsured Automobile Funds	983	962	1,945
Risk Sharing Pool	140,781	(26,332)	114,449
<b>Total Facility Association</b>	<b>\$ 1,057,174</b>	<b>\$ (243,346)</b>	<b>\$ 813,828</b>
<b><u>Paid during fiscal year 2004</u></b>			
Residual Market Segment	\$ 357,272	\$ 191,852	\$ 549,124
Uninsured Automobile Funds	6	1,436	1,442
Risk Sharing Pool	43,225	67,506	110,731
<b>Total Facility Association</b>	<b>\$ 400,503</b>	<b>\$ 260,794</b>	<b>\$ 661,297</b>
<b><u>Unpaid claims – end of year</u></b>			
Residual Market Segment	\$ 558,137	\$ 603,054	\$ 1,161,191
Uninsured Automobile Funds	978	6,273	7,251
Risk Sharing Pool	97,556	226,559	324,115
<b>Total Facility Association</b>	<b>\$ 656,671</b>	<b>\$ 835,886</b>	<b>\$ 1,492,557</b>

The accident periods are the 12-month periods ending October 31<sup>st</sup>.

The Residual Market Segment and Uninsured Automobile Funds end of year provisions are comprised of an undiscounted estimate of \$1,125,671 (2003 - \$1,000,543), discounted at 3.55% (2003 - 4.25%), and provisions for adverse deviations in future interest rates and claim settlement amounts. The undiscounted estimate for the Risk Sharing Pool provision is \$316,599 (2003 - \$322,131), which was discounted at 4.10% (2003 - 5.18%).

**FACILITY ASSOCIATION**  
**Notes to the Financial Statements**  
**October 31, 2004**  
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**8. FUNDING OF LIQUIDATIONS**

*(a) Maplex General Insurance Company*

The Facility Association, with the approval of its members, entered into an agreement with the Liquidator of Maplex General Insurance Company to fund the Statutory Accident Benefit Claims (OMPP & Bill 164) arising out of the liquidation of that company. The Association retains a right of subrogation against the estate. The total net funding liability will be assessed to the members.

To date, the total amount of funding, paid and accrued by the Association, is \$11,770. Of this amount, \$80 was charged to bad debts in 2004, \$(1,171) in 2003, 172 in 2002, \$202 in 2001, \$432 in 2000 and \$1,371 in 1999. The balance, which is recorded with premiums receivable, is believed to be recoverable from the estate.

*(b) Markham General Insurance Company*

The Facility Association, with the approval of its members, has entered into an agreement with the Liquidator of Markham General Insurance Company to fund the Statutory Accident Benefit Claims (OMPP & Bill 164) arising out of the liquidation of that company. The Association retains a right of subrogation against the estate. The total net funding liability will be assessed to the members.

To date, the total amount of funding, paid and accrued by the Association is \$7,468. Of this amount, \$6,721 was charged to bad debts in 2004. No amount was charged to bad debts in 2003. The balance, which is recorded with premiums receivable is believed to be recoverable from the estate.

**9. SEGMENTED INFORMATION**

The Segmented Statement of Operations and the Segmented Statement of Amounts Due To (From) Members provide information on the Residual Market Segment (FARM), the Uninsured Automobiles Funds (UAF) and the Risk Sharing Pool (RSP).

	<b>Combined Segmented Statement of Operations</b>			
	<b>Year ended October 31, 2004</b>			
	<b>FARM</b>	<b>UAF</b>	<b>RSP</b>	<b>Total</b>
Underwriting				
Premiums earned	\$1,071,431	\$ 1,447	\$ 161,873	\$1,234,751
Underwriting expenses	718,121	1,945	157,444	877,510
Underwriting gain (loss)	353,310	(498)	4,429	357,241
Administrative expenses	3,196	5	1,325	4,526
Excess of revenue over expenses (expenses over revenue) before net investment income	350,114	(503)	3,104	352,715
Net investment income	57,150	-	-	57,150
Excess of revenue over expenses (expenses over revenue) for the year	\$ 407,264	\$ (503)	\$ 3,104	\$ 409,865

**FACILITY ASSOCIATION**  
**Notes to the Financial Statements**  
October 31, 2004  
(\$'000)

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**9. SEGMENTED INFORMATION (continued)**

	Combined Segmented Statement of Operations			
	Year ended October 31, 2003			
	<u>FARM</u>	<u>UAF</u>	<u>RSP</u>	<u>Total</u>
Underwriting				
Premiums earned	\$ 732,662	\$ 1,087	\$ 139,109	\$ 872,858
Underwriting expenses	1,255,448	880	190,987	1,447,315
Underwriting gain (loss)	(522,786)	207	(51,878)	(574,457)
Administrative expenses	2,534	6	1,239	3,779
Excess of revenue over expenses (expenses over revenue) before net investment income	(525,320)	201	(53,117)	(578,236)
Net investment income	33,854	-	-	33,854
Excess of revenue over expenses (expenses over revenue) for the year	\$ (491,466)	\$ 201	\$ (53,117)	\$ (544,382)

**FACILITY ASSOCIATION**  
**Notes to the Financial Statements**

October 31, 2004

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9. **SEGMENTED INFORMATION (continued)**

Segmented information on a jurisdictional basis, is provided below:

	2004									
	<u>Alberta</u>	<u>Ontario</u>	<u>N.S.</u>	<u>P.E.I.</u>	<u>N.B.</u>	<u>Nfld. &amp; Labrador</u>	<u>Yukon</u>	<u>N.W.T.</u>	<u>Nunavut</u>	<u>Total</u>
<b><u>FARM</u></b>										
Underwriting										
Premiums earned	\$254,414	\$ 644,240	\$ 74,314	\$ 11,572	\$ 50,958	\$ 30,708	\$ 1,812	\$ 2,654	\$ 759	\$ 1,071,431
Underwriting expenses	223,489	403,908	43,419	8,449	14,999	20,534	1,165	1,732	426	718,121
Underwriting gain (loss)	30,925	240,332	30,895	3,123	35,959	10,174	647	922	333	353,310
Administrative expenses	721	1,633	247	79	170	200	48	52	46	3,196
Excess of revenue over expenses (expenses over revenue) before net investment income	30,204	238,699	30,648	3,044	35,789	9,974	599	870	287	350,114
Net investment income	10,570	33,745	4,617	743	4,650	2,249	165	376	35	57,150
Excess of revenue over expenses (expenses over revenue) for the year	\$ 40,774	\$ 272,444	\$ 35,265	\$ 3,787	\$ 40,439	\$ 12,223	\$ 764	\$ 1,246	\$ 322	\$ 407,264

**FACILITY ASSOCIATION**  
**Notes to the Financial Statements**

October 31, 2004

(\$'000)

9. SEGMENTED INFORMATION (continued)

	2004									
	Alberta	Ontario	N.S.	P.E.I.	N.B.	Nfld. & Labrador	Yukon	N.W.T.	Nunavut	Total
Total brought forward	\$ 40,774	\$ 272,444	\$ 35,265	\$ 3,787	\$ 40,439	\$12,223	\$ 764	\$ 1,246	\$ 322	\$ 407,264
<b><u>RSP</u></b>										
Underwriting										
Premiums earned	-	161,873	-	-	-	-	-	-	-	161,873
Underwriting expenses	-	157,444	-	-	-	-	-	-	-	157,444
Underwriting gain (loss)	-	4,429	-	-	-	-	-	-	-	4,429
Administrative expenses	-	1,325	-	-	-	-	-	-	-	1,325
Excess of revenue over expenses (revenue over premiums) for the year	-	3,104	-	-	-	-	-	-	-	3,104
<b><u>UAF</u></b>										
Underwriting										
Premiums earned	-	-	646	-	527	274	-	-	-	1,447
Underwriting expenses	-	-	275	(145)	1,268	547	-	-	-	1,945
Underwriting gain (loss)	-	-	371	145	(741)	(273)	-	-	-	(498)
Administrative expenses	-	-	-	-	5	-	-	-	-	5
Excess of revenue over Expenses (expenses over revenue) for the year	-	-	371	145	(746)	(273)	-	-	-	(503)
Total excess of revenue over expenses (expenses over revenue) for the year	\$ 40,774	\$ 275,548	\$ 35,636	\$ 3,932	\$ 39,693	\$11,950	\$ 764	\$ 1,246	\$ 322	\$ 409,865

**FACILITY ASSOCIATION**  
**Notes to the Financial Statements**

October 31, 2004

(\$'000)

**9. SEGMENTED INFORMATION (continued)**

	2003									
	<u>Alberta</u>	<u>Ontario</u>	<u>N.S.</u>	<u>P.E.I.</u>	<u>N.B.</u>	<u>Nfld. &amp; Labrador</u>	<u>Yukon</u>	<u>N.W.T.</u>	<u>Nunavut</u>	<u>Total</u>
<b>FARM</b>										
Underwriting										
Premiums earned	\$166,790	\$ 398,641	\$ 63,863	\$10,126	\$ 64,895	\$ 25,701	\$ 890	\$ 1,100	\$ 656	\$ 732,662
Underwriting expenses	157,361	903,019	80,968	9,689	67,350	33,107	619	3,032	303	1,255,448
Underwriting gain (loss)	9,429	(504,378)	(17,105)	437	(2,455)	(7,406)	271	(1,932)	353	(522,786)
Administrative expenses	477	1,358	201	62	192	146	32	35	31	2,534
Excess of revenue over expenses (expenses over revenue) before net investment income	8,952	(505,736)	(17,306)	375	(2,647)	(7,552)	239	(1,967)	322	(525,320)
Net investment income	6,417	17,995	3,192	500	3,465	1,857	151	251	26	33,854
Excess of revenue over expenses (expenses over revenue) for the year	\$ 15,369	\$(487,741)	\$ (14,114)	\$ 875	\$ 818	\$ (5,695)	\$ 390	\$ (1,716)	\$ 348	\$(491,466)

**FACILITY ASSOCIATION**  
**Notes to the Financial Statements**  
**October 31, 2004**  
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**9. SEGMENTED INFORMATION (continued)**

	2003									
	<u>Alberta</u>	<u>Ontario</u>	<u>N.S.</u>	<u>P.E.I.</u>	<u>N.B.</u>	<u>Nfld. &amp; Labrador</u>	<u>Yukon</u>	<u>N.W.T.</u>	<u>Nunavut</u>	<u>Total</u>
Total brought forward	\$15,369	\$(487,741)	\$(14,114)	\$ 875	\$ 818	\$(5,695)	\$ 390	\$(1,716)	\$ 348	\$(491,466)
<u>RSP</u>										
Underwriting										
Premiums earned	-	139,109	-	-	-	-	-	-	-	139,109
Underwriting expenses	-	190,987	-	-	-	-	-	-	-	190,987
Underwriting gain (loss)	-	(51,878)								(51,878)
Administrative expenses	-	1,239	-	-	-	-	-	-	-	1,239
Excess of revenue over expenses (revenue over premiums) for the year	-	(53,117)	-	-	-	-	-	-	-	(53,117)
<u>UAF</u>										
Underwriting										
Premiums earned	-	-	551	(21)	501	56	-	-	-	1,087
Underwriting expenses	-	-	688	(57)	134	115	-	-	-	880
Underwriting gain (loss)	-	-	(137)	36	367	(59)	-	-	-	207
Administrative expenses	-	-	-	-	6	-	-	-	-	6
Excess of revenue over Expenses (expenses over revenue) for the year	-	-	(137)	36	361	(59)	-	-	-	201
Total excess of revenue over expenses (expenses over revenue) for the year	\$15,369	\$(540,858)	\$(14,251)	\$ 911	\$ 1,179	\$(5,754)	\$ 390	\$(1,716)	\$ 348	\$(544,382)

**FACILITY ASSOCIATION**  
**Notes to the Financial Statements**  
October 31, 2004  
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**9. SEGMENTED INFORMATION (continued)**

	<b>Segmented Statement of Amounts Due To (From) Members Year ended October 31, 2004</b>			
	<b>FARM</b>	<b>UAF</b>	<b>RSP</b>	<b>Total</b>
Balance, beginning of year	\$ (434,211)	\$ (6,747)	\$ (414,629)	\$ (855,587)
Excess of expenses over revenue for the year	407,264	(503)	3,104	409,865
Assessment from (paid to) members, net	1,062	-	-	1,062
Balance, end of year	\$ (25,885)	\$ (7,250)	\$ (411,525)	\$ (444,660)

**10. SUBSEQUENT EVENTS**

- (a) Pursuant to insurance legislation enacted in Alberta, certain policyholders may obtain premium refunds and/or transfer risks up until February 28, 2005 to the new Alberta Risk Sharing Pool, retroactively. Refund provisions were also introduced in certain other provinces, through 2003 and 2004. Such events may have impacted FARM premiums and other amounts recorded in these financial statements. The impact is not readily quantifiable.
- (b) Effective January 1, 2005, a New Brunswick Risk Sharing Pool commenced operations.
- (c) In June, 2005, approximately \$900 million of funds were transferred from the Residual Market Segment to member companies to allow such member companies to invest the funds utilizing their own investment policies and practices. The funds were allocated to individual member companies based on their shares of the unearned premiums and the provision for unpaid and unreported claims of the Residual Market Segment as at December 31, 2004. This transfer of funds does not change the member companies' obligations to the Residual Market Segment and accordingly, the funds previously invested by Facility Association were replaced by a receivable from the member companies in the balance sheet of the Residual Market Segment.