FACILITY Association

777 Bay Street, Suite 2400
P.O. Box 121
Toronto, Ontario
M5G 2C8

T: 416 863 1750
F: 416 868 0894
E: mail@facilityassociation.com

TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER

BULLETIN NO.: F16 – 088

DATE: NOVEMBER 29, 2016

SUBJECT: FARM – SEPTEMBER 2016 PARTICIPATION REPORT

A copy of this bulletin should be provided to your Chief Financial Officer and Appointed Actuary.

Please be advised that the September 2016 FARM Participation Report is now available on the Facility Association Portal at https://portal.facilityassociation.com.

New This Month

Separation of Available Funds and Operating Results Distributed to Members

Please be advised that as originally announced in Bulletin F16-017 and followed up in Bulletin F16-084, Facility Association ("FA") has completed the multi-step process of separating what was "Distributed to Member" in Participation Reports prior to January 2016 into its two component parts as shown by line items "Operating Results Distributed" and "Available Funds Distributed" on September's Participation reports.

Operating Results Distributed
Available Funds Distributed
Total Distributed to Member

With the January 2016 Participation Report, the amount in "Available Funds Distributed" was set to zero (and labeled "for future use"), until such time as FA completed the re-allocation process.

Now that this process has been completed, as shown on page 23 of the Participation Report (All Years to Date basis), the amount in line item "Operating Results Distributed" shows your share of FARM operating results as accrued to October 31, 2015. Similarly, the amount now shown under "Available Funds Distributed" represents the reserve-related funds (cash) transferred to you that is not yet required to meet FA's short term cash flow needs. This latter amount ("Available Funds Distributed") represents the liability of you (as a member) to FA, which you must return to FA upon request (subject to 30 day settlement period). Such requests will be driven by FA's need to pay claims, return unearned FARM premiums to policyholders and distribute operating results to its Members. This is consistent with the requirements under the Plan of Operation Article V (Participation Ratios and Sharing) which states:

> *"Profit shall be credited or distributed to each member and loss shall be charged against each member in accordance with the member's appropriate participation ratio determined in the manner hereinafter set forth in this Article V."*

Members are reminded that as advised in Bulletin F16-084, any amount shown in the "Total Distributed to Member" line on page 21 is due to rounding, and therefore settlement (from or to Members) of these amounts is not required.

Going forward, FA management intends to update the amounts "Operating Results Distributed" on an annual basis (or more often if needed) and Members will be advised when updates occur.

Actuarial Present Value Adjustments in Policy Liabilities related to Claims Fees and Allowed Claims Expenses

Accepted Actuarial Practice requires all policy liabilities recognize both the time value of money and provisions for adverse deviations. For member statement and financial statement reporting purposes, FA has historically applied actuarial present value adjustments only to the indemnity portion of the FARM claims and premium liabilities, and explicitly NOT to provisions for certain specific reimbursed loss adjustment expenses ("claims fees and allowed claims expenses") as allowed under IFRS 4, after having assessed and deemed actuarial present value adjustments related to the claims fee and allowed claims expenses as being not material.

FA management is currently reviewing this practice with the FA Appointed Actuary and may begin to include actuarial present value adjustments for "claims fees and allowed claims expenses" as part of the next FARM valuation, as at September 30, 2016 (2016 Q3). If this action is taken (which could result in a one-time impact of as much as $7 million), detail will be provided with the FARM 2016 Q3 valuation highlights and FARM October 2016 participation reports and associated bulletins.

Summary of Financial Results

The calendar year-to-date Operating Results is $16.7 million and the incurred loss ratio to the end of 9 months is 64.4%, as summarized in the table at the top of the next page.

Amounts in $000s	**September 2016**	September 2015	**Year to date Sep 2016**	Year to Date Sep 2015
Written Premiums	14,337	16,085	136,057	152,141
Earned Premiums	14,809	16,261	134,373	147,533
Incurred Losses	10,451	11,864	86,472	93,428
Underwriting Expenses and Others	3,265	3,608	31,241	34,534
Net Result from Operations	**1,093**	**789**	**16,660**	**19,571**
Ratios:				
Loss ratio % - *Prior Accident Year*	(2.4%)	(1.9%)	(9.6%)	(12.0%)
- *Current Accident Years*	73.0%	74.8%	74.0%	75.3%
Total	**70.6%**	**72.9%**	**64.4%**	**63.3%**
Underwriting & Admin Exp.%	**22.1%**	**22.3%**	**23.3%**	**23.5%**
Combined Operating Ratio	**92.7%**	**95.2%**	**87.7%**	**86.8%**

Rounding differences may occur

For details on the financial results, please refer to Exhibit 1 "Summary of Operations for Calendar Year 2016 - All jurisdictions by month". A comparable summary by jurisdiction is included in Exhibit 2. Detailed exhibits by jurisdiction are included in a separate folder on our website called "Summary of Operations".

Updated Projection to Year-end 2016

This month, the estimated calendar year Operating Results to December 2016 is $21.9 million and the estimated combined operating ratio to December 2016 is 87.7%. This updated projection to the end of the year has not changed significantly from the projection provided last month ($21.8 million and 87.9%).

Current month results

The Operating Results in the month of September 2016 is $1.1 million, up $0.3 million from the same month last year. This improvement included an estimated $0.1 million unfavourable impact due to the $1.5 million decrease in earned premium (at a combined ratio of 95.2%), offset by a $0.4 million favourable impact stemming from the decrease in the combined ratio (from 95.2% last year to 92.7% this year, applied to this month's $14.8 million earned premium).

This month's results moved the year-to-date combined operating ratio from 87.1% at the end of 8 months to 87.7% at the end of 9 months. The 0.6 percentage point increase is composed of a 0.9 percentage point increase in the Prior Accident Years loss ratio, offset by a 0.1 percentage point decrease in the Current Accident Year loss ratio, further offset by a 0.2 percentage point decrease in the expense ratio.

Variances from Projections

The table immediately below provides a summary of key components of the operating results as compared to the estimates projected last month.

September 2016	Actual	Projection	Difference	Difference %
Written Premiums	14,337	16,213	(1,876)	(11.6%)
Earned Premiums	14,809	14,841	(32)	(0.2%)
Reported Losses				
Paid Losses	9,678	9,392	286	3.0%
Change in Outstanding Losses	803	1,364	(561)	(41.1%)
Total Reported Losses	**10,481**	**10,756**	**(275)**	**(2.6%)**
Change in IBNR *	(90)	468	(558)	
Change in Premium Deficiency (DPAC) *	(12)	(144)	132	
Change in Retro Claims Expense *	60	(642)	702	

(Amounts in $000's) *Rounding differences may occur*

* Detailed information is included in FARM September 2016 Participation Report - Actuarial Highlights.

Each month, management reviews the variance between reported premium activity and claims activity (actual reported claims payments and changes in case reserves) and the associated actuarial projections. The projection process involves many assumptions including claims reporting patterns. Actual reporting patterns vary from month-to-month, sometimes considerably. Although variances from our projections are expected, management investigates variances beyond set thresholds and responds as appropriate.

For the month of September 2016, reported indemnity amounts were $0.4 million higher than projected (*allowed claims expenses are included in table above as part of reported losses, explaining why the variance in Total Reported Losses in the table shows -$0.3 million).* The Current Accident Year had a $1.0 million <u>un</u>favourable variance in reported indemnity, while the Prior Accident Years had a favourable variance of $0.6 million. Of the Prior Accident Years, 2015 had the largest variance in reported losses at $1.1 million favourable. No other single Prior Accident Year had a reported indemnity variance in excess of $1.0 million.

The variances for claims activity that were beyond the set thresholds at the jurisdiction, business segment level, and accident year group (i.e. Prior Accident Years vs. Current Accident Year) were investigated by Management. Management is satisfied that the variances are appropriately accounted for in our current booking process, except as discussed in the next paragraph.

Booking IBNR

The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected for the most recent accident years back to 1994 (for accident years 1993 and earlier, IBNR is held at $0 except for explicit adjustments made this month to reflect claims transaction errors as discussed in the previous section). This is consistent with management's investigation into reported claims variances (other than the claims transaction errors discussed in the previous section), concluding they were random and not necessarily indicative of a trend.

Effect of Quarterly Valuation

The September 2016 Participation Report does not reflect the results of an actuarial valuation update. The most recent valuation was as at June 30, 2016 for all jurisdictions and business segments. The actuarial valuation will be updated next as at September 30, 2016 for all jurisdictions and business segments, and the results of that valuation are anticipated to be reflected in the October 2016 Participation Report.

Management Comments

As shown in the table immediately below, the private passenger annualized vehicle counts decreased by 4.9% overall in September 2016 relative to September 2015. On a year-to-date basis, exposure counts are down by 6.6%, decreasing in all jurisdictions except Nova Scotia.

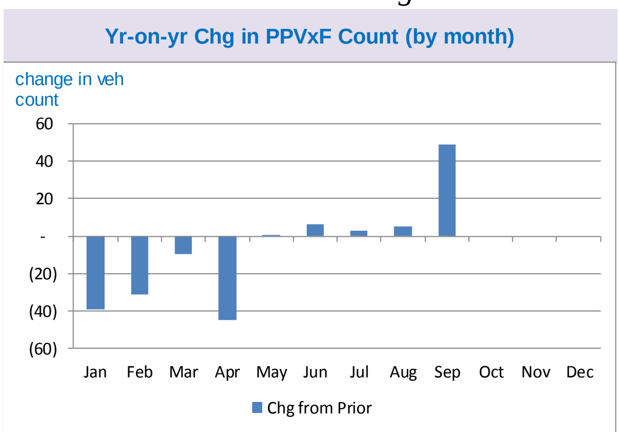
FARM Private Passenger Written Car Years[1]

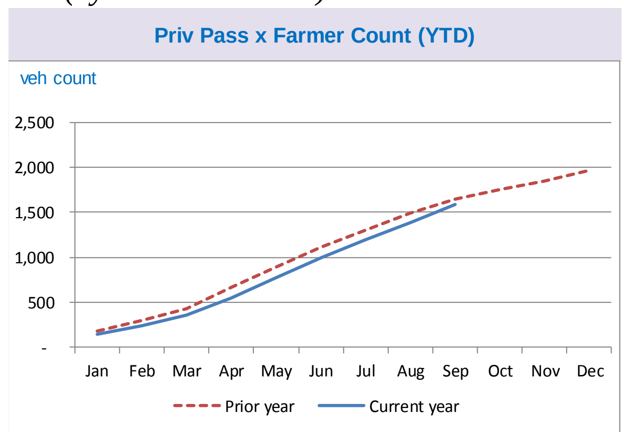
# FARM Vehicles Written								
Jurisdiction	**Month of September 2016**				**Calendar YTD as of September 2016**			
	2016	**2015**	**Chg**	**% Chg**	**2016**	**2015**	**Chg**	**% Chg**
Ontario	203	155	49	31.5%	1,593	1,653	(61)	(3.7%)
Alberta	145	224	(78)	(35.1%)	1,311	1,982	(672)	(33.9%)
Newfoundland & Labrador	843	951	(108)	(11.3%)	8,090	8,315	(225)	(2.7%)
New Brunswick	702	661	41	6.2%	5,683	5,950	(267)	(4.5%)
Nova Scotia	366	392	(26)	(6.8%)	3,010	2,879	131	4.5%
Prince Edward Island	122	131	(9)	(6.9%)	1,188	1,229	(41)	(3.3%)
Yukon	22	39	(18)	(45.4%)	199	353	(154)	(43.6%)
Northwest Territories	221	189	31	16.6%	1,898	2,023	(125)	(6.2%)
Nunavut	47	66	(19)	(29.1%)	270	494	(225)	(45.5%)
All Jurisdictions	**2,671**	**2,809**	**(138)**	**(4.9%)**	**23,241**	**24,878**	**(1,637)**	**(6.6%)**

[1] *As indicated in the June 2016 Bulletin, we changed the basis of the counts provided in the table above from an "Entry Date" basis to a "Share Date" basis to be in line with our share base reporting, as well as excluding fleet-rated private passenger vehicles from the table because fleet-rated private passenger vehicles are considered "non-private passenger" for the purposes of sharing. This basis is consistent with share written premium presented each month, better aligning count changes with premium changes. "Entry Date" basis for the above consistent with prior reporting practice is available upon request.*

September 2016 represents the fifth month in a row where the Ontario FARM private passenger counts have not decreased (see charts immediately below). Five consecutive months of non-decreasing year-over-year counts has not occurred since at least 2008, perhaps signaling the "bottom" of the de-population in the jurisdiction.

Ontario FARM Private Passenger Written Car Years (by month and YTD)

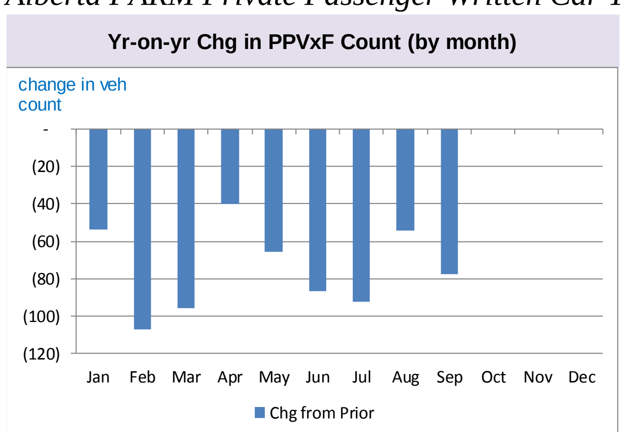


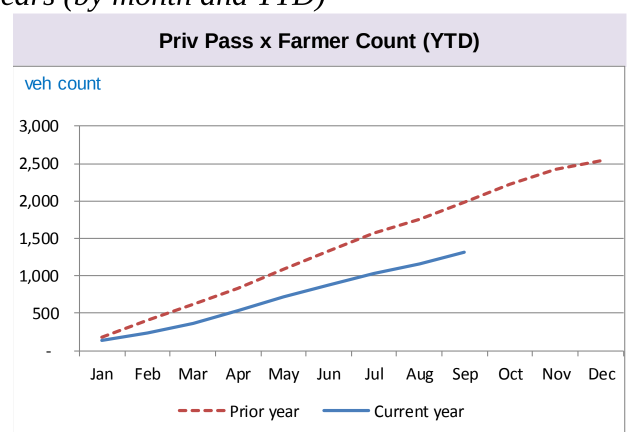


	Sep-16	Sep-15	Amt Chg	% Chg
W. Vehicles YTD	1,593	1,653	(61)	-3.7%

In contrast with Ontario, Alberta Private Passenger counts continue to decline at a significant pace as indicated in the charts below.

Alberta FARM Private Passenger Written Car Years (by month and YTD)





	Sep-16	Sep-15	Amt Chg	% Chg
W. Vehicles YTD	1,309	1,982	(672)	-33.9%

"Private Passenger" follows the Plan of Operation definition and so does NOT include fleet-rated private passenger vehicles.

Should you require any further information, please call Norm Seeney, Vice President, Finance and Member Services at (416) 644-4914.

David J. Simpson, M.B.A., FCIP, C. Dir.
President & CEO

Related link:

FARM September 2016 Participation Report – Actuarial Highlights

SUMMARY OF OPERATIONS - CALENDAR YEAR 2016
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS BY MONTH
Operating Results for the 9 months ended September 30, 2016 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 09/2016
(thousands of dollars)

	January	February	March	April	May	June	July	August	September	CY2016 YTD	CY2016 12 Months Updated Projections	CY2015 12 Months Actual
UNDERWRITING REVENUE:												
PREMIUMS WRITTEN	$11,014	$10,437	$12,647	$16,323	$21,139	$19,074	$16,410	$14,676	$14,337	$136,057	$173,954	$189,847
CHANGE IN UNEARNED PREMIUMS	4,378	3,624	2,270	(1,943)	(6,005)	(4,214)	(919)	653	472	(1,684)	3,490	6,085
NET PREMIUMS EARNED	**$15,392**	**$14,061**	**$14,917**	**$14,380**	**$15,134**	**$14,860**	**$15,491**	**$15,329**	**$14,809**	**$134,373**	**$177,444**	**$195,932**
CLAIMS INCURRED												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	(201)	70	(2,552)	(2)	4,266	(173)	2	(9,184)	15	(7,759)	(7,747)	(15,364)
EFFECT OF DISCOUNTING	(575)	(797)	(288)	(592)	368	(769)	(309)	(1,813)	(369)	(5,144)	(7,140)	(4,171)
DISCOUNTED	(776)	(727)	(2,840)	(594)	4,634	(942)	(307)	(10,997)	(354)	(12,903)	(14,887)	(19,535)
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	10,458	9,614	10,300	9,851	10,354	10,175	10,572	12,078	10,326	93,728	123,800	138,707
EFFECT OF DISCOUNTING	813	664	622	530	712	450	571	806	479	5,647	7,042	8,047
DISCOUNTED	11,271	10,278	10,922	10,381	11,066	10,625	11,143	12,884	10,805	99,375	130,842	146,754
CLAIMS INCURRED	**$10,495**	**$9,551**	**$8,082**	**$9,787**	**$15,700**	**$9,683**	**$10,836**	**$1,887**	**$10,451**	**$86,472**	**$115,955**	**$127,219**
UNDERWRITING EXPENSES												
OPERATING & SERVICE FEES	1,170	1,059	1,381	1,666	2,156	2,000	1,704	1,496	1,466	14,098	17,941	19,838
AGENTS COMMISSIONS	899	873	1,083	1,366	1,706	1,607	1,382	1,242	1,209	11,367	14,619	15,658
DRIVER RECORD ABSTRACTS	175	148	396	147	291	222	180	109	218	1,886	2,422	3,187
BAD DEBTS	(7)	(4)	1	190	(5)	(6)	(4)	(3)	(10)	152	159	(579)
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	336	277	178	(144)	(316)	(282)	(65)	(115)	16	(115)	23	292
EFFECT OF DISCOUNTING	(16)	(5)	4	1	87	20	12	84	(28)	159	7	(230)
DISCOUNTED	320	272	182	(143)	(229)	(262)	(53)	(31)	(12)	44	30	62
UNDERWRITING EXPENSES	**$2,557**	**$2,348**	**$3,043**	**$3,226**	**$3,919**	**$3,561**	**$3,209**	**$2,813**	**$2,871**	**$27,547**	**$35,171**	**$38,166**
NET UNDERWRITING GAIN (LOSS)	**$2,340**	**$2,162**	**$3,792**	**$1,367**	**($4,485)**	**$1,616**	**$1,446**	**$10,629**	**$1,487**	**$20,354**	**$26,318**	**$30,547**
ADMINISTRATIVE EXPENSES	364	320	607	399	391	522	343	421	408	3,775	4,633	5,085
PREMIUM FINANCE FEE	(10)	(9)	(9)	(9)	(9)	(10)	(8)	(10)	(10)	(84)	(74)	(108)
INVESTMENT INCOME	17	16	18	15	16	18	18	23	24	165	240	260
OPERATING RESULTS	**$1,983**	**$1,849**	**$3,194**	**$974**	**($4,869)**	**$1,102**	**$1,113**	**$10,221**	**$1,093**	**$16,660**	**$21,851**	**$25,614**
RATIOS:												
Claims & Adj Expenses Incurred (Earned)												
Prior Accident Year	-5.0%	-5.2%	-19.0%	-4.1%	30.6%	-6.3%	-2.0%	-71.7%	-2.4%	-9.6%	-8.4%	-10.0%
Current Accident Years	73.2%	73.1%	73.2%	72.2%	73.1%	71.5%	71.9%	84.0%	73.0%	74.0%	73.7%	74.9%
All Accident Years Combined	68.2%	67.9%	54.2%	68.1%	103.7%	65.2%	69.9%	12.3%	70.6%	64.4%	65.3%	64.9%
Underwriting & Admin Exp.(Earned)	19.0%	19.0%	24.5%	25.2%	28.5%	27.5%	22.9%	21.1%	22.1%	23.3%	22.4%	22.1%
COMBINED OPERATING RATIO	87.2%	86.9%	78.7%	93.3%	132.2%	92.7%	92.8%	33.4%	92.7%	87.7%	87.7%	87.0%

Note: Amounts shown above do not reflect costs incurred directly by member companies e.g. income and premium taxes, health levies, association dues, cost of capital as a result of their compulsory participation in Facility Association and investment income earned on Facilty Association premium dollars invested directly by members.

Rounding Difference may apply

EXHIBIT 2

SUMMARY OF OPERATIONS - CALENDAR YEAR 2016
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS
Operating Results for the 9 months ended September 30, 2016 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 09/2016
(thousands of dollars)

	Alberta	Ontario	NS	PEI	NB	NFLD & LAB	Yukon	NWT	Nunavut	Total	CY2016 12 Months Updated Projections	CY2015 12 Months Actual
UNDERWRITING REVENUE:												
PREMIUMS WRITTEN	$42,005	$31,805	$14,293	$3,851	$16,101	$21,793	$1,588	$3,609	$1,012	$136,057	$173,954	$189,847
CHANGE IN UNEARNED PREMIUMS	3,346	(1,616)	(1,599)	(278)	(759)	(757)	(62)	(52)	93	(1,684)	3,490	6,085
NET PREMIUMS EARNED	**$45,351**	**$30,189**	**$12,694**	**$3,573**	**$15,342**	**$21,036**	**$1,526**	**$3,557**	**$1,105**	**$134,373**	**$177,444**	**$195,932**
CLAIMS INCURRED												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	(7,437)	(700)	329	(299)	1,394	(1,344)	(59)	999	(642)	(7,759)	(7,747)	(15,364)
EFFECT OF DISCOUNTING	(2,210)	(1,673)	(198)	(65)	(219)	(758)	(9)	49	(61)	(5,144)	(7,140)	(4,171)
DISCOUNTED	(9,647)	(2,373)	131	(364)	1,175	(2,102)	(68)	1,048	(703)	(12,903)	(14,887)	(19,535)
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	31,117	18,792	9,267	2,350	10,289	18,567	950	1,861	535	93,728	123,800	138,707
EFFECT OF DISCOUNTING	1,617	1,512	527	156	574	1,054	66	105	36	5,647	7,042	8,047
DISCOUNTED	32,734	20,304	9,794	2,506	10,863	19,621	1,016	1,966	571	99,375	130,842	146,754
CLAIMS INCURRED	**$23,087**	**$17,931**	**$9,925**	**$2,142**	**$12,038**	**$17,519**	**$948**	**$3,014**	**($132)**	**$86,472**	**$115,955**	**$127,219**
UNDERWRITING EXPENSES												
OPERATING & SERVICE FEES	4,224	3,461	1,454	391	1,633	2,262	176	378	119	14,098	17,941	19,838
AGENTS COMMISSIONS	3,642	1,926	1,253	368	1,528	2,044	144	366	96	11,367	14,619	15,658
DRIVER RECORD ABSTRACTS	555	105	446	109	295	227	24	110	15	1,886	2,422	3,187
BAD DEBTS	(6)	186	(2)	0	(1)	(25)	0	0	0	152	159	(579)
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	313	(96)	(137)	(26)	(76)	(93)	(5)	(6)	11	(115)	23	292
EFFECT OF DISCOUNTING	0	0	0	0	0	159	0	0	0	159	7	(230)
DISCOUNTED	313	(96)	(137)	(26)	(76)	66	(5)	(6)	11	44	30	62
UNDERWRITING EXPENSES	**$8,728**	**$5,582**	**$3,014**	**$842**	**$3,379**	**$4,574**	**$339**	**$848**	**$241**	**$27,547**	**$35,171**	**$38,166**
NET UNDERWRITING GAIN (LOSS)	**$13,536**	**$6,676**	**($245)**	**$589**	**($75)**	**($1,057)**	**$239**	**($305)**	**$996**	**$20,354**	**$26,318**	**$30,547**
ADMINISTRATIVE EXPENSES	1,076	852	403	135	448	587	80	129	65	3,775	4,633	5,085
PREMIUM FINANCE FEE	(27)	(26)	(9)	0	(9)	(13)	0	0	0	(84)	(74)	(108)
INVESTMENT INCOME	44	57	14	4	16	28	0	2	0	165	240	260
OPERATING RESULTS	**$12,477**	**$5,855**	**($643)**	**$458**	**($516)**	**($1,629)**	**$159**	**($432)**	**$931**	**$16,660**	**$21,851**	**$25,614**
RATIOS:												
Claims & Adj Expenses Incurred (Earned)												
Prior Accident Year	-21.3%	-7.9%	1.0%	-10.2%	7.7%	-10.0%	-4.5%	29.5%	-63.6%	-9.6%	-8.4%	-10.0%
Current Accident Years	72.2%	67.3%	77.2%	70.1%	70.8%	93.3%	66.6%	55.3%	51.7%	74.0%	73.7%	74.9%
All Accident Years Combined	50.9%	59.4%	78.2%	59.9%	78.5%	83.3%	62.1%	84.8%	-11.9%	64.4%	65.3%	64.9%
Underwriting & Admin Exp.(Earned)	21.6%	21.3%	26.9%	27.3%	24.9%	24.5%	27.5%	27.5%	27.7%	23.3%	22.4%	22.1%
COMBINED OPERATING RATIO	72.5%	80.7%	105.1%	87.2%	103.4%	107.8%	89.6%	112.3%	15.8%	87.7%	87.7%	87.0%

Note: Amounts shown above do not reflect costs incurred directly by member companies e.g. income and premium taxes, health levies, association dues, cost of capital as a result of their compulsory participation in Facility Association and investment income earned on Facilty Association premium dollars invested directly by members.

Rounding Difference may apply