

*Financial Statements of*

**FACILITY ASSOCIATION  
RESIDUAL MARKET SEGMENT  
and  
UNINSURED AUTOMOBILE FUNDS**

*For the year ended October 31, 2016*

**FACILITY ASSOCIATION  
RESIDUAL MARKET SEGMENT and  
UNINSURED AUTOMOBILE FUNDS  
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October 31, 2016**

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## Independent Auditor's Report

To the Members of  
Facility Association Residual Market Segment and Uninsured Automobile Funds

We have audited the accompanying financial statements of Facility Association Residual Market Segment and Uninsured Automobile Funds, which comprise the statement of financial position as at October 31, 2016, and the statement of operations, statement of amounts due (from) to members and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

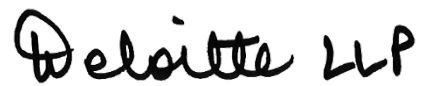
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Facility Association Residual Market Segment and Uninsured Automobile Funds as at October 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

The image shows a handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants  
Licensed Public Accountants  
February 22, 2017



## **APPOINTED ACTUARY'S REPORT**

### **To the Members of Facility Association Residual Market Segment and Uninsured Automobile Funds**

I have valued the policy liabilities of the Facility Association Residual Market and Uninsured Automobile Funds for its statement of financial position at 31 October 2016 and their changes in the statement of income for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

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

Toronto, Ontario  
22 February 2017



Liam M. McFarlane  
Fellow, Canadian Institute of Actuaries

**FACILITY ASSOCIATION  
RESIDUAL MARKET SEGMENT and  
UNINSURED AUTOMOBILE FUNDS  
Statement of Financial Position  
(in thousands of Canadian dollars)**

| As at                                    | Note  | October 31,<br>2016 | October 31,<br>2015 |
|--|-------|---------------------|---------------------|
| <b>ASSETS</b>                            |       |                     |                     |
| Cash and cash equivalents                | 7     | \$ 36,002           | \$ 37,924           |
| Premiums and other receivables           | 6     | 44,303              | 45,198              |
| Accounts receivable from other pools     | 6, 15 | 1,010               | 1,063               |
| Accrued interest income                  | 6     | 20                  | 20                  |
| Deferred policy acquisition costs        | 8     | 6,679               | 6,811               |
| Amounts due from members                 | 10    | 13,894              | -                   |
| Funds held by members                    | 11    | 413,455             | 1,150,432           |
|  |       | <b>\$ 515,363</b>   | <b>\$ 1,241,448</b> |
| <b>LIABILITIES</b>                       |       |                     |                     |
| Accounts payable and other liabilities   |       | \$ 4,332            | \$ 3,552            |
| Servicing carrier operating fees payable |       | 4,686               | 5,214               |
| Unearned premium liabilities             | 8     | 90,390              | 99,072              |
| Provision for claims liabilities         | 9     | 415,783             | 417,221             |
| Amounts due to members                   | 10    | -                   | 715,766             |
| Funds held for members                   | 11    | 172                 | 623                 |
|  |       | <b>\$ 515,363</b>   | <b>\$ 1,241,448</b> |

APPROVED BY THE BOARD

 Director

 Director

February 22, 2017 Date

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

**FACILITY ASSOCIATION  
RESIDUAL MARKET SEGMENT and  
UNINSURED AUTOMOBILE FUNDS  
Statement of Operations**  
(in thousands of Canadian dollars)

| <b>For the year ended October 31</b>          | Note | <b>2016</b>     | 2015       |
|---|------|-----------------|------------|
| <b>UNDERWRITING REVENUE</b>                   |      |                 |            |
| Premiums written                              |      | \$ 172,447      | \$ 194,164 |
| Decrease in unearned premium liabilities      |      | 8,682           | 5,442      |
| <b>PREMIUMS EARNED</b>                        |      | <b>181,129</b>  | 199,606    |
| <b>UNDERWRITING EXPENSES</b>                  |      |                 |            |
| Claims and claims expenses incurred           | 13   | 134,974         | 124,095    |
| Servicing carrier operating fees              |      | 17,928          | 20,316     |
| Commissions                                   |      | 14,413          | 15,986     |
| Decrease in deferred policy acquisition costs |      | 132             | 14         |
| Motor vehicle reports                         |      | 2,921           | 3,145      |
| Unclaimed property and doubtful accounts      | 14   | (381)           | (754)      |
| <b>TOTAL UNDERWRITING EXPENSES</b>            |      | <b>169,987</b>  | 162,802    |
| <b>UNDERWRITING GAIN</b>                      |      | <b>11,142</b>   | 36,804     |
| <b>ADMINISTRATIVE EXPENSES</b>                | 15   | <b>5,364</b>    | 5,267      |
| <b>EXCESS OF REVENUE OVER EXPENSES</b>        |      |                 |            |
| <b>BEFORE INTEREST INCOME</b>                 |      | <b>5,778</b>    | 31,537     |
| <b>INTEREST INCOME</b>                        | 12   | <b>250</b>      | 277        |
| <b>EXCESS OF REVENUE OVER EXPENSES</b>        |      | <b>\$ 6,028</b> | \$ 31,814  |

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

**FACILITY ASSOCIATION  
RESIDUAL MARKET SEGMENT and  
UNINSURED AUTOMOBILE FUNDS  
Statement of Amounts Due (from) to Members  
(in thousands of Canadian dollars)**

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| <b>For the year ended October 31</b> | Note   | <b>2016</b>        | 2015       |
|--------------------------------------|--------|--------------------|------------|
| <b>BALANCE AT BEGINNING OF YEAR</b>  |        | <b>\$ 715,766</b>  | \$ 683,952 |
| Excess of revenue over expenses      |        | <b>6,028</b>       | 31,814     |
| Distributions to members             | 10, 11 | <b>(735,688)</b>   | -          |
| <b>BALANCE AT END OF YEAR</b>        |        | <b>\$ (13,894)</b> | \$ 715,766 |

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



**FACILITY ASSOCIATION  
RESIDUAL MARKET SEGMENT and  
UNINSURED AUTOMOBILE FUNDS  
Statement of Cash Flows  
(in thousands of Canadian dollars)**

| <b>For the year ended October 31</b>  | <b>2016</b>      | <b>2015</b>      |
|---|------------------|------------------|
| <b>OPERATING</b>  |                  |                  |
| Excess of revenue over expenses   | \$ 6,028         | \$ 31,814        |
| Adjustments for changes in operating assets and liabilities:                    |                  |                  |
| Premiums and other receivables  | 895              | 7,888            |
| Accounts receivable from other pools  | 53               | (114)            |
| Accrued interest income   | -                | 10               |
| Deferred policy acquisition costs   | 132              | 14               |
| Funds held by members   | 736,977          | 4,900            |
| Accounts payable and other liabilities  | 780              | (14,182)         |
| Servicing carrier operating fees payable  | (528)            | (279)            |
| Unearned premium liabilities  | (8,682)          | (5,442)          |
| Provision for claims liabilities  | (1,438)          | (24,163)         |
| Funds held for members  | (451)            | 52               |
| Distributions to members  | (735,688)        | -                |
| Cash (used in) generated from operating activities                              | \$ (1,922)       | \$ 498           |
| <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS<br/>DURING THE YEAR</b> | <b>(1,922)</b>   | <b>498</b>       |
| <b>CASH AND CASH EQUIVALENTS,<br/>BEGINNING OF YEAR</b>                         | <b>37,924</b>    | <b>37,426</b>    |
| <b>CASH AND CASH EQUIVALENTS,<br/>END OF YEAR</b>                               | <b>\$ 36,002</b> | <b>\$ 37,924</b> |
| Cash consists of:   |                  |                  |
| Cash  | \$ 17,020        | \$ 18,938        |
| Cash equivalents  | 18,982           | 18,986           |
|   | \$ 36,002        | \$ 37,924        |

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

# **FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS**

## **Notes to the Financial Statements**

For the year ended October 31, 2016

(in thousands of Canadian dollars)

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For ease of reference, an index of the notes to the financial statements is provided below.

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# **FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS**

## **Notes to the Financial Statements (continued)**

**For the year ended October 31, 2016  
(in thousands of Canadian dollars)**

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

The Facility Association Residual Market Segment (the “FARM”) and the Uninsured Automobile Funds (the “UAFs”) are managed by the Facility Association (the “Association”).

The Association, domiciled in Canada, 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 “members”). These insurance pools (collectively referred to as “insurance pools under management”) are further described in Note 2 and include the FARM; the UAFs for New Brunswick, Newfoundland and Labrador, Prince Edward Island, and Nova Scotia; and the Risk Sharing Pools (the “RSPs”) for Ontario, Alberta (Grid and Non-Grid), New Brunswick, and Nova Scotia. The address of the Association’s registered office is 777 Bay Street, Suite 2400, Toronto, Ontario, Canada, M5G 2C8.

For the insurance pools under management, the results of the operations, including administration costs incurred by the Association, are allocated to members, who account for their share of the operation of the insurance pools under management in their own financial statements. Certain revenues and related expenses are not accounted for within these insurance pools; rather, they are incurred by members directly and recorded only in each member’s own financial statements. The related costs and revenues not accounted for in these financial statements are described in Note 2.

The Association’s Board of Directors (the “Board”) has the necessary power and authority to conduct the affairs of the Association, with the exception of those powers specifically reserved for or delegated to others by the Articles of Association, in accordance with the Association’s Plan of Operation (the “Plan”). The Association administers the sharing among members of the results of the operations of the insurance pools under management. Operating surpluses are provided to members, and operating deficits are funded by members in accordance with the Plan. Funds held by members, amounts due to members and funds held for members do not bear interest.

In accordance with the Plan, Article XIV:

- 1. In the event of failure of any member, through insolvency or otherwise, to pay promptly its portion of any loss or expense after the Board shall have made written demand upon the member to pay such loss or expense, the Board shall report the delinquency to all members.*
- 2. If the loss or expense remains unpaid beyond a reasonable period, all of the other members, upon notification by the Board, shall promptly pay their respective shares of such loss or expense.*

Revenue associated with the FARM is affected by the regulation of automobile premium rates through government regulatory authorities in jurisdictions in which the Association operates. In general, the associated rate regulatory approval processes can result in the prescription of premium rates at levels other than those individual insurance companies and the FARM deem appropriate for the risks to be underwritten by them. To the extent that individual insurance company and FARM premium rate levels are inadequate and/or to the extent that FARM premium rate levels are competitive with the voluntary market, there will tend to be an increased number of policies written through the FARM.

# **FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS**

## **Notes to the Financial Statements (continued)**

**For the year ended October 31, 2016  
(in thousands of Canadian dollars)**

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### **1. NATURE OF THE FACILITY ASSOCIATION (continued)**

Claims costs are also influenced by actions of the governments of provinces and territories to the extent legislation or regulations specify the nature and extent of benefits and other requirements that affect claims costs and the settlement process.

The impact on the financial performance and financial position of the FARM and UAFs of such government and regulator future actions, whether in relation to rate approval processes, product reform, or other such action, is not determinable.

### **2. FORMATION AND OPERATION OF THE RESIDUAL MARKET SEGMENT, UNINSURED AUTOMOBILE FUNDS, AND RISK SHARING POOLS**

The operations of the Association are conducted in accordance with the Plan approved by the member companies. As authorized by statute within each of the jurisdictions noted below, every insurer licensed to write automobile liability insurance is a member of the Association by operation of law.

The Association manages a segment of its members' insurance business. The results of this business flow from the insurance pools under management and are incorporated into the members' overall results, where applicable. The insurance pools under management are as follows:

- The FARM provides a residual automobile insurance market for owners and operators of motor vehicles required by law to have insurance who may otherwise have difficulty obtaining such insurance in the following provinces and territories: Alberta, Ontario, Nova Scotia, Prince Edward Island, New Brunswick, Newfoundland and Labrador, Yukon, Northwest Territories, and Nunavut.

Legislation enabling operations of the FARM came into effect as follows:

- in Alberta on October 1, 1979, under *The Alberta Insurance Act*;
- in Ontario on December 1, 1979, under *An Act to Provide for Compulsory Automobile Insurance*;
- in Nova Scotia on July 1, 1981, under *The Nova Scotia Insurance Act*;
- in Prince Edward Island on September 1, 1982, under *The Prince Edward Island Insurance Act*;
- in New Brunswick on July 1, 1983, under *The New Brunswick Insurance Act*;
- in Newfoundland and Labrador on November 1, 1985, under *The Newfoundland Insurance Act*;
- in the Yukon on April 30, 1986, under *The Insurance Act of the Yukon*;
- in the Northwest Territories on December 1, 1986, under *The Northwest Territories Insurance Act*; and
- in Nunavut on April 1, 1999, under *The Nunavut Insurance Act*.

# **FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS Notes to the Financial Statements (continued)**

**For the year ended October 31, 2016  
(in thousands of Canadian dollars)**

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## **2. FORMATION AND OPERATION OF THE RESIDUAL MARKET SEGMENT, UNINSURED AUTOMOBILE FUNDS, AND RISK SHARING POOLS (continued)**

Risks cannot be underwritten by the FARM unless they qualify as a residual market risk as defined in the Plan. All underwriting and claims settlement activities are conducted by a small number of members designated as servicing carriers. The servicing carrier who issues the initial policy remains responsible for servicing the policy, including any settlement of claims that may arise from the policy. Servicing carriers are compensated through operating fees, in respect of their underwriting and general administrative services, and claims servicing fees, all of which are specified in the Plan.

Members share in the experience of the FARM in accordance with their participation ratio, reflecting their share of the market by jurisdiction, business segment, and accident year.

- The UAFs for New Brunswick, Newfoundland and Labrador, Prince Edward Island, and Nova Scotia fund valid 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.

The UAFs commenced operations as follows:

- in New Brunswick on March 1, 1990;
- in Newfoundland and Labrador on July 1, 1994;
- in Prince Edward Island on July 14, 1994; and
- in Nova Scotia on July 1, 1996.

The UAFs are governed by the respective provincial insurance acts. The responsibilities of the Association are to manage claims recording, claims adjustment, and payment processes; to allocate to members their share of the experience; and to assess members to fund underwriting deficits. Members share in the experience of the UAFs in accordance with their participation ratio, reflecting their share of the market by jurisdiction and accident year.

- The RSPs operating in Ontario, Alberta (Grid and Non-Grid), New Brunswick, and Nova Scotia provide a means for members to transfer certain of the private passenger use automobile insurance policies they underwrite in the respective jurisdiction.

The RSPs were established under the Plan. For risks that qualify for an RSP, members issue insurance policies on their own accounts and may transfer the whole of the policy or a portion thereof to the RSP, 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. An excess of RSP revenue over expenses increases the equity of members, and a deficiency of RSP revenue over expenses decreases the equity of members. The Association funds the operations of the RSP through a monthly sharing among members of the net of premiums received, and the claims and expenses paid.

# **FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS Notes to the Financial Statements (continued)**

**For the year ended October 31, 2016  
(in thousands of Canadian dollars)**

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## **2. FORMATION AND OPERATION OF THE RESIDUAL MARKET SEGMENT, UNINSURED AUTOMOBILE FUNDS, AND RISK SHARING POOLS (continued)**

- The Ontario Risk Sharing Pool (“Ontario RSP”) has operated since January 1, 1993, and is composed of private passenger business as defined in the Plan. Ontario members share in the experience of the Ontario RSP by accident year in relation to their share of the Ontario private passenger market and their usage of the Ontario RSP weighted at 50% each in accordance with the relevant provisions of the Plan.
- The two Alberta Risk Sharing Pools (“Alberta RSPs”) commenced operations on October 1, 2004. The Grid Pool provides a means for Alberta members to transfer private passenger use automobile insurance policies that are subject to the statutory maximum premium. The Non-Grid Pool provides a means for Alberta members to transfer certain of the private passenger use automobile insurance policies they underwrite. Members share in the experience of the Alberta RSPs by accident year in relation to their share of the Alberta private passenger market in accordance with the relevant provisions of the Plan.
- The New Brunswick Risk Sharing Pool (“New Brunswick RSP”) commenced operations on January 1, 2005. This RSP provides a means for New Brunswick members to transfer certain of the private passenger use automobile insurance policies they underwrite that are eligible for the “First Chance” discount mandated by law in that province. Members share in the experience of the New Brunswick RSP by accident year in relation to their share of the New Brunswick private passenger market in accordance with the relevant provisions of the Plan.
- The Nova Scotia Risk Sharing Pool (“Nova Scotia RSP”) commenced operations on January 1, 2007. This RSP provides a means for Nova Scotia members to transfer certain of the private passenger use automobile insurance policies they underwrite that are rated for drivers licensed less than six years with a clean record in that province. Members share in the experience of the Nova Scotia RSP by accident year in relation to their share of the Nova Scotia private passenger market in accordance with the relevant provisions of the Plan.

All of the premiums of the insurance pools under management are allocated to members, who are required by regulation to record these premiums in their accounting records as direct written premiums. Members pay premium taxes, and health and other levies, directly to the provinces based on these direct written premiums. Members also incur other costs, such as membership dues to industry organizations, where such other costs are derived based on direct written premiums. Accordingly, these costs are not recorded in the accounting records of the insurance pools under management. Similarly, investment income earned with respect to funds of the insurance pools under management that are held by members is also not reflected in the financial statements of the insurance pools under management.

The financial statements contained herein are for the FARM and UAFs operations of the Association and account for the financial results of the risks insured by the FARM and the cost of managing these insurance exposures, administering the UAFs, and managing the participation of members in sharing the associated results. These financial statements do not account for any expenses incurred or revenue earned directly by members in respect to their participation.

# **FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS**

## **Notes to the Financial Statements (continued)**

For the year ended October 31, 2016  
(in thousands of Canadian dollars)

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### **2. FORMATION AND OPERATION OF THE RESIDUAL MARKET SEGMENT, UNINSURED AUTOMOBILE FUNDS, AND RISK SHARING POOLS (continued)**

The results of the operations and financial position of the RSPs are not included in these financial statements. Separate financial statements are prepared for each of the RSPs.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The presentation currency used for the preparation of these financial statements is Canadian dollars, the same as the functional currency, rounded to the nearest thousand.

Assets and liabilities presented in the statement of financial position are presented in order of liquidity and comprise both current amounts (expected to be recovered or settled within twelve months after the reporting date) and non-current amounts (expected to be recovered or settled more than twelve months after the reporting date). For those assets and liabilities that comprise both current and non-current amounts, information regarding the amount of the item that is expected to be outstanding for more than twelve months is shown separately in the notes from amounts outstanding for twelve months or less.

The significant accounting policies adopted are summarized in sections 3 (a) to (l) below.

#### **(a) Product classification**

Insurance contracts are those contracts under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

The FARM's insurance products are standard automobile insurance contracts within each jurisdiction in which it operates. All of the FARM's insurance products contain significant insurance risk, and there are no financial risks that are required to be presented separately.

#### **(b) Financial instruments**

##### *Financial assets*

Financial assets are classified as loans and receivables, or held at fair value through profit or loss ("FVTPL"). Transaction costs are capitalized into the carrying amount of loans and receivables.

- **Loans and receivables**

Loans and receivables are measured at amortized cost using the effective interest method. The FARM and UAFs have classified premiums and other receivables, accounts receivable from other pools, accrued interest income, amounts due from members and funds held by members as loans and receivables. Management considers the carrying amount of these loans and receivables a reasonable approximation of the fair value of the assets.

# **FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS**

## **Notes to the Financial Statements (continued)**

For the year ended October 31, 2016  
(in thousands of Canadian dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

The loans and receivables are presented net of any provision for impairment. The recoverability of accounts receivable is assessed on an ongoing basis, and provision for impairment is made based on objective evidence and having regard to past default experience. The impairment charge is recognized in the statement of operations. Accounts receivable that management considers uncollectible are written off in the period in which the amount is considered uncollectible.

- FVTPL: Cash and cash equivalents

Cash and cash equivalents are classified as FVTPL. Cash represents cash balances at Canadian Schedule I banks. Cash equivalents are highly liquid investments with an original term to maturity of three months or less. Management considers the fair value of cash equivalents to approximate their carrying amounts.

#### *Financial liabilities*

Financial liabilities are measured at amortized cost using the effective interest method. They include accounts payable and other liabilities, servicing carrier operating fees payable, amounts due to members, and funds held for members. Gains and losses are reported in the statement of operations in the period in which the liability is derecognized.

Management considers the carrying amount of financial liabilities to be a close approximation of the fair value of the liabilities due to the short-term nature of these liabilities.

- (c) Accrued interest income

Accrued interest income consists solely of interest from cash and cash equivalents. Interest income is recognized on an accrual basis, by reference to the principal balance and the effective interest rate applicable. Accrued interest income is due in less than three months.

- (d) Premiums earned

Premiums are deferred until earned. Premiums are included in revenue on a daily pro rata basis over the term of policies while in force.

- (e) Unearned premium liabilities, deferred policy acquisition costs, and premium deficiency reserve

Unearned premium liabilities represent the deferred portion of the premiums written related to the unexpired terms of coverage.

Deferred policy acquisition costs are commissions related to the costs incurred by servicing carriers in acquiring the insurance business. The expenses 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 FARM and UAFs' financial statements because premium taxes are not included in these financial statements. Such taxes are assessed and paid by individual member companies on the basis of their direct written premiums, which include their share of the FARM's premiums written.



# **FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS**

## **Notes to the Financial Statements (continued)**

For the year ended October 31, 2016  
(in thousands of Canadian dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

A determination is made by the FARM's Actuary (the "Actuary") on whether the unearned premium liabilities are sufficient to cover the unrecorded claims and the deferred policy acquisition costs that relate to the unexpired portion of the policies in force at fiscal year-end. Any identified premium deficiency is recognized as an expense in the statement of operations and as a reduction to the deferred policy acquisition costs, or as an increase in the previously recognized premium deficiency reserve, in the statement of financial position. A separate provision is established for the amount of the deficiency, if any, that exceeds the deferred policy acquisition costs.

When the above liability adequacy test is performed, the estimate of the unrecorded claims amount associated with unexpired exposure is on an actuarial present value basis to reflect the time value of money and include explicit provisions for adverse deviations, in accordance with accepted actuarial practice in Canada.

(f) Provision for claims liabilities

An estimate of the amount required to pay all outstanding claims (whether reported or not) and related applicable expense amounts relating to the FARM and UAFs is included in these financial statements. The provision is determined by 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. Assumptions were selected on the basis of the historical experience of the FARM and UAFs, supplemented as appropriate by the experience of the voluntary market in the respective jurisdictions. The estimates are periodically reviewed and, as adjustments to these liabilities become necessary, they are reflected in current operations. Claims-related balances are carried on an actuarial present value basis to reflect the time value of money and include explicit provisions for adverse deviations in accordance with accepted actuarial practice in Canada. Accordingly, the discount rate selected to reflect the time value of money is based on the expected return on assets supporting the liabilities. As the supporting assets are non-interest bearing, a discount rate of 0.0% has been selected.

The initial estimate for the appropriate provision for amounts in relation to claims incurred but not reported and for the development on known claims (collectively referred to as "IBNR") is based on data valued as at September 30. As the Association's annual financial statements are presented as at October 31, the initial estimate of the provision includes consideration of expected claims activity during the month of October. Claims activity during the month of October consists of recording of claims unrecorded at September 30 ("unknown" or "unreported" claims, including claims occurring during the month of October and development on claims already recorded or "known" as at September 30). The initial estimate derived as part of the valuation process is adjusted based on the deviation between the actual claims reported activity during the month and the expected activity underlying the initial estimate of the provision.

(g) Amounts due to members

Amounts due to members are recognized as a financial liability of the FARM and UAFs and, accordingly, are recorded at the total of the amounts payable at the date of the statement of financial position. Amounts due to members do not bear interest.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

During fiscal year 2016, based on communications with members, management determined that the operating results distributed to members should be presented in Facility Association's financial statements in the same way as they are reported in Facility Association's member sharing statement for the FARM (Participation Report). The change, made prospectively effective November 1, 2015, is to present the related amounts in Facility Association's financial statements on a basis consistent with their presentation in the Participation Report. Accordingly, the amount shown within the Statement of Amounts Due (from) to Members under the line "Distributions to members" reflects the operating results that were distributed for accident years 2015 and prior, calculated as at October 31, 2016. It represents the total FARM operating results that were distributed to members as at October 31, 2016 and were reflected within the October 2016 Participation Reports (also see Note 11).

(h) Funds held by members

Funds held by members are due on demand and, accordingly, are recorded at the amounts receivable at the date of the statement of financial position. Funds held by members do not bear interest. During fiscal year 2016, based on communications with members, management determined that funds held by members should be presented in Facility Association's financial statements in the same way as they are reported in Facility Association's member sharing statement for the FARM (Participation Report). The change, made prospectively effective November 1, 2015, is to present the related amounts in Facility Association's financial statements on a basis consistent with their presentation in the Participation Report. Accordingly, funds held by members reflect the amounts held by them after operating results were distributed for accident years 2015 and prior, and available funds distributed calculated as at October 31, 2016.

(i) Servicing carriers' operating fees payable

In accordance with the Plan, servicing carriers are reimbursed on a formula basis for their operating and claims adjusting costs. Servicing carriers' operating fees payable 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 accident 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. Servicing carriers' fees are payable within one year.

(j) Management judgements and estimation uncertainty

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Please refer to Note 5.

Significant estimates and assumptions are made in the areas of determining the provision for unpaid and unreported claims and fair value of financial instruments (see Note 5). Actual results may differ materially from those estimates.

# **FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS**

## **Notes to the Financial Statements (continued)**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(k) Income taxes

No provision for income taxes is recorded in these financial statements. The results of operations of the insurance pools under the Association's administration, including administrative expenses incurred by the FARM and UAFs and interest income earned on insurance pool assets invested by the FARM, are included in the members' income for tax assessment purposes.

(l) Related-party transactions

Related-party transactions are considered to be in the normal course of business and are initially recognized at the exchange amount as agreed to between the related parties.

### **4. FUTURE ACCOUNTING STANDARDS**

The Association has not applied the following IFRS standard that has been issued but is not yet effective:

- IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* ("IFRS 9") issued on July 24, 2014, is the International Accounting Standards Board's ("IASB's") replacement of IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). The standard includes requirements for recognition and measurement, impairment, derecognition, and general hedge accounting. The IASB completed its project to replace IAS 39 in phases, adding to the standard as it completed each phase. IFRS 9 is mandatorily effective for periods beginning on or after January 1, 2018, with early adoption permitted (subject to local regulatory requirements). The Association is assessing the impact of this standard on its financial statements.

### **5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the process of applying the FARM and UAFs' accounting policies (described in Note 3), management is required to make judgements, estimates, and assumptions about the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

*Critical judgements in applying accounting policies*

The following are the critical judgements and estimations that management has made in the process of applying the FARM's accounting policies and that have the most significant effect on the amounts recognized in the FARM's financial statements.

# **FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS Notes to the Financial Statements (continued)**

**For the year ended October 31, 2016  
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## **5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)**

Valuation of liabilities of automobile insurance contracts

The Actuary is appointed by the Board. With respect to the preparation of these financial statements, the Actuary is required to carry out a valuation of the FARM policy liabilities and report thereon to the members. The valuation is carried out in accordance with accepted actuarial practice in Canada. The scope of the valuation encompasses only the policy liabilities. The policy liabilities consists of claims liabilities (being a provision for unpaid claims and associated adjustment expenses on the expired portion of policies, whether such claims are reported or not) and other policy liabilities (being a provision for future obligations on the unexpired portion of policies).

In performing the valuation of the liabilities for these inherently variable future events, 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 FARM and UAFs 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 FARM and UAFs, and considers the work of the internal and external auditors with respect to the FARM and UAFs' underlying data used in the valuation. IBNR is based on valuation data as at September 30, 2016, and an estimate of expected claims activity for the month of October 2016. The valuation is necessarily based on estimates and, consequently, the final values may vary significantly from those estimates.

## **6. PREMIUMS AND OTHER RECEIVABLES**

Premiums and other receivables, accounts receivable from other insurance pools under the Association's administration, and accrued interest income are non-interest bearing and are normally settled between thirty days and twelve months. Management considers the carrying amount of accounts receivable, net of a provision for doubtful accounts, to be a reasonable approximation of the fair value of the assets because of the short-term nature of the assets. A portion of the receivables balance is due from related parties (see Note 15), which is considered to be fully recoverable. As at October 31, 2016, the provision for doubtful accounts is **\$18** (2015: \$152).

## **7. CASH EQUIVALENTS**

The FARM limits its cash equivalent investments to bankers' acceptances. All cash equivalents mature in three months or less.

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**8. PROVISIONS FOR OTHER POLICY LIABILITIES, I.E., UNEARNED PREMIUM LIABILITIES, PREMIUM DEFICIENCY RESERVE, AND DEFERRED POLICY ACQUISITION COSTS**

(a) Reconciliation of movements in unearned premium liabilities for the fiscal year

|   | <u>2016</u>      | <u>2015</u> |
|---|------------------|-------------|
| Unearned premium liabilities, beginning of year | \$ 99,072        | \$ 104,514  |
| Changes due to:                                 |                  |             |
| add premiums written                            | 172,447          | 194,164     |
| less premiums earned                            | <b>(181,129)</b> | (199,606)   |
| Unearned premium liabilities, end of year       | <b>\$ 90,390</b> | \$ 99,072   |

(b) Liability adequacy test/premium deficiency reserve

The Actuary uses current estimates of future cash flows under the FARM's insurance contracts to assess at the end of each reporting period whether the unearned premium liabilities (after adjustment for related deferred policy acquisition costs) are adequate. Where the assessment indicates that the carrying amount (after adjustment) is inadequate in light of all current estimates of all future contractual cash flows, the entire deficiency (or change in deficiency, where a deficiency existed in the prior period) is recognized in the statement of operations.

(c) Reconciliation of movements in deferred policy acquisition costs carrying amount

|  | <u>2016</u>     | <u>2015</u> |
|--|-----------------|-------------|
| Deferred policy acquisition costs, beginning of year                               | \$ 6,811        | \$ 6,825    |
| Changes due to:  |                 |             |
| change in unearned premium liabilities   | <b>(597)</b>    | (355)       |
| change in future costs and/or deferrable amounts,<br>relative to unearned premiums | <b>465</b>      | 341         |
| Deferred policy acquisition costs, end of year                                     | <b>\$ 6,679</b> | \$ 6,811    |

**FACILITY ASSOCIATION  
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Notes to the Financial Statements (continued)**

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**9. PROVISION FOR CLAIMS LIABILITIES**

- (a) Composition of claims liabilities for the twelve-month accident period ended October 31, unless otherwise noted

|  | <u>2016</u>       | <u>2015</u>       |
|--|-------------------|-------------------|
| Case reserves  | \$ 249,204        | \$ 249,555        |
| IBNR   | 86,988            | 94,332            |
| Claims fee adjustment and allowed claims expense provision | 35,870            | 35,110            |
|  | <u>\$ 372,062</u> | <u>\$ 378,997</u> |
| Actuarial present value adjustments                        | 43,721            | 38,224            |
| Claims liability   | <u>\$ 415,783</u> | <u>\$ 417,221</u> |

As at October 31, 2016, the claims liabilities prior to actuarial present value adjustments includes **\$264,905** (2015: \$270,731), which is expected to be settled (paid) more than twelve months after the reporting date.

The actuarial present value adjustments are comprised of provisions for discounting, adverse deviations in investment returns, and adverse deviations in claims development. The discount provision of **\$0** (2015: \$0) is estimated by the application of a **0.0%** (2015: 0.0%) discount rate to the expected cash flows of the claims liability prior to actuarial present value adjustments (shown in the table above). The discount rate is determined based on the expected return on assets supporting the liabilities. The provision for adverse deviation in investment returns of **\$0** (2015: \$0) is estimated as the difference in the discount provision if a rate of 0 basis points (2015: 0) lower was used. Finally, the provision for adverse deviations in claims development, **\$43,721** (2015: \$38,224), is derived by application of margins for adverse deviation to the claims liability prior to actuarial present value adjustments, adjusted to include the effect of the discount provision. The estimated impacts of changes in assumptions are presented in a table in Note 9(e)(ii).

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**9. PROVISION FOR CLAIMS LIABILITIES (continued)**

- (b) Claims liabilities by jurisdiction for the twelve-month period ended October 31, unless otherwise noted

|                               | <u>2016</u>       | <u>2015</u>       |
|-------------------------------|-------------------|-------------------|
| Ontario                       | \$ 152,593        | \$ 155,014        |
| Nova Scotia                   | 35,062            | 34,157            |
| Prince Edward Island          | 8,370             | 6,884             |
| New Brunswick                 | 42,814            | 38,405            |
| Newfoundland & Labrador       | 67,704            | 66,043            |
| Alberta                       | 95,793            | 104,978           |
| Yukon                         | 4,135             | 4,068             |
| Northwest Territories         | 7,499             | 5,658             |
| Nunavut                       | 1,813             | 2,014             |
| Claims liability, end of year | <u>\$ 415,783</u> | <u>\$ 417,221</u> |

- (c) Activity in claims liabilities

|   | <u>2016</u>       | <u>2015</u>       |
|---|-------------------|-------------------|
| Provision for claims liabilities, beginning of year | \$ 417,221        | \$ 441,384        |
| Incurred for:                                       |                   |                   |
| current year's claims                               | 140,633           | 150,992           |
| prior years' claims                                 | (5,659)           | (26,897)          |
| Payments attributable to:                           |                   |                   |
| current year's claims                               | (54,078)          | (56,463)          |
| prior years' claims                                 | (82,334)          | (91,795)          |
| Provision for claims liabilities, end of year       | <u>\$ 415,783</u> | <u>\$ 417,221</u> |

- (d) Claims development table

The table on the following page presents changes in the historical claims liabilities (prior to actuarial present value adjustments) that were established in 2008 and prior and the associated provision arising in each subsequent accident year. This table is presented on both a gross and net-of-reinsurance basis as there is no reinsurance ceded.

The top (provisions) triangle of the table presents the estimated claims liabilities pertaining to each accident year as at each statement of financial position date. The lower (paid) triangle of the table presents the amounts paid against those claims liabilities in each subsequent accounting period. The estimated claims liabilities change as more information becomes known about the actual claims for which the initial provisions were set up.

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**9. PROVISION FOR CLAIMS LIABILITIES (continued)**

|  | 2016      | 2015       | 2014      | 2013      | 2012       | 2011      | 2010       | 2009       | 2008 and prior | Total             |
|--|-----------|------------|-----------|-----------|------------|-----------|------------|------------|----------------|-------------------|
| <b>Claims liability<sup>1</sup> - At end of fiscal accident year<sup>2</sup></b> | \$ 76,900 | \$ 84,717  | \$ 88,894 | \$ 91,530 | \$ 87,336  | \$ 92,360 | \$ 112,288 | \$ 121,248 | \$ 850,616     |                   |
| <b>Revised estimates</b>   |           |            |           |           |            |           |            |            |                |                   |
| 1 year later   |           | 90,712     | 92,218    | 96,103    | 87,998     | 88,965    | 105,415    | 102,583    | 847,448        |                   |
| 2 years later  |           |            | 88,325    | 92,695    | 90,255     | 86,113    | 104,360    | 95,458     | 768,442        |                   |
| 3 years later  |           |            |           | 90,682    | 90,113     | 83,675    | 97,978     | 89,557     | 724,863        |                   |
| 4 years later  |           |            |           |           | 92,461     | 84,216    | 100,152    | 90,260     | 706,137        |                   |
| 5 years later  |           |            |           |           |            | 84,995    | 98,031     | 93,176     | 706,612        |                   |
| 6 years later  |           |            |           |           |            |           | 97,748     | 93,745     | 697,600        |                   |
| 7 years later  |           |            |           |           |            |           |            | 93,170     | 685,039        |                   |
| 8 years later  |           |            |           |           |            |           |            |            | 681,180        |                   |
| Current estimates  | \$ 76,900 | \$ 90,712  | \$ 88,325 | \$ 90,682 | \$ 92,461  | \$ 84,995 | \$ 97,748  | \$ 93,170  | \$ 681,180     |                   |
| <b>Payments in subsequent periods</b>  |           |            |           |           |            |           |            |            |                |                   |
| 1 year later   |           | \$ 20,455  | \$ 21,880 | \$ 20,162 | \$ 22,485  | \$ 20,317 | \$ 28,266  | \$ 24,954  | \$ 207,826     |                   |
| 2 years later  |           |            | 11,148    | 14,893    | 13,150     | 11,721    | 14,770     | 14,229     | 138,838        |                   |
| 3 years later  |           |            |           | 9,841     | 13,857     | 12,788    | 14,842     | 15,043     | 89,838         |                   |
| 4 years later  |           |            |           |           | 11,493     | 10,446    | 11,457     | 12,023     | 81,509         |                   |
| 5 years later  |           |            |           |           |            | 7,986     | 8,588      | 9,750      | 47,601         |                   |
| 6 years later  |           |            |           |           |            |           | 8,642      | 3,524      | 38,413         |                   |
| 7 years later  |           |            |           |           |            |           |            | 4,901      | 18,607         |                   |
| 8 years later  |           |            |           |           |            |           |            |            | 7,868          |                   |
| Cumulative payments  | \$ -      | \$ 20,455  | \$ 33,028 | \$ 44,896 | \$ 60,985  | \$ 63,258 | \$ 86,565  | \$ 84,424  | \$ 630,500     |                   |
| <b>Redundancy/(deficiency) recognized in 2016</b>                                |           | \$ (5,995) | \$ 3,893  | \$ 2,013  | \$ (2,348) | \$ (779)  | \$ 283     | \$ 575     | \$ 3,859       | \$ 1,501          |
| <b>Reconciliation to the statement of financial position</b>                     |           |            |           |           |            |           |            |            |                |                   |
| Claims liability <sup>1</sup>  | \$ 76,900 | \$ 70,257  | \$ 55,297 | \$ 45,786 | \$ 31,476  | \$ 21,737 | \$ 11,183  | \$ 8,746   | \$ 50,680      | \$ 372,062        |
| Actuarial present value adjustments  |           |            |           |           |            |           |            |            |                | 43,721            |
| <b>Claims liability</b>  |           |            |           |           |            |           |            |            |                | <u>\$ 415,783</u> |

<sup>1</sup>Prior to actuarial present value adjustments

<sup>2</sup>Fiscal accident year "yyyy" reflects claims occurring during the period November 1, yyyy-1 to October 31, yyyy



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**9. PROVISION FOR CLAIMS LIABILITIES (continued)**

(e) Actuarial assumptions

The following process and key actuarial assumptions were used in the estimation of the insurance policy liabilities consisting of claims liabilities (the provision for unpaid claims whether reported or not) and premium liabilities at the reporting date:

i. Processes used to determine the assumptions

In estimating the provision for claims liabilities, the Actuary first determines the level of granularity of experience with which to perform the analysis, considering the trade-off between volume of data (more being better) and homogeneity of policy coverage/terms/expected patterns (i.e. grouping policies together where the claims experience is expected to be similar).

Once the level of granularity is decided, the Actuary estimates the nominal future claims activity (i.e., prior to any discounting of cash flows and prior to the inclusion of any provisions for adverse deviations). The Actuary considers historical levels of claims frequency and severity, and patterns of claims reporting, payment, and settlement, as well as a priori assumptions regarding claims levels, generally in reference to associated earned premiums. The Actuary augments the FARM and UAFs' own historical experience with industry experience, as needed. The Actuary considers historical and/or anticipated future changes to insurance policy attributes, terms, or conditions (including product changes) and to the general business environment (due to changes in the level of inflation, pending or finalized legal decisions, etc.) and makes adjustments to the historical data to better reflect current and/or projected future experience, as needed.

The Actuary models the nominal future claims reporting, payment, and settlement levels using one or more actuarial techniques as appropriate for the data and assumptions needed. Upon reviewing the results and projections under the various techniques, the Actuary makes final selections for the best estimates of the nominal claims liabilities. The Actuary also projects the future cash flows associated with the selected provision.

In order to discount the future cash flows to reflect the time value of money, the Actuary considers the future yield expected to be realized on investments supporting the policy liabilities and the future cash flows. The Actuary discounts the future cash flows, based on an assumed yield curve structure. The discount rate used by the FARM and UAFs was **0.0%** (2015: 0.0%).

The Actuary selects Margins for Adverse Deviations ("MfADs") for claims development and for the discount rate selected, in accordance with the Standards of Practice of the Canadian Institute of Actuaries. Considerations for selection of MfADs for claims development include but are not limited to the stability of the historical development, the credibility of the historical data, and the homogeneity of the data. Considerations for the selection of MfADs for the discount rate selection include the nature of the assets supporting the liabilities, the level of mismatch between the duration of assets and liabilities, and the general investment environment.

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**9. PROVISION FOR CLAIMS LIABILITIES (continued)**

ii. Changes in actuarial present value adjustments

|   | Discount<br>amount | Provision<br>for adverse<br>investment<br>return | Provision for<br>adverse<br>development | Total     |
|---|--------------------|--|---|-----------|
| <b>For year ended October 31, 2016</b>  |                    |  |   |           |
| Actuarial present value adjustments,<br>beginning of year                     | \$ -               | \$ -   | \$ 38,224                               | \$ 38,224 |
| Changes due to:   |                    |  |   |           |
| change in claims liability (excluding<br>actuarial present value adjustments) | -                  | -  | (658)                                   | (658)     |
| change in selected discount rate  | -                  | -  | -                                       | -         |
| change in selected margins  | -                  | -  | 6,155                                   | 6,155     |
| Actuarial present value adjustments,<br>end of year                           | \$ -               | \$ -   | \$ 43,721                               | \$ 43,721 |
| <b>For year ended October 31, 2015</b>  |                    |  |   |           |
| Actuarial present value adjustments,<br>beginning of year                     | \$ -               | \$ -   | \$ 41,511                               | \$ 41,511 |
| Changes due to:   |                    |  |   |           |
| change in claims liability (excluding<br>actuarial present value adjustments) | -                  | -  | (2,140)                                 | (2,140)   |
| change in selected discount rate  | -                  | -  | -                                       | -         |
| change in selected margins  | -                  | -  | (1,147)                                 | (1,147)   |
| Actuarial present value adjustments,<br>end of year                           | \$ -               | \$ -   | \$ 38,224                               | \$ 38,224 |

(f) Fair values

The fair values of the provision for claims liabilities and of other policy liabilities are not readily determinable given the absence of any regular market for such liabilities. Further, this fair value would be affected by the income-generation potential of related invested premiums. The majority of those investment amounts are held by members, not by the FARM or UAFs. Nonetheless, the current value of the provision for claims liabilities reflects management's best estimate of the amounts required to settle claims liabilities.

(g) Structured settlements

In the normal course of claims settlements, the FARM's servicing carriers and UAF representatives will, where appropriate, purchase annuities from life insurance companies to provide for fixed and recurring payments to claimants ("structured settlements").

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**9. PROVISION FOR CLAIMS LIABILITIES (continued)**

*Type I*

Type I structured settlements are where the member company has purchased an annuity that pays directly to the claimant and the annuity is non-commutable, non-assignable, and non-transferable.

The Office of the Superintendent of Financial Institutions (“OSFI”) Guideline D5, *Accounting for Structured Settlements* (“Guideline D5”) requires that claims and annuities of Type I structures are derecognized from the property and casualty (“P&C”) insurer’s statement of financial position.

The claimant’s recourse to the P&C insurer represents a guarantee of the annuity underwriter’s obligation to make payments to the claimant pursuant to the terms and conditions of the structured settlement. The financial guarantee on initial recognition is generally recognized at nil value. Subsequently, the guarantee is measured in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

*Type II*

Type II structures are where the annuity is commutable, assignable, or transferable; that is, there is some form of reversionary interest or continuing right to a benefit for the P&C insurer.

For Type II structures, OSFI Guideline D5 requires that the annuity and insurance claim remain on the P&C insurer’s statement of financial position.

*Structured settlements and the FARM and UAFs*

As a result of Type I and Type II structures entered into by servicing carriers, the FARM and UAFs are exposed to credit risk to the extent that the life insurers providing the annuity fail to fulfill their obligations. The risk is mitigated to varying degrees through the member acquiring annuities from life insurers with proven financial stability.

The maximum exposure for the FARM and UAFs is the discounted value of the payments outstanding on such annuities that are still in force. The FARM and UAFs do not have an accurate estimate of the undiscounted outstanding payments but estimate the original purchase value of annuities in force as at October 31, 2016, to be **\$165,078** (2015: \$163,650). The maximum exposure is for the discounted present value of the payments outstanding on such annuities that are still in force. This exposure is further mitigated by the fact that any further obligations resulting from these structured settlements are joint and several on all members.

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**10. AMOUNTS DUE (FROM) TO MEMBERS**

The balance of amounts due from members at October 31, 2016, is composed of the following:

| Fiscal year | Accumulated<br>excess of<br>revenue over<br>expenses | Net payments<br>from/(to)<br>members | Amount due to<br>(from)<br>members |
|-------------|--|--------------------------------------|------------------------------------|
| <b>2016</b> | \$ 6,028   | \$ (735,688)                         | \$ (729,660)                       |
| 2015        | 31,814   | -                                    | 31,814                             |
| 2014        | 15,611   | -                                    | 15,611                             |
| 2013        | 40,545   | -                                    | 40,545                             |
| 1980-2012   | 1,194,272  | (566,476)                            | 627,796                            |
|             | <b>\$ 1,288,270</b>                                  | <b>\$ (1,302,164)</b>                | <b>\$ (13,894)</b>                 |

|                    |             |
|--------------------|-------------|
| Within one year    | \$ (13,894) |
| More than one year | \$ -        |

**11. FUNDS HELD BY/FOR MEMBERS**

It is the Association's practice to transfer all available funds arising from FARM operations to its members. The Association maintains only sufficient funds to meet its daily cash flow needs. The funds are due from members to the Association on demand and are free of interest. When additional funds are required, they are transferred to the FARM from member companies.

Net funds transferred during the year ended October 31, 2016, between the FARM and members were \$0 (2015: \$4,952). The funds are allocated to individual member companies based on their shares of unearned premiums and the provision for unpaid and unreported claims. Transfer of funds does not change the member companies' obligations to the FARM.

The balance of funds held by/for members at October 31, 2016, is composed of the following:

|  |                   |                     |
|--|-------------------|---------------------|
|  | <b>2016</b>       | 2015                |
| Funds held by members, beginning of year     | \$ 1,150,432      | \$ 1,155,332        |
| Funds transferred to members during the year | -                 | (4,900)             |
| Distributions to members                     | (736,977)         | -                   |
| Funds held by members, end of year           | <b>\$ 413,455</b> | <b>\$ 1,150,432</b> |
| Funds held for members, beginning of year    | \$ 623            | \$ 571              |
| Funds transferred by members during the year | -                 | 52                  |
| Assessment from members                      | (451)             | -                   |
| Funds held for members, end of year          | <b>\$ 172</b>     | <b>\$ 623</b>       |

**FACILITY ASSOCIATION  
RESIDUAL MARKET SEGMENT and  
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Notes to the Financial Statements (continued)**

For the year ended October 31, 2016  
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**12. INTEREST INCOME**

A summary of interest income included in income is given below:

|                                    | Interest<br>income | Net<br>realized<br>gains | Changes in<br>fair value | Impairment  | Net<br>investment<br>result |
|------------------------------------|--------------------|--------------------------|--------------------------|-------------|-----------------------------|
| <b>Year ended October 31, 2016</b> |                    |                          |                          |             |                             |
| Cash and cash equivalents          | \$ 250             | -                        | -                        | -           | \$ 250                      |
|                                    | <u>\$ 250</u>      | <u>\$ -</u>              | <u>\$ -</u>              | <u>\$ -</u> | <u>\$ 250</u>               |
| <b>Year ended October 31, 2015</b> |                    |                          |                          |             |                             |
| Cash and cash equivalents          | \$ 277             | -                        | -                        | -           | \$ 277                      |
|                                    | <u>\$ 277</u>      | <u>\$ -</u>              | <u>\$ -</u>              | <u>\$ -</u> | <u>\$ 277</u>               |

**13. CLAIMS AND CLAIMS EXPENSES INCURRED**

|  | 2016              | 2015              |
|--|-------------------|-------------------|
| Claims paid                                  | \$ 114,815        | \$ 123,796        |
| Claims-related expenses                      | 21,597            | 24,462            |
| Decrease in provision for claims liabilities | <b>(1,438)</b>    | (24,163)          |
|  | <u>\$ 134,974</u> | <u>\$ 124,095</u> |

Total claims expenses include the cost of claims events that occurred in the current financial year and a reassessment of the claims events that occurred in all previous financial periods.

**14. UNCLAIMED PROPERTY AND DOUBTFUL ACCOUNTS**

Unclaimed property and doubtful accounts include write-offs of bad debt expenses and recoveries that resulted in a net income of \$130 (2015: net income of \$382), and unclaimed property distributed to members as income in accordance with Facility Association's "Unclaimed Property Guidelines and Procedures."

During the fiscal year ended October 31, 2016, the Association treated certain unclaimed premium refund and claim cheques as abandoned considering applicable unclaimed property legislation in each of the corresponding jurisdictions and took \$251 into income in 2016 (2015: \$372).

# FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS

## Notes to the Financial Statements (continued)

For the year ended October 31, 2016  
(in thousands of Canadian dollars)

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### 15. RELATED-PARTY DISCLOSURE

All related-party transactions are considered to be in the normal course of business and are measured at the exchange amount, which is the amount of consideration as agreed to between the related parties.

(a) Compensation of key management personnel

The Association's key management compensation was allocated to the FARM and UAFs as follows:

|   | 2016   | 2015   |
|---|--------|--------|
| Salaries, bonuses, and other short-term employee benefits | \$ 746 | \$ 680 |
| Healthcare benefits                                       | 23     | 21     |
| Pension benefits  | 106    | 101    |
| Independent directors' fees                               | 26     | 25     |
|   | \$ 901 | \$ 827 |

(b) Commitments to the Association's administration expenses

Insurance pools under management are committed to reimburse their share of any expenses the Association incurred while managing these insurance pools on behalf of their members. The allocation is based on an annual study of time worked on the insurance pools by the Association's staff and is reviewed by the Association's Accounting Committee annually. All administrative expenses are initially paid by the FARM and subsequently reimbursed by the RSPs and UAFs. This generates intercompany amounts due to and from these insurance pools. In addition, settlements of cash made through a single payment by member companies to the FARM, the RSPs, and the UAFs managed by the Association creates intercompany balances among those insurance pools.

In 2016, the FARM and UAFs' share of the Association's administration expenses was as follows:

|                            | 2016     | 2015     |
|----------------------------|----------|----------|
| Head office and operations | \$ 3,117 | \$ 2,910 |
| Data processing            | 1,353    | 1,066    |
| Professional fees          | 894      | 1,291    |
|                            | \$ 5,364 | \$ 5,267 |

The Association's central office has a pension obligation with respect to its defined benefit pension plan. On a going concern basis, there is no unfunded pension liability at October 31, 2016. During the year ended October 31, 2016, the FARM recognized costs of \$69 (2015: \$65) in respect of the defined contribution plan and costs of \$130 (2015: \$154) in respect of the defined benefit pension plan. These expenses are included in head office and operations expenses in the above table.

# FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS

## Notes to the Financial Statements (continued)

For the year ended October 31, 2016  
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### 15. RELATED-PARTY DISCLOSURE (continued)

The following balances are due to or from other insurance pools under the Association's administration as at October 31, unless otherwise noted:

|                                       | 2016     | 2015     |
|---------------------------------------|----------|----------|
| Accounts receivable from other pools: |          |          |
| Ontario RSP                           | \$ 311   | \$ 348   |
| Alberta Grid RSP                      | 228      | 227      |
| Alberta Non-Grid RSP                  | 233      | 206      |
| New Brunswick RSP                     | 120      | 140      |
| Nova Scotia RSP                       | 118      | 142      |
|                                       | \$ 1,010 | \$ 1,063 |

The related-party balances are non-interest bearing and due on demand.

### 16. FAIR VALUES

Fair value represents the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties. Management considers quoted market prices as 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.

Financial assets recorded at fair value on the FARM's statement of financial position are categorized based upon the level of judgement associated with the inputs used to measure their fair value. Hierarchical levels, defined by IFRS 7, *Financial Instruments*, are directly related to the amount of subjectivity associated with inputs to fair valuation of these assets and are as follows:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. Quoted prices for these investments are not adjusted even in situations where a large position and a sale could reasonably affect the quoted price.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgement or estimation.

The fair values of cash equivalents approximate their recorded amounts and are deemed as Level 1.

**FACILITY ASSOCIATION  
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Notes to the Financial Statements (continued)**  
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**16. FAIR VALUES (continued)**

The fair values of amounts due to members reflect the results of operations shared by members. These amounts are due on demand and, accordingly, management considers the carrying amounts approximate fair value.

The fair values of funds held by members reflect transfer of all available funds arising from the FARM's operations to its members. These funds are due on demand and, accordingly, management considers the carrying amounts approximate fair value.

Other payable and receivable amounts are short term, and management considers their recorded amounts approximate their fair value.

**17. MANAGEMENT OF CAPITAL**

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

**18. RISKS AND RISK MANAGEMENT**

The Board is responsible for providing the stewardship and oversight of management and operations of the Association, including oversight responsibilities with respect to risk management. The Plan gives the Board express authority to consider and approve the enterprise risk-management assessment and action plan annually and review results thereunder.

The Board is supported by committees of the Board and by the Association's management who are, in turn, supported by various committees (see chart that follows). The majority of the committees' members are volunteers from member companies and brokerages that are part of the automobile insurance industry in Canada.

The Board is composed of sixteen directors, ten of whom are elected or appointed from among representatives of insurers. Three are elected or appointed from among any persons approved by the Insurance Brokers Association of Canada, and two are elected or appointed as independent directors. The Board appoints the Association's President and Chief Executive Officer ("CEO"), who is a director by virtue of his or her office.



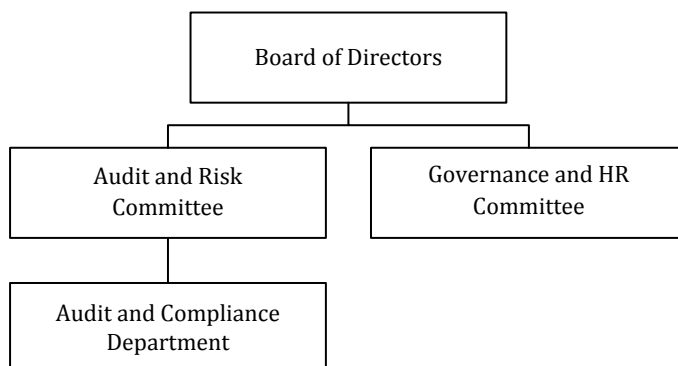
# FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS Notes to the Financial Statements (continued)

For the year ended October 31, 2016  
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## 18. RISKS AND RISK MANAGEMENT (continued)

The chart below shows the governance structure of the Association followed by detailed descriptions of its various committees.



The Audit and Risk Committee is responsible for exercising due diligence on matters related to but not limited to the internal control environment; regulatory, underwriting, and claims compliance audits and internal audits; accounting policy and practice; work of the Actuary; work of external auditors; and the Association's overall enterprise risk management ("ERM"). ERM encompasses the processes undertaken by the Association to identify, measure, monitor, and report on risks with respect to each of the insurance pools managed by the Association. The overall objective of ERM for the Association is to establish a consistent and sustainable approach for risk management that is integrated and aligned with the strategic management processes of the Association, allowing for the proactive management of both upside and downside risk. The committee recommends the appointment of the Independent Auditor to the membership when required. The committee's responsibilities with respect to ERM include monitoring major risk exposures and emerging risks, annually reviewing the Association's overall ERM framework and the effectiveness of these processes, and, where appropriate, reviewing and addressing management's corrective actions for deficiencies, including communication about escalating risk, crisis preparedness, and recovery plans.

The Governance and Human Resources Committee is responsible for key aspects of corporate governance, including making recommendations regarding the selection and appointment of the Chair of the Board and Deputy Chair of the Board, nominating persons for election or appointment to the Board, and the appointment of committee members where approval of the Board is not specifically required. It considers and approves performance plans and compensation arrangements with respect to executive management, and considers and approves human resources policies for the Association.

*The Association's management benefits from the input of the following Advisory Committees:*

The role of the Rates and Rules Committee is to review and support management's recommendations on pricing for the FARM, and therefore to ensure that Association rates remain adequate and generally above the marketplace. The committee also reviews and supports recommendations from staff on rule changes for both the FARM and the RSPs, ensuring that the Association does not become inadvertently competitive. This committee also provides market intelligence in case dynamics in the marketplace change and cause the Association's volumes to change.

# **FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS**

## **Notes to the Financial Statements (continued)**

**For the year ended October 31, 2016  
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### **18. RISKS AND RISK MANAGEMENT (continued)**

The role of the Claims Committee is to support the Association's management and the Provincial Operating Committees for claims-related matters that include but are not limited to the review of large losses as outlined in the Claims Guide, deciding on coverage and/or liability in disputed claims, and advising on issues that are industry-related to properly interpret their meaning and impact in relation to the Association procedures.

The role of the Provincial Operating Committees is to review applications for bad debt write-offs due to non-payment from a broker or agent, and to provide a recommendation to the Association to accept or reject the write-off. This committee also reviews appeals by servicing carriers, brokers, or insureds when the rules cause undue hardship in individual cases only. The committee reviews applications from new brokers for appointment to a servicing carrier.

The role of the Accounting Committee is to review and support the Association management on auditing and accounting, as required, including but not limited to developing accounting procedures for servicing carriers, the insurance pools under management, and the Association's head office, and to review the format and content of various reports for members, which are produced on a monthly or annual basis.

The role of the Actuarial Committee is to provide technical advice to the Association management and the Actuary on actuarial issues and processes, particularly as they relate to the valuation of policy liabilities, trends, and insurance product pricing.

The Association is committed to designing, implementing, and operating a system of internal control procedures that is appropriate to the needs of the services provided and to ensuring member data is securely processed and professionally managed. Management has established internal control policies and procedures according to the key control objectives relevant to the service provided, and these control standards are as set forth under the Canadian Standard on Assurance Engagements 3416 *Reporting on Controls at a Service Organization* ("CSAE 3416").

The Association uses a risk management framework to assist in categorizing, monitoring, and managing the risks to which it is exposed. The Association currently categorizes risks that the FARM and UAFs are exposed to due to their significant business activities as insurance contracts risk, credit risk, interest rate risk, liquidity risk, and other risks.

The strategy for managing these risks has not changed from the prior year. The following describes how the Association manages the FARM and UAFs' risks within each of these risk categories.

#### **(a) Insurance contracts risk**

Insurance contracts risk is that of adverse financial results arising from the issuance of insurance policies. This is a key risk associated with operating the FARM arising from underwriting automobile insurance contracts. The concentration of insurance risk is composed entirely of automobile risks located in the nine jurisdictions in which FARM operates across Canada. The risk management activities can be broadly separated into underwriting, claims management, and valuation of policy liabilities.

# **FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS**

## **Notes to the Financial Statements (continued)**

**For the year ended October 31, 2016  
(in thousands of Canadian dollars)**

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### **18. RISKS AND RISK MANAGEMENT (continued)**

Before outlining the management of insurance contract risk, it is helpful to understand the role played by servicing carriers in the insurance activities of the FARM. Servicing carriers are member companies of the FARM that are authorized to issue and endorse policies, collect premiums, and adjust and pay claims for the account of the FARM. Servicing carriers so designated must meet the eligibility requirements for servicing carriers as laid out in the Plan. The FARM's automobile insurance policies underwritten by the servicing carriers on behalf of the FARM are subject to the rules, rates, and classification of the FARM. Servicing carriers receive compensation for policy handling and are reimbursed for claims paid, and for adjusting claims. Reimbursement fees are calculated as a percentage of premiums written and premiums earned respectively.

#### *Underwriting*

The FARM's result for the period is sensitive to insurance risk. Risk management activities related to underwriting are undertaken to ensure that insurance risks are appropriately understood and priced (to the extent possible within the applicable regulatory environments), and that claims exposures are managed through appropriate policy limits and deductibles within the laws of Canada.

The FARM tries to keep its market position non-competitive and aims to set the rates in each jurisdiction in which it operates at rate levels sufficient for members to cover their costs as a result of their compulsory membership in the FARM. Management requests periodic reviews of the FARM experience by jurisdiction and product by the Actuarial Department within the Association. The frequency and depth of the reviews is dependent on considerations such as the relative level of revenue, rate adequacy, underlying trends, and general uncertainty (particularly at times of product reform).

The Actuarial Committee provides input to the actuarial services group in the areas of underlying trends, impacts of product reforms, and actuarial rate indication methodologies. The Rates and Rules Committee, consisting of representatives from members of the Association and the broker community, is charged with interpreting the current rules, recommending changes to the rules, and considering the proposed rate programs or changes thereto. Servicing carriers are responsible to be in compliance with approved FARM rates when underwriting the FARM's automobile insurance policies.

The Association's Audit and Compliance Department is responsible for conducting periodic underwriting audits on servicing carriers to ensure compliance with FARM rates and underwriting rules, and for reporting all non-compliance to the Association's Audit and Risk Committee, and all material non-compliance to the Board.

#### *Claims management*

Risk management activities related to claims management are undertaken to ensure that claims payments are made only for legitimate claims under an applicable insurance policy issued on behalf of the FARM, or under the applicable UAF; any recoveries through salvage or subrogation are appropriately captured; and claims adjustment and adjudication costs are managed effectively.

# **FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS**

## **Notes to the Financial Statements (continued)**

For the year ended October 31, 2016  
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### **18. RISKS AND RISK MANAGEMENT (continued)**

Servicing carriers are responsible for handling claims transactions, including claims payments, recording provisions for outstanding claims, and collecting subrogation/salvage recoveries in a timely and accurate basis on behalf of the FARM. The Claims Committee, consisting of representatives from members of the Association, will review large claims to provide support to the Provincial Operating Committees in deciding on coverage and/or liability in disputed claims.

The Association's Audit and Compliance Department is responsible for conducting periodic claims audits on servicing carriers to ensure compliance with FARM claims management rules and guidelines, and for reporting on all non-compliance to the Association's Audit and Risk Committee, and all material non-compliance to the Board.

#### *Valuation of policy liabilities*

Risk management activities related to the valuation of policy liabilities are undertaken to ensure that the data used for the valuation process is appropriate, accurate, and complete for the purposes of the valuation; the valuation is conducted using appropriate actuarial models, methodologies, and assumptions, and follows applicable Standards of Practice of the Canadian Institute of Actuaries; the valuations occur at an appropriate frequency; the work of the Actuary is periodically peer reviewed by a qualified third party; and the results are appropriately reflected in the financial statements.

Policy liabilities consist of claims liabilities (as relates to the expired portion of issued insurance policies) and other policy liabilities (as relates to the unexpired portion of issued insurance policies).

The provision for claims liabilities consists of:

- case reserves, which are estimates established on a case-by-case basis by the claims adjusters of servicing carriers;
- a provision for IBNR claims amounts, which is determined by the Actuary to allow for future loss development on recorded claims and for claims that have occurred but have not yet been recorded by the Association;
- a provision for claims fees, which is determined by the FARM's Actuary to allow for unpaid claims adjustment expenses related to claims that have occurred; and
- actuarial present value adjustments, including the recognition of the time value of money (commonly referred to as "discounting") and the addition of provisions for adverse deviations.

Other policy liabilities consist of:

- the liability for unearned premiums;
- an asset for deferred policy acquisition costs (subject to a test of recoverability, taking into account actuarial present value adjustments); and
- a liability for a premium deficiency (taking into account actuarial present value adjustments), if applicable.

**FACILITY ASSOCIATION  
RESIDUAL MARKET SEGMENT and  
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Notes to the Financial Statements (continued)**  
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**18. RISKS AND RISK MANAGEMENT (continued)**

Additional information on the determination of the other policy liabilities and claims liabilities is provided in Notes 3(e) and (f), respectively.

The Actuary, in conjunction with the Association's Actuarial Department, ensures that the data used in the valuation process is appropriate, accurate, and complete, and that the valuation is conducted using appropriate actuarial models, methodologies, and assumptions, and follows applicable Standards of Practice of the Canadian Institute of Actuaries.

Management ensures that appropriate controls are in place and working effectively to provide reasonable assurance that the results of the valuation are accurately incorporated into the financial statements. These controls are tested periodically by the Association's Audit and Compliance Department and its external service auditors through an annual CSAE 3416 audit process.

On a periodic basis, management engages qualified third parties to peer review the valuation process and results to ensure compliance with the Standards of Practice of the Canadian Institute of Actuaries.

The Association's Actuarial Department provides feedback to management and the Audit and Compliance Department on applicable findings and trends uncovered during their periodic valuation of policy liabilities.

*Sensitivity to insurance risk*

The risks associated with the FARM are subject to a number of variables that complicate quantitative sensitivity analysis. The principal assumption underlying the claims liabilities estimates is that the members' future claims development will follow a similar pattern to past claims development experience. Claims liabilities estimates are also based on various quantitative and qualitative factors, including:

- average claims costs including claim handling fees;
- average claims by accident year;
- trends in claims severity and frequency; and
- other factors, such as inflation, expected or in-force government pricing and coverage reforms, and the level of insurance fraud.

(b) Credit risk

Credit risk is that of adverse financial results arising from the failure of a debtor to make payments when due. The FARM and UAFs are exposed to this risk through receivables, through funds held by members, and through Type 1 and Type 2 structured settlement annuities.

# FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS

## Notes to the Financial Statements (continued)

For the year ended October 31, 2016  
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### 18. RISKS AND RISK MANAGEMENT (continued)

While credit risk associated with receivables is limited ultimately by the fact that obligations are joint and several on all members, the Association monitors receivables monthly and follows up as appropriate to limit aged receivables.

Similar to credit risk associated with receivables, credit risk associated with funds held by members is limited ultimately by the fact that obligations are joint and several on all members. Further, because all licensed automobile insurance companies in the jurisdictions the Association serves are required to be members of the Association by operation of law, the financial strength of the Association is effectively the financial strength of the automobile insurance industry in the jurisdictions the Association serves. The Association also monitors large balances of any member group for concentration risk.

As at October 31, 2016 and 2015, the maximum exposure to credit risk is the value of assets recorded in the statement of financial position. The table below shows the maximum risk positions of assets according to their contractual maturity or expected cash flow dates:

|                                      | Less than 1<br>year | 1 to 3<br>years | 3 to 5<br>years | More than 5<br>years | Total               | Carrying<br>value in the<br>statement of<br>financial<br>position |
|--------------------------------------|---------------------|-----------------|-----------------|----------------------|---------------------|---|
| <b>As at October 31, 2016</b>        |                     |                 |                 |                      |                     |   |
| Cash and cash equivalents            | \$ 36,002           | \$ -            | \$ -            | \$ -                 | \$ 36,002           | \$ 36,002   |
| Premiums and other receivables       | 44,303              | -               | -               | -                    | 44,303              | 44,303  |
| Accounts receivable from other pools | 1,010               | -               | -               | -                    | 1,010               | 1,010   |
| Accrued interest income              | 20                  | -               | -               | -                    | 20                  | 20  |
| Amounts due from members             | 13,894              | -               | -               | -                    | 13,894              | 13,894  |
| Funds held by members                | 413,455             | -               | -               | -                    | 413,455             | 413,455   |
|                                      | <b>\$ 508,684</b>   | <b>\$ -</b>     | <b>\$ -</b>     | <b>\$ -</b>          | <b>\$ 508,684</b>   | <b>\$ 508,684</b>   |
| <b>As at October 31, 2015</b>        |                     |                 |                 |                      |                     |   |
| Cash and cash equivalents            | \$ 37,924           | \$ -            | \$ -            | \$ -                 | \$ 37,924           | \$ 37,924   |
| Premiums and other receivables       | 45,198              | -               | -               | -                    | 45,198              | 45,198  |
| Accounts receivable from other pools | 1,063               | -               | -               | -                    | 1,063               | 1,063   |
| Accrued interest income              | 20                  | -               | -               | -                    | 20                  | 20  |
| Funds held by members                | 1,150,432           | -               | -               | -                    | 1,150,432           | 1,150,432   |
|                                      | <b>\$ 1,234,637</b> | <b>\$ -</b>     | <b>\$ -</b>     | <b>\$ -</b>          | <b>\$ 1,234,637</b> | <b>\$ 1,234,637</b>   |

The FARM has limited its investments to cash equivalents such as bankers' acceptances. The maximum exposure to credit risk as at the reporting date is the carrying amounts of the cash equivalents on the statement of financial position as they are measured at fair value.

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**18. RISKS AND RISK MANAGEMENT (continued)**

(c) Interest rate risk

Interest rate risk is that of adverse financial results arising from changes in the value of financial instruments in response to a change in interest rates. The FARM has policies in place to measure and manage this risk. These policies consider the unique characteristics of the underlying liabilities, including but not limited to expected payouts and liquidity requirements. Risk measurement considers potential changes under a variety of interest rate scenarios. For the years ended October 31, 2016 and 2015, the FARM had no exposure to interest rate risk as it holds securities with a maturity date of three months or less.

The estimated impact on the statement of operations of an immediate parallel increase of **0.25%** in interest rates as at October 31, 2016 (2015: 0.25%), across the yield curve in all markets would be an increase in excess of revenue over expenses of **\$0** (2015:\$0). Conversely, an immediate parallel decrease of **0.25%** (2015: 0.25%) in interest rates would result in an estimated decrease in excess of revenue over expenses of **\$0** (2015: \$0).

As at October 31, 2016 and 2015, all of the FARM's investments were not exposed to interest rate risk. If the prevailing interest rates had been raised or lowered by **0.25%** (2015: 0.25%), assuming a parallel shift in the yield curve, with all other factors remaining constant, the value of the investments would not have changed as securities held have a maturity date of three months or less. The interest rate sensitivity was determined based on portfolio weighted duration.

(d) Liquidity risk

Liquidity risk is the risk of adverse financial results arising from having to liquidate assets in order to meet cash flow obligations as they become due. The FARM manages this risk by projecting future cash flow needs over an eight-month time horizon and ensuring appropriately liquid funds are available to support those needs, through liquidity risk management, active management of payables and receivables, and, when required, allowing the FARM to demand funds from members as needed.

As at October 31, 2016 and 2015, the maximum exposure to liquidity risk is the amount as recorded in the statement of financial position.

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**18. RISKS AND RISK MANAGEMENT (continued)**

The FARM's liabilities are provided in the table below according to their contractual maturity or expected cash flow dates:

|  | Less than 1<br>year | 1 to 3<br>years   | 3 to 5<br>years  | More than 5<br>years | Total               | Carrying<br>value in the<br>statement of<br>financial<br>position |
|--|---------------------|-------------------|------------------|----------------------|---------------------|---|
| <b>As at October 31, 2016</b>            |                     |                   |                  |                      |                     |   |
| Accounts payable and other liabilities   | \$ 4,332            | \$ -              | \$ -             | \$ -                 | \$ 4,332            | \$ 4,332  |
| Servicing carrier operating fees payable | 4,686               | -                 | -                | -                    | 4,686               | 4,686   |
| Unearned premium liabilities             | 90,390              | -                 | -                | -                    | 90,390              | 90,390  |
| Provision for                            |                     |                   |                  |                      |                     |   |
| claims liabilities                       | 119,743             | 195,089           | 62,060           | 38,891               | 415,783             | 415,783   |
| Amounts due to members                   | -                   | -                 | -                | -                    | -                   | -   |
| Funds held for members                   | 172                 | -                 | -                | -                    | 172                 | 172   |
|  | <b>\$ 219,323</b>   | <b>\$ 195,089</b> | <b>\$ 62,060</b> | <b>\$ 38,891</b>     | <b>\$ 515,363</b>   | <b>\$ 515,363</b>   |
| <b>As at October 31, 2015</b>            |                     |                   |                  |                      |                     |   |
| Accounts payable and other liabilities   | \$ 3,552            | \$ -              | \$ -             | \$ -                 | \$ 3,552            | \$ 3,552  |
| Servicing carrier operating fees payable | 5,214               | -                 | -                | -                    | 5,214               | 5,214   |
| Unearned premium liabilities             | 99,072              | -                 | -                | -                    | 99,072              | 99,072  |
| Provision for                            |                     |                   |                  |                      |                     |   |
| claims liabilities                       | 119,178             | 194,010           | 62,830           | 41,203               | 417,221             | 417,221   |
| Amounts due to members                   | 715,766             | -                 | -                | -                    | 715,766             | 715,766   |
| Funds held for members                   | 623                 | -                 | -                | -                    | 623                 | 623   |
|  | <b>\$ 943,405</b>   | <b>\$ 194,010</b> | <b>\$ 62,830</b> | <b>\$ 41,203</b>     | <b>\$ 1,241,448</b> | <b>\$ 1,241,448</b>   |

(e) Other risks

Other risks include those of adverse financial results arising from operational activities. 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 mitigated through systems controls and edits, quality control monitoring, and periodic audits conducted by the Association at servicing carriers and within the Association.



**FACILITY ASSOCIATION  
RESIDUAL MARKET SEGMENT and  
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Notes to the Financial Statements (continued)**

For the year ended October 31, 2016  
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**19. GEOGRAPHIC RESULTS OF OPERATIONS BY JURISDICTION**

| Facility Association Residual<br>Market Segment                                    | 2016      |           |          |            |            |           |          |          |          | Total      |
|--|-----------|-----------|----------|------------|------------|-----------|----------|----------|----------|------------|
|  | ON        | NS        | PE       | NB         | NL         | AB        | YT       | NT       | NU       |            |
| <b>Underwriting</b>  |           |           |          |            |            |           |          |          |          |            |
| Premiums earned  | \$ 41,132 | \$ 16,962 | \$ 4,620 | \$ 20,535  | \$ 28,098  | \$ 61,446 | \$ 2,029 | \$ 4,928 | \$ 1,379 | \$ 181,129 |
| Underwriting expenses  | 39,418    | 17,044    | 4,585    | 21,543     | 30,900     | 47,187    | 1,814    | 5,130    | 259      | 167,880    |
| Net underwriting gain (loss)   | \$ 1,714  | \$ (82)   | \$ 35    | \$ (1,008) | \$ (2,802) | \$ 14,259 | \$ 215   | \$ (202) | \$ 1,120 | \$ 13,249  |
| Administrative expenses  | 1,094     | 515       | 175      | 588        | 786        | 1,509     | 103      | 176      | 82       | 5,028      |
| Excess (deficiency) of revenue over expenses<br>before interest income of the FARM | \$ 620    | \$ (597)  | \$ (140) | \$ (1,596) | \$ (3,588) | \$ 12,750 | \$ 112   | \$ (378) | \$ 1,038 | \$ 8,221   |
| Interest income  | 85        | 23        | 5        | 24         | 40         | 63        | 3        | 6        | 1        | 250        |
| Total carried forward  | \$ 705    | \$ (574)  | \$ (135) | \$ (1,572) | \$ (3,548) | \$ 12,813 | \$ 115   | \$ (372) | \$ 1,039 | \$ 8,471   |

Note: Abbreviations are used above for Ontario (ON), Nova Scotia (NS), Prince Edward Island (PE), New Brunswick (NB), Newfoundland and Labrador (NL), Alberta (AB), Yukon (YT), Northwest Territories (NT), and Nunavut (NU).

**FACILITY ASSOCIATION  
RESIDUAL MARKET SEGMENT and  
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Notes to the Financial Statements (continued)**

For the year ended October 31, 2016  
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**19. GEOGRAPHIC RESULTS OF OPERATIONS BY JURISDICTION (continued)**

|   | 2016   |            |          |            |            |           |        |          |          | Total      |
|---|--------|------------|----------|------------|------------|-----------|--------|----------|----------|------------|
|   | ON     | NS         | PE       | NB         | NL         | AB        | YT     | NT       | NU       |            |
| <b>Total brought forward</b>                              | \$ 705 | \$ (574)   | \$ (135) | \$ (1,572) | \$ (3,548) | \$ 12,813 | \$ 115 | \$ (372) | \$ 1,039 | \$ 8,471   |
| <b>Uninsured Automobile Funds</b>                         |        |            |          |            |            |           |        |          |          |            |
| <b>Underwriting</b>                                       |        |            |          |            |            |           |        |          |          |            |
| Premiums earned   | \$ -   | \$ -       | \$ -     | \$ -       | \$ -       | \$ -      | \$ -   | \$ -     | \$ -     | \$ -       |
| Underwriting expenses                                     | -      | 1,150      | 31       | 680        | 246        | -         | -      | -        | -        | 2,107      |
| <b>Net underwriting gain (loss)</b>                       | \$ -   | \$ (1,150) | \$ (31)  | \$ (680)   | \$ (246)   | \$ -      | \$ -   | \$ -     | \$ -     | \$ (2,107) |
| <b>Administrative expenses</b>                            | -      | 87         | 83       | 83         | 83         | -         | -      | -        | -        | 336        |
| <b>Excess of revenue over expenses of UAFs</b>            | \$ -   | \$ (1,237) | \$ (114) | \$ (763)   | \$ (329)   | \$ -      | \$ -   | \$ -     | \$ -     | \$ (2,443) |
| <b>Total excess (deficiency) of revenue over expenses</b> | \$ 705 | \$ (1,811) | \$ (249) | \$ (2,335) | \$ (3,877) | \$ 12,813 | \$ 115 | \$ (372) | \$ 1,039 | \$ 6,028   |

Note: Abbreviations are used above for Ontario (ON), Nova Scotia (NS), Prince Edward Island (PE), New Brunswick (NB), Newfoundland and Labrador (NL), Alberta (AB), Yukon (YT), Northwest Territories (NT), and Nunavut (NU).

**FACILITY ASSOCIATION  
RESIDUAL MARKET SEGMENT and  
UNINSURED AUTOMOBILE FUNDS  
Notes to the Financial Statements (continued)**

For the year ended October 31, 2016  
(in thousands of Canadian dollars)

**19. GEOGRAPHIC RESULTS OF OPERATIONS BY JURISDICTION (continued)**

| Facility Association Residual<br>Market Segment | 2015      |           |          |           |            |           |          |          |          |            |
|---|-----------|-----------|----------|-----------|------------|-----------|----------|----------|----------|------------|
|   | ON        | NS        | PE       | NB        | NL         | AB        | YT       | NT       | NU       | Total      |
| Underwriting                                    |           |           |          |           |            |           |          |          |          |            |
| Premiums earned                                 | \$ 46,353 | \$ 16,550 | \$ 4,479 | \$ 20,440 | \$ 28,663  | \$ 73,221 | \$ 2,190 | \$ 5,164 | \$ 1,604 | \$ 198,664 |
| Underwriting expenses                           | 18,705    | 13,481    | 3,011    | 19,596    | 35,666     | 64,494    | 3,032    | 2,311    | 752      | 161,048    |
| Net underwriting gain (loss)                    | \$ 27,648 | \$ 3,069  | \$ 1,468 | \$ 844    | \$ (7,003) | \$ 8,727  | \$ (842) | \$ 2,853 | \$ 852   | \$ 37,616  |
| Administrative expenses                         | 1,150     | 424       | 152      | 533       | 768        | 1,653     | 94       | 164      | 83       | 5,021      |
| Excess (deficiency) of revenue over expenses    |           |           |          |           |            |           |          |          |          |            |
| before interest income of the FARM              | \$ 26,498 | \$ 2,645  | \$ 1,316 | \$ 311    | \$ (7,771) | \$ 7,074  | \$ (936) | \$ 2,689 | \$ 769   | \$ 32,595  |
| Interest income                                 | 105       | 22        | 4        | 24        | 40         | 73        | 2        | 5        | 2        | 277        |
| Total carried forward                           | \$ 26,603 | \$ 2,667  | \$ 1,320 | \$ 335    | \$ (7,731) | \$ 7,147  | \$ (934) | \$ 2,694 | \$ 771   | \$ 32,872  |

Note: Abbreviations are used above for Ontario (ON), Nova Scotia (NS), Prince Edward Island (PE), New Brunswick (NB), Newfoundland and Labrador (NL), Alberta (AB), Yukon (YT), Northwest Territories (NT), and Nunavut (NU).

**FACILITY ASSOCIATION  
RESIDUAL MARKET SEGMENT and  
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Notes to the Financial Statements (continued)**

For the year ended October 31, 2016  
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**19. GEOGRAPHIC RESULTS OF OPERATIONS BY JURISDICTION (continued)**

|   | 2015      |          |          |          |            |          |          |          |        |            |
|---|-----------|----------|----------|----------|------------|----------|----------|----------|--------|------------|
|   | ON        | NS       | PE       | NB       | NL         | AB       | YT       | NT       | NU     | Total      |
| Total brought forward   | \$ 26,603 | \$ 2,667 | \$ 1,320 | \$ 335   | \$ (7,731) | \$ 7,147 | \$ (934) | \$ 2,694 | \$ 771 | \$ 32,872  |
| Uninsured Automobile Funds                                      |           |          |          |          |            |          |          |          |        |            |
| Underwriting  |           |          |          |          |            |          |          |          |        |            |
| Premiums earned   | \$ -      | \$ 260   | \$ 65    | \$ 411   | \$ 206     | \$ -     | \$ -     | \$ -     | \$ -   | \$ 942     |
| Underwriting expenses   | -         | 496      | (30)     | 1,006    | 282        | -        | -        | -        | -      | 1,754      |
| Net underwriting gain (loss)                                    | \$ -      | \$ (236) | \$ 95    | \$ (595) | \$ (76)    | \$ -     | \$ -     | \$ -     | \$ -   | \$ (812)   |
| Administrative expenses   | -         | 62       | 62       | 62       | 60         | -        | -        | -        | -      | 246        |
| Excess of revenue over expenses of UAFs                         | \$ -      | \$ (298) | \$ 33    | \$ (657) | \$ (136)   | \$ -     | \$ -     | \$ -     | \$ -   | \$ (1,058) |
| Total excess (deficiency) of revenue & assessment over expenses | \$ 26,603 | \$ 2,369 | \$ 1,353 | \$ (322) | \$ (7,867) | \$ 7,147 | \$ (934) | \$ 2,694 | \$ 771 | \$ 31,814  |

Note: Abbreviations are used above for Ontario (ON), Nova Scotia (NS), Prince Edward Island (PE), New Brunswick (NB), Newfoundland and Labrador (NL), Alberta (AB), Yukon (YT), Northwest Territories (NT), and Nunavut (NU).

**FACILITY ASSOCIATION  
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Notes to the Financial Statements (continued)**  
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(in thousands of Canadian dollars)

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**20. AUTHORIZATION OF THE FINANCIAL STATEMENTS**

These financial statements were authorized for issue by the Board on February 22, 2017.