Audited Financial Statements of

BCAA INSURANCE CORPORATION

September 30, 2011

BCAA INSURANCE CORPORATION

Audited Financial Statements

Year ended September 30, 2011

Management's Report	1
Independent Auditor's Report to the Shareholder	2
Appointed Actuary's Report to the Shareholder	4
Financial Statements	
Balance Sheet	5
Statement of Operations	6
Statement of Comprehensive Loss	7
Statement of Changes in Shareholder's Equity	8
Statement of Cash Flows	9
Notes	10
Schedule of General and Administrative Expenses	23

November 29, 2011

MANAGEMENT'S REPORT

Management is responsible for preparing the accompanying financial statements and is responsible for their integrity and objectivity. The financial statements are prepared in conformity with Canadian generally accepted accounting principles and include amounts based on informed judgments and estimates of the expected effects of current events and transactions.

The Board of Directors oversees management's responsibilities for financial reporting. An Audit Committee of non-management directors is appointed by the Board of Directors to review the financial statements and report to the directors prior to their approval of the financial statements.

Management is also responsible for maintaining systems of internal control that provide reasonable assurance that financial information is reliable, that all financial transactions are properly authorized, that assets are safeguarded, and that the Corporation adheres to legislation and regulatory requirements. These systems include the communication of policies and the Corporation's code of ethics and business conduct throughout the organization. Management continually monitors the systems of internal controls for compliance. In addition, internal controls are actively reviewed and evaluated by the Corporation's internal auditors.

The Audit Committee also conducts such review and inquiry of management and the internal and external auditors as it deems necessary towards establishing that the Corporation is employing appropriate systems of internal control, is adhering to legislative and regulatory requirements and is applying the Corporation's code of ethics and business conduct. Both the internal and external auditors have full and unrestricted access to the Audit Committee, with and without the presence of management.

The Financial Institutions Commission of British Columbia conducts an ongoing review of the Corporation's affairs to determine if the Corporation is operating within the provisions of governing legislation and to ensure that the interests of policyholders are safeguarded.

Towers Watson is the Appointed Actuary of the Corporation and, in this capacity, completes an annual valuation of the policy liabilities of the Corporation.

PricewaterhouseCoopers LLP has been appointed as independent auditors to examine and report on the financial statements and their report follows.

Timothy J. Condon
President & CEO

Colin G. MacKinnon
Senior Vice President & CFO

BCAA INSURANCE CORPORATION
4567 Canada Way
Burnaby BC Canada V5G 4T1
604 268 5000 / www.bcaa.com

pwc

Independent Auditor's Report

To the Shareholder of
BCAA Insurance Corporation

We have audited the accompanying financial statements of BCAA Insurance Corporation, which comprise the balance sheet as at September 30, 2011 and the statements of operations, comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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.

PricewaterhouseCoopers LLP, Chartered Accountants
PricewaterhouseCoopers Place, 250 Howe Street, Suite 700, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806, www.pwc.com/ca

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

pwc

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of BCAA Insurance Corporation as at September 30, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, Canada
November 29, 2011

APPOINTED ACTUARY'S REPORT TO THE SHAREHOLDER

I have valued the policy liabilities of BCAA Insurance Corporation for its balance sheet at September 30, 2011 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

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

Pierre G. Laurin
Fellow, Canadian Institute of Actuaries
Towers Watson
20 Queen Street West, Suite 2800
Toronto, Ontario M5H 3R3
(416) 813-4483

November 29, 2011

BCAA INSURANCE CORPORATION

Balance Sheet

September 30, 2011

	2011	2010
Assets		
Cash	$ 10,853,802	$ 7,175,147
Investments (note 5)	30,654,830	29,304,285
Accounts receivable (note 6)	20,015,034	18,647,201
Receivable from related parties (note 11)	743,464	1,059,159
Prepaid expenses	138,765	1,878,387
Income taxes recoverable	85,028	519,632
Deferred policy acquisition costs	11,906,706	11,059,691
Unearned premiums recoverable from reinsurers	37,890,296	34,907,233
Unpaid claims and adjustment expenses recoverable from reinsurers (note 8)	22,832,268	19,941,626
Future income tax asset (note 9)	550,089	268,781
	$ 135,670,282	$ 124,761,142
Liabilities and Shareholder's Equity		
Accounts payable and accrued liabilities (note 10)	$ 15,642,383	$ 14,223,690
Future income tax liability (note 9)	28,042	48,804
Unearned premiums	59,054,319	54,451,131
Unearned commissions from reinsurers	11,745,992	10,646,706
Unpaid claims and adjustment expenses (note 8)	32,358,757	28,419,202
	118,829,493	107,789,533
Shareholder's equity:		
Capital stock (note 12)	4,242,000	4,242,000
Contributed surplus (note 12)	9,873,400	9,873,400
Retained earnings	2,285,690	1,481,783
Accumulated other comprehensive income	439,699	1,374,426
	16,840,789	16,971,609
	$ 135,670,282	$ 124,761,142

Contingency (note 14)

See accompanying notes to financial statements.

Approved by the Board:

Director

Director

BCAA INSURANCE CORPORATION

Statement of Operations

Year ended September 30, 2011

	2011	2010
Underwriting revenue:		
Gross premiums written	$ 107,566,660	$ 98,795,076
Less: Reinsurance ceded	76,524,344	70,858,622
	31,042,316	27,936,454
Increase in unearned premiums (note 7)	(1,620,125)	(2,474,081)
Net premiums earned	29,422,191	25,462,373
Underwriting expenses:		
Claims and adjustment expenses (note 8)	18,127,930	16,065,377
Commissions, premium taxes and other direct expenses	21,327,784	19,219,503
General and administrative (schedule)	14,174,178	14,098,899
Commissions from reinsurers	(20,736,300)	(18,429,881)
	32,893,592	30,953,898
Underwriting loss	(3,471,401)	(5,491,525)
Investment income and other revenue:		
Interest and dividends	1,161,767	990,395
Gain on sale of investments	1,345,953	206,269
Impairment of available for sale investments	-	(1,210,253)
Finance fees and other	1,622,750	1,496,037
	4,130,470	1,482,448
Income (loss) before income taxes	659,069	(4,009,077)
Income tax (recovery) expense:		
Current	155,419	(1,435,940)
Future	(300,257)	352,690
	(144,838)	(1,083,250)
Net income (loss)	$ 803,907	$ (2,925,827)

See accompanying notes to financial statements.

BCAA INSURANCE CORPORATION

Statement of Comprehensive Loss

Year ended September 30, 2011

	2011	2010
Net income (loss)	$ 803,907	$ (2,925,827)
Unrealized gains on available for sale investments		
Net increase during the year	63,202	1,087,342
Income tax (recovery) expense	(6,421)	352,166
	69,623	735,176
Gains (losses) reclassified to income		
From available for sale investments	1,345,953	206,269
Impairment of available for sale investments	-	(1,210,253)
Income tax expense (recovery)	341,603	(94,615)
	1,004,350	(909,369)
Other comprehensive (loss) income	(934,727)	1,644,545
Comprehensive loss	$ (130,820)	$ (1,281,282)

See accompanying notes to financial statements.

BCAA INSURANCE CORPORATION

Statement of Changes in Shareholder's Equity

Year ended September 30, 2011

	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive income	2011 Total
Shareholder's equity, beginning of year	$ 4,242,000	$ 9,873,400	$ 1,481,783	$ 1,374,426	$ 16,971,609
Net income	-	-	803,907	-	803,907
Other comprehensive loss	-	-	-	(934,727)	(934,727)
Shareholder's equity, end of year	$ 4,242,000	$ 9,873,400	$ 2,285,690	$ 439,699	$ 16,840,789

	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive income	2010 Total
Shareholder's equity, beginning of year	$ 4,242,000	$ 9,873,400	$ 4,407,610	$ (270,119)	$ 18,252,891
Net loss	-	-	(2,925,827)	-	(2,925,827)
Other comprehensive income	-	-	-	1,644,545	1,644,545
Shareholder's equity, end of year	$ 4,242,000	$ 9,873,400	$ 1,481,783	$ 1,374,426	$ 16,971,609

See accompanying notes to financial statements.

BCAA INSURANCE CORPORATION

Statement of Cash Flows

Year ended September 30, 2011

	2011	2010
Cash flows from operating activities:		
Net income (loss)	$ 803,907	$ (2,925,827)
Adjustments for:		
Gain on sale of investments	(1,345,953)	(206,269)
Future income taxes, net	(300,257)	352,690
Amortization of premiums/discounts on fixed-term investments	49,692	27,586
Income taxes on fair value gains on investments	346,210	(300,285)
Impairment of available for sale investments	-	1,210,253
Changes in non-cash operating accounts:		
Accounts receivable	(1,367,833)	(2,200,335)
Receivable from related parties	315,695	3,661,375
Prepaid expenses	1,739,622	(598,368)
Income taxes recoverable	434,604	17,962
Deferred policy acquisition costs	(847,015)	(1,434,265)
Unearned premiums recoverable from reinsurers	(2,983,063)	(2,238,571)
Unpaid claims and adjustment expenses recoverable from reinsurers	(2,890,642)	507,875
Accounts payable and accrued liabilities	1,418,693	396,337
Unearned premiums	4,603,188	7,027,686
Unearned commissions from reinsurers	1,099,286	437,768
Unpaid claims and adjustment expenses	3,939,555	218,789
	5,015,689	3,954,401
Cash flows from investing activities:		
Proceeds from sale of investments	43,845,571	19,364,248
Purchase of investments	(46,184,068)	(19,562,861)
Net sale (purchase) of short-term securities	1,001,463	(797,444)
	(1,337,034)	(996,057)
Increase in cash	3,678,655	2,958,344
Cash, beginning of year	7,175,147	4,216,803
Cash, end of year	$ 10,853,802	$ 7,175,147

Supplementary information:

Income taxes recovered	$ (625,395)	$ (1,153,825)
Interest paid	$ -	$ -

See accompanying notes to financial statements.

Operations

BCAA Insurance Corporation (the "Corporation") is incorporated under the Company Act (British Columbia) and is a wholly owned subsidiary of B.C.A.A. Holdings Ltd., which is a wholly owned subsidiary of British Columbia Automobile Association. The Corporation is subject to the Financial Institutions Act (British Columbia) (the "Act") and is licensed to write all classes of insurance, other than life, in British Columbia. The majority of the Corporation's underwritten products are transacted by a related party under common control. The Corporation is subject to regulation by the Superintendent of Financial Institutions of the Province of British Columbia. The Corporation is licensed to write personal lines related coverage in the Province of Saskatchewan.

1. Significant accounting policies

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements for a period includes the use of estimates and approximations, using careful judgement. Actual results could differ from those estimates. These financial statements have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

Investments

Investments consist of amounts invested in short-term securities, pooled fixed income fund units and individual Canadian equity securities. Investment income comprises the Corporation's share of interest, dividends and realized gains/losses on the underlying securities.

The Corporation has designated its investment portfolio as "available for sale". Accordingly, investments are carried at fair value with changes in fair value recorded in other comprehensive income.

If an available for sale investment suffers a loss in value that is other than temporary, the unrealized loss is reclassified from other comprehensive income and recognized as a impairment in the statement of operations.

Premiums earned and deferred policy acquisition costs

Insurance premiums are included in income on a pro rata basis over the terms of the respective policies. Unearned premiums represent the portion of premiums written that relate to the unexpired term of the policies in force.

Policy acquisition costs are those expenses incurred in the acquisition of business. Acquisition costs comprise agent commissions and premium taxes.

Policy acquisition costs related to unearned premiums are only deferred to the extent that they can be expected to be recovered from the unearned premiums, and are amortized over the periods in which the premiums are earned. If the unearned premiums are not sufficient to pay expected claims and expenses, a premium deficiency is said to exist. Anticipated investment income may be considered in determining whether a premium deficiency exists. Premium deficiencies are recognized first by writing down the deferred policy acquisition costs, then by recording a provision if necessary.

1. Significant accounting policies (continued)

Finance fees

The Corporation charges finance fees to policyholders who elect to pay insurance premiums by monthly installments. Finance fees are taken into revenue over the term of the related payment plan.

Unpaid claims and adjustment expenses

The provision for unpaid claims represents the amounts needed to provide for the ultimate expected cost of settling claims related to insured events (both reported and unreported) that have occurred on or before each balance sheet date. The provision for adjustment expenses represents the ultimate expected costs of investigating, resolving and processing these claims. The provision for unpaid claims and adjustment expenses is presented on a discounted basis.

All provisions are periodically reviewed and evaluated in the light of emerging claim experience and changing circumstances. The resulting changes in estimates of the ultimate liability are recorded as incurred claims in the current period.

Reinsurance ceded

Claims expenses are recorded net of amounts ceded to, and recoverable from, reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims and adjustment expenses are recorded separately from estimated amounts payable to policyholders. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Commissions earned on premiums ceded to reinsurers are based on calendar year loss ratio performance.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Transactions with related parties

Transactions with related parties are recorded at the exchange amount. Outstanding balances are unsecured and non-interest bearing.

Comparative figures

Certain comparative figures in these statements have been reclassified to conform to the current year's presentation.

2. Future changes in accounting policies

The Canadian Accounting Standards Board confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian generally accepted accounting principles ("GAAP") for interim and annual financial statements for publicly accountable entities for fiscal years beginning on or after January 1, 2011. The Corporation's transition date of October 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Corporation for the year ended September 30, 2011.

3. Roles of the actuary and the auditor

The actuary is appointed to fulfill reporting requirements pursuant to the Act. With respect to preparation of these financial statements, the actuary is required to carry out a valuation of the Corporation's policy liabilities and to provide an opinion to the Corporation's shareholder regarding their appropriateness at the balance sheet date. The factors and techniques used in the valuation are in accordance with accepted actuarial practice, applicable legislation and associated regulations. The scope of the valuation encompasses the policy liabilities as well as any other matter specified in any direction that may be made by the regulatory authorities. The policy liabilities consist of a provision for unpaid claims and adjustment expenses on the expired portion of policies and of future obligations on the unexpired portion of policies. In performing the valuation of the liabilities for these contingent future events, which are by their very nature inherently variable, the actuary makes assumptions as to future loss ratios, trends, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies.

The valuation is based on projections of future claims and claim adjustment expenses. It is certain that actual future claims and claim adjustment expenses will not develop exactly as projected and may, in fact, vary materially from the projections. Further, the projections make no provision for new classes of claims or claims categories not sufficiently recognized in the claims database.

The actuary relies on data and related information prepared by the Corporation, and makes use of the work of the external auditor with respect to verification of the underlying data used in the valuation for accuracy and completeness. The actuary also analyses the Corporation's assets for their ability to support the amount of policy liabilities.

The external auditors have been appointed by the shareholder pursuant to the Act to conduct an independent and objective audit of the financial statements of the Corporation in accordance with Canadian generally accepted auditing standards and to report thereon to the shareholder. In carrying out their audit, the auditors will consider the work of the actuary and the actuary's report on the Corporation's policy liabilities. The auditors' report outlines the scope of their audit and their opinion.

4. Financial instruments

Financial instruments recognized on the balance sheet consist of cash, investments, accounts receivable, and accounts payable and accrued liabilities.

The carrying values of cash, accounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturities of these instruments. As the Corporation has designated its investment portfolio as "available for sale", the carrying value of the investment portfolio is equal to its fair value.

The fair value of these financial instruments is determined within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly;

Level 3 – Inputs that are not based on observable market data.

The Corporation's short-term securities and pooled fixed income fund is classified as a level 2 and the valuation is provided by the fund manager's market data.

The Corporation's equity securities are classified as a level 1 and are actively traded with the valuation provided by the fund manager's market data.

Classification of the Corporation's financial instruments within the fair value hierarchy are summarized as follows:

	2011			
	Level 1	Level 2	Level 3	Total
Cash	$ -	$ 10,853,802	$ -	$ 10,853,802
Short-term securities	-	248,200	-	248,200
Pooled fixed income fund	-	25,125,738	-	25,125,738
Equity securities	5,280,892	-	-	5,280,892
	$ 5,280,892	$ 36,227,740	$ -	$ 41,508,632

	2010			
	Level 1	Level 2	Level 3	Total
Cash	$ -	$ 7,175,147	$ -	$ 7,175,147
Short-term securities	-	1,249,662	-	1,249,662
Pooled mortgage fund	890,414	-	-	890,414
Bonds and debentures	-	11,783,355	-	11,783,355
Equity securities	8,934,429	-	-	8,934,429
Pooled global equity securities	6,446,425	-	-	6,446,425
	$ 16,271,268	$ 20,208,164	$ -	$ 36,479,432

4. Financial instruments (continued)

The Corporation, through its financial instruments, is exposed to various forms of risks. The following analysis provides a description of these risks at September 30, 2011:

Credit risk

Credit risk is the potential for financial loss to the Corporation if the counterparty in a transaction fails to meet its obligations. The Corporation's cash, investments in short-term securities, pooled fixed income fund, and accounts receivable are subject to credit risk. The maximum exposure to credit risk is equal to the carrying value of these instruments. The effectiveness of the Corporation's credit risk management policies is evaluated regularly.

Cash

Cash consists of deposits with Canadian chartered banks and therefore is not subject to material levels of credit risk.

Pooled fixed income fund

The Corporation has established investment policies to manage credit risk associated with its pooled fixed income fund. This policy imposes limits on the investment portfolio including minimum liquidity standards, issuer limits, bond quality constraints, corporate sector limits, and other general guidelines. The maximum exposure of credit risk related to this fund is equal to the carrying value at the balance sheet date. Based on DBRS credit ratings available at September 30, 2011, 8.8% (2010 – 6.4%) of the total value of the fund was rated "BBB" or not rated while the remainder was rated "A" or higher.

Recoverable from reinsurers

Failure of reinsurers to honour their obligations could result in losses to the Corporation. Consequently, allowances are established for amounts deemed uncollectible. There are no such allowances as at September 30, 2011 (2010 - $0). The Corporation evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvency. Based on Standard & Poor's and A.M. Best credit ratings available at September 30, 2011, all reinsurers were rated "A-" or higher (2010 - "A-" or higher).

Accounts receivable

Credit risk associated with the Corporation's accounts receivable balances is limited given low levels of concentration within these balances.

At September 30, 2011, $8,508 (2010 - $61,899) of accounts receivable was more than 60 days overdue.

4. Financial instruments (continued)

Market risk

Market risk is the potential for loss to the Corporation from changes in the values of its financial instruments due to changes in interest rates or equity prices.

The Corporation's investment portfolio is classified as available for sale; therefore, changes in the fair value of investments are recorded in other comprehensive income until realized or deemed to be other than a temporary impairment.

The Corporation manages market risk by diversifying investments within the various asset classes. In addition, the Corporation limits its investment in any one security or related group of securities to 10% of the assets under administration, other than investments relating to the federal government and short-term securities of Canadian chartered banks.

Interest rate risk

The Corporation does not have direct interest rate risk as it holds units in a pooled fixed income fund. At September 30, 2011, the impact of an immediate 1% change in interest rates across the entire yield curve, with all other variables held constant, is an estimated inverse after-tax change in other comprehensive income of $1,062,000 (2010 - $596,000).

Equity price risk

The Corporation's investment in equity securities is exposed to changes in equity prices. At September 30, 2011, the impact of an immediate 10% change in equity prices, with all other variables held constant, would result in an estimated corresponding after-tax change in other comprehensive income of $386,000 (2010 - $1,142,000).

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to fund all cash outflow requirements. At September 30, 2011, the sum of the Company's cash and investment balances exceeded the sum of accounts payable and accrued liabilities, and net unpaid claims and adjustment expenses by $16,339,760 (2010 - $13,778,166).

5. Investments

At September 30, 2011, the fair value of investments, based on the fair value hierarchy, was $649,794 higher than cost. For the year ended September 30, 2011, the Corporation recognized in other comprehensive income net unrealized gains of $69,623 (2010 gains - $735,176).

For the year ended September 30, 2011, the Corporation recognized net gains of $1,345,953 (2010 - $206,269), into net income.

For the year ended September 30, 2011, the Corporation recognized impairment of available for sale investments of $0 (2010 - $1,210,253), into net income.

The cost and fair value of investments are summarized as follows:

	2011		2010	
	Cost	Fair value	Cost	Fair value
Short-term securities	$ 248,200	$ 248,200	$ 1,249,662	$ 1,249,662
Pooled fixed income fund	25,140,026	25,125,738	-	-
Pooled mortgage fund	-	-	859,275	890,414
Bonds and debentures	-	-	11,175,483	11,783,355
Equity securities	4,616,810	5,280,892	7,640,895	8,934,429
Pooled global equity securities	-	-	6,446,425	6,446,425
	$ 30,005,036	$ 30,654,830	$ 27,371,740	$ 29,304,285

6. Accounts receivable

	2011	2010
Policyholders	$ 20,008,191	$ 18,480,516
Accrued investment income	16,843	176,389
Allowance for bad debts	(10,000)	(9,704)
	$ 20,015,034	$ 18,647,201

7. Underwriting policy and reinsurance ceded

Reinsurance

In the normal course of business, the Corporation seeks to reduce the loss that may arise from catastrophe or other events that cause unfavourable underwriting results by reinsuring certain levels of risk, in various areas of exposure, with reinsurance companies.

For property and liability insurance underwritten, the Corporation cedes 65% of gross premiums under a quota share reinsurance treaty which limits the Corporation's exposure to 35% on individual claims. Property losses in excess of $400,000 and liability losses in excess of $500,000 are also subject to excess of loss reinsurance treaties, limiting the Corporation's exposure to $140,000 on any one property claim and $175,000 on any one liability claim. In the event that a single occurrence generates multiple claims, the treaties limit the Corporation's exposure to $350,000 for that occurrence. The Corporation's reinsurance treaties have an upper limit of $834,500,000 on property claims and $5,000,000 on liability claims.

With respect to personal accident claims, the Corporation's exposure is limited to $45,000 on individual claims, and in the event that a single occurrence generates multiple claims, the treaties limit the Corporation's exposure to $250,000 for that occurrence. The upper limit of this coverage is $6,000,000.

Claims and adjustment expenses are stated net of recoveries from reinsurers of $36,154,398 (2010 - $32,717,853).

Unearned premiums

Effective January 1, 2010, the Corporation's reinsurance quota share cession rate was reduced from 70% to 65%. This change in cession rate resulted in an increase to unearned premium recoverable from reinsurers of $2,315,034 and a corresponding adjustment to the change in unearned premiums for the year ended September 30, 2010 as presented on the statement of operations:

	2011	2010
Closing balance of unearned premiums (net of amounts recoverable from reinsurers)	$ 21,164,023	$ 19,543,898
Opening balance of unearned premiums (net of amounts recoverable from reinsurers)	19,543,898	14,754,783
Increase in unearned premiums	1,620,125	4,789,115
Less: return of unearned premiums	-	(2,315,034)
Net increase in unearned premiums	$ 1,620,125	$ 2,474,081

8. Unpaid claims and adjustment expenses

The establishment of the provision for unpaid claims and adjustment expenses is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Corporation's experience with similar cases and historical trends involving claim payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns such as those caused by natural disasters or accidents.

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

Accordingly, short-tail claims, such as property claims, tend to be more reasonably predictable than long-tail claims, such as general liability claims.

Consequently, the process for the establishment of the provision for unpaid claims and adjustment expenses relies on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps materially, from the best estimates made.

8. Unpaid claims and adjustment expenses (continued)

	2011	2010
Unpaid claims and adjustment expenses, beginning of year (net)	$ 8,477,576	$ 7,750,912
Change in claims and adjustment expense reserves:		
Current year	18,102,001	15,891,006
Prior years	25,929	174,371
	18,127,930	16,065,377
Claims payments:		
Current year	11,028,251	9,839,033
Prior years	6,050,766	5,499,680
	17,079,017	15,338,713
Net change	1,048,913	726,664
Unpaid claims and adjustment expenses, end of year (net)	$ 9,526,489	$ 8,477,576
Represented as:		
Unpaid claims and adjustment expenses	$ 32,358,757	$ 28,419,202
Unpaid claims and adjustment expenses recoverable from reinsurers	(22,832,268)	(19,941,626)
	$ 9,526,489	$ 8,477,576

The Corporation discounts its best estimate of unpaid claims and adjustment expenses at a rate based upon the expected return on its bond investment portfolio. For the year ended September 30, 2011, a rate of 3.40% (2010 - 4.30%) has been used.

The estimated impact on net unpaid claims and adjustment expenses at September 30, 2011 from the effects of a 1.0% change in the discount rate would be $76,000 (2010 - $81,000).

To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the actuarially determined liabilities are adequate to pay for future claims, the Corporation includes a provision for adverse deviation (“PFAD”) in assumptions related to claims development, reinsurance recoveries and investment income. The PFAD selected by the actuary are in the low to mid-range of those recommended by the Canadian Institute of Actuaries.

The effect of present values on net unpaid claims and adjustment expenses for the year ended September 30, 2011, amounted to $239,000 (2010 - $334,000) and the PFAD amounted to $742,000 (2010 - $637,000) for a net adjustment of $503,000 (2010 - $303,000).

9. Future income taxes

The tax effects of temporary differences that give rise to the future income tax asset and future income tax liability are as follows:

		2011		2010
Future income tax asset:				
Unclaimed reserves for tax	$	121,009	$	114,595
Non-capital loss		427,267		-
Investments – adjustment to fair value		1,813		-
Impairment of available for sale investments		-		154,186
	$	550,089	$	268,781

Future income tax liability:				
Unamortized gain on sale of specified debt obligations in prior years	$	28,042	$	35,492
Specified debt obligations – transitional adjustment to mark to market		-		13,312
	$	28,042	$	48,804

10. Accounts payable and accrued liabilities

		2011		2010
Reinsurers	$	13,196,295	$	11,316,058
Trade		2,446,088		2,907,632
	$	15,642,383	$	14,223,690

11. Related party transactions

Pursuant to the Act, the Board of Directors has established a Conduct Review Committee, comprising directors who are not affiliated with the Corporation, to review related party transactions and to establish and regularly review written procedures related to disclosures to customers, identification of potential conflict of interest and confidentiality of information pertaining to customers' insurance coverage.

Transactions with related parties

The following table summarizes the Corporation's material related party transactions for the year:

	2011	2010
Insurance commission expense:		
British Columbia Automobile Association	$ 266,398	$ 319,698
B.C.A.A. Holdings Ltd.	4,241,440	13,709,621
BCAA Insurance Agency Ltd.	11,783,358	578,388
General and administrative expense:		
British Columbia Automobile Association		
Management fees	4,733,604	4,885,306
Membership facility fee	3,748,376	3,741,724
B.C.A.A. Holdings Ltd.		
Rental of premises and equipment	101,305	175,465
Advertising in Westworld magazine	41,955	41,955
B.C.A.A. Associated Services Ltd.		
Rental of vehicles	27,319	46,267

Receivable from (payable to) related parties

The amounts receivable from (payable to) related parties are summarized as follows:

	2011	2010
British Columbia Automobile Association	$ (184,647)	$ 808,360
B.C.A.A. Holdings Ltd.	(17,974)	(17,721)
BCAA Insurance Agency Ltd.	946,085	271,645
B.C.A.A. Associated Services Ltd.	-	(3,125)
	$ 743,464	$ 1,059,159

12. Capital stock and contributed surplus

	2011	2010
Capital stock:		
Authorized: 250,000 common shares of $100 par value each		
Issued: 42,420 common shares	$ 4,242,000	$ 4,242,000
Contributed surplus	9,873,400	9,873,400
	$ 14,115,400	$ 14,115,400

13. Capital management

The Corporation's capital comprises the balance of shareholder's equity. The Corporation's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, and to maintain capitalization at a level that will exceed the relevant minimum regulatory requirements.

The Corporation is subject to the guidelines regarding capital adequacy issued by the Financial Institutions Commission of British Columbia which require that capital must, at all times, meet or exceed the Office of the Superintendent of Financial Institution's Minimum Capital Test for Canadian Property and Casualty Companies. In addition, management has established minimum capital requirements which exceed the regulatory standards. At September 30, 2011, the Corporation exceeded regulatory and internal capital requirements with a Minimum Capital Test result of 387% (2010 – 302%) compared to the regulatory and internal requirements of 150% and 175% respectively.

14. Contingency

The Corporation together with its Parent and related companies participate in a centralized banking agreement whereby its bankers may offset daily bank balances and overdrafts. This arrangement effectively provides cross-guarantees and security for any bank overdrafts of the parties to the agreement, which might arise from day to day operations.

BCAA INSURANCE CORPORATION

General and Administrative Expenses — Schedule

Year ended September 30, 2011

	2011	2010
Advertising and promotion	$ 1,887,837	$ 1,528,331
Automobile and travel	65,919	95,726
Bank charges and merchant fees	466,512	427,368
Business licenses and dues	119,632	136,141
Management fees	4,733,604	4,885,306
Membership facility fee	3,748,376	3,741,724
Office printing, supplies and postage	499,453	511,362
Other	134,130	89,799
Personnel costs	1,609,937	1,911,582
Professional fees	344,715	337,904
Rent	120,708	124,579
Telephone and telecommunications	82,971	111,742
Value added tax	360,384	197,335
	$ 14,174,178	$ 14,098,899