Combined Financial Statements of

FACILITY ASSOCIATION
RISK SHARING POOLS

For the years ended October 31, 2022 and 2021

FACILITY ASSOCIATION
RISK SHARING POOLS
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October 31, 2022

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Independent Auditor's Report

To the Members of
Facility Association Risk Sharing Pools

Opinion

We have audited the combined financial statements of Facility Association Risk Sharing Pools (the "RSPs"), which comprise the combined statement of financial position as at October 31, 2022 and 2021, and the combined statements of operations, amounts due from members and cash flows for the years then ended, and notes to the combined financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the RSPs as at October 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the RSPs in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the RSPs ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the RSPs or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the RSPs financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the RSPs ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the RSPs to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
February 23, 2023

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APPOINTED ACTUARY'S REPORT

To the Members of Facility Association Risk Sharing Pools

I have valued the policy liabilities of the Facility Association Risk Sharing Pools for its statement of financial position at 31 October 2022 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
23 February 2023

Cosimo Pantaleo
Fellow, Canadian Institute of Actuaries

FACILITY ASSOCIATION
RISK SHARING POOLS
Combined Statements of Financial Position
(in thousands of Canadian dollars)

As at	Note	October 31, 2022	October 31, 2021
ASSETS			
Cash in bank		**$ 2,436**	$ 1,272
Accounts receivable from members		**38,247**	30,711
Other assets		**1**	5
Deferred policy acquisition costs	4	**24,605**	21,927
Funds held by members		**92,002**	64,939
Amounts due from members		**2,437,059**	2,166,576
		$ 2,594,350	$ 2,285,430
LIABILITIES			
Accounts payable to members		**$ 37,968**	$ 29,553
Accounts payable to the Residual Market and Uninsured Automobile Funds	5	**2,730**	1,364
Other accounts payable		**2**	1,087
Funds provided by members		**61,451**	60,822
Premium deficiency reserve	4	**101,721**	47,489
Unearned premium liabilities	4	**553,940**	461,964
Provision for claims liabilities	4	**1,836,538**	1,683,151
		$ 2,594,350	$ 2,285,430

APPROVED BY THE BOARD

………………………………………………… Director

………………………………………………… Director

February 23, 2023
………………………………………………… Date

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

FACILITY ASSOCIATION
RISK SHARING POOLS
Combined Statements of Operations
(in thousands of Canadian dollars)

For the years ended October 31	Note	2022	2021
UNDERWRITING REVENUE			
Premiums written		$ 1,035,606	$ 802,618
Increase in unearned premium liabilities		(91,976)	(29,563)
PREMIUMS EARNED		943,630	773,055
UNDERWRITING EXPENSES			
Claims and claims expenses incurred		850,765	571,963
Increase (Decrease) in premium deficiency reserve		51,554	(8,519)
Expense allowance		299,623	236,567
Provision for bad and doubtful accounts		2	2
TOTAL UNDERWRITING EXPENSES		1,201,944	800,013
UNDERWRITING LOSS		(258,314)	(26,958)
ADMINISTRATION EXPENSES		8,052	7,175
DEFICIENCY OF REVENUE OVER EXPENSES		$ (266,366)	$ (34,133)

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

FACILITY ASSOCIATION
RISK SHARING POOLS
Combined Statements of Amounts Due from Members
(in thousands of Canadian dollars)

For the years ended October 31	Note		2022		2021
BALANCE AT BEGINNING OF YEAR		**$**	**(2,166,576)**	$	(2,198,840)
(Deficiency) of revenue over expenses for the year			**(266,366)**		(34,133)
Cumulative (surplus) deficit settled with members			**(4,117)**		66,397
BALANCE AT END OF YEAR		**$**	**(2,437,059)**	$	(2,166,576)

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

FACILITY ASSOCIATION
RISK SHARING POOLS
Combined Statements of Cash Flows
(in thousands of Canadian dollars)

For the years ended October 31	Note		2022		2021
OPERATING					
Deficiency of revenue over expenses		$	**(266,366)**	$	(34,133)
Adjustments for changes in operating assets and liabilities:					
Accounts receivable from members			**(7,536)**		8,577
Accounts receivable from the Residual Market and Uninsured Automobile Funds			**-**		171
Other assets			**4**		(1)
Deferred policy acquisition costs			**(2,678)**		(2,899)
Funds held by members			**(27,063)**		(54,931)
Accounts payable to members			**8,415**		(8,858)
Accounts payable to the Residual Market and Uninsured Automobile Funds			**1,366**		133
Other accounts payable			**(1,085)**		(11)
Funds provided by members			**629**		(16,675)
Premium deficiency reserve			**54,232**		(5,620)
Unearned premium liabilities			**91,976**		29,563
Provision for claims liabilities			**153,387**		18,158
Cumulative (surplus) deficit settled with members			**(4,117)**		66,397
Cash generated from (used in) operating activities			**1,164**		(129)
INCREASE (DECREASE) IN CASH IN BANK DURING THE YEAR			**1,164**		(129)
CASH IN BANK, BEGINNING OF YEAR			**1,272**		1,401
CASH IN BANK, END OF YEAR		**$**	**2,436**	$	1,272

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

1. NATURE OF FACILITY ASSOCIATION

Facility Association (the "Association") is a legal structure established on June 28, 1977 and then continued pursuant to subsection 7(1) of the *Compulsory Automobile Insurance Act*, R.S.O. 1990, c.C.25 (the "Act') which provides as follows:

7(1) The unincorporated non-profit association of insurers known as the Facility Association is continued under the name Facility Association in English and under the name Association des assureurs in French.

The Act has either been adopted in each province and territory in which the Association operates or a very similar statute has been enacted in each of those provinces or territories. The Association does not issue contracts of automobile insurance nor does it accept or assume any insurance risk from policyholders. Rather, the Association is a statutory creation that acts as a conduit for insurers to share certain types of automobile insurance (high) risk. It administers and accounts for the operations of certain insurance pools on behalf of member insurance companies (individually a "member" and collectively the "members"). These insurance pools (collectively referred to as "insurance pools under administration") include the Facility Association Residual Market Segment (the "FARM"), and the Uninsured Automobile Funds (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, Nova Scotia, and Newfoundland and Labrador. The address of the Association's registered office is 777 Bay Street, Suite 1900, Toronto, Ontario, Canada, M5G 2C8. As authorized by statute within each of the jurisdictions, every insurer licensed to write automobile liability insurance is a member of the Association by operation of law.

Members assume the risk and share in the experience of the insurance pools under administration in accordance with their participation ratio, reflecting their share of the insurance pools under administration by jurisdiction, business segment, and accident year in accordance with relevant provisions of the Association's Plan of Operation (the "Plan"). For the insurance pools under administration, 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 administration in their own financial statements. Certain revenues and related expenses are not accounted for within the financial statements of these insurance pools under administration; rather, they are incurred by members directly and recorded only in each member's own financial statements.

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. The Association administers the sharing among members of the results of the operations of the insurance pools under administration. Operating surpluses are provided to members, and operating deficits are funded by members in accordance with the Plan. Accounts receivable from members, funds held by members, amounts due from members, accounts payable to members, and funds provided by members (as applicable) do not bear interest.

In accordance with the Plan, Article XV – Joint Liability for Association Business:

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….*

1. NATURE OF FACILITY ASSOCIATION (continued)

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

For risks that qualify for a RSP, individual members issue insurance policies on their own accounts and may transfer the whole of the policy or a portion thereof through the RSP to the members in accordance with the operating principles for transfers set out in the Plan. The member that issues the initial policy (i.e., the primary insurer) remains responsible for servicing the policy, including any settlement of claims that may arise from the policy. The Association funds the operations of the RSPs through a monthly sharing among members of the net of premiums received, and the claims and expenses paid.

The following six RSPs are combined in the preparation of these combined financial statements:

- 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 Alberta Grid Risk Sharing Pool ("Alberta Grid RSP") Pool provides a means for Alberta members to transfer private passenger use automobile insurance policies that are subject to the statutory maximum premium. The Alberta Non-Grid Risk Sharing Pool ("Alberta Non-Grid RSP") provides a means for individual Alberta automobile insurance member companies to transfer private passenger use automobile insurance policies they underwrite that satisfies the eligibility requirements. 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 private passenger use automobile insurance policies they underwrite that satisfies the eligibility requirements. 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 private passenger use automobile insurance policies they underwrite that satisfies the eligibility requirements. 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.
- The Newfoundland and Labrador Risk Sharing Pool ("Newfoundland and Labrador RSP") commenced operations on July 1, 2020. This RSP provides a means for Newfoundland and Labrador members to transfer private passenger use automobile insurance policies they underwrite that satisfies the eligibility requirements. Members share in the experience of the Newfoundland and Labrador RSP by accident year in relation to their share of the Newfoundland and Labrador private passenger market in accordance with the relevant provisions of the Plan.

The combined financial statements contained herein are for the combined financial position and results of operations of the six RSPs administered by the Association and account for the financial results of the risks ceded to the RSPs and the cost of administering the insurance pools, including the participation of members in sharing the associated results.

1. NATURE OF FACILITY ASSOCIATION (continued)

These combined financial statements do not account for any expenses incurred or revenue earned by individual members in respect to their participation in any aspect of the RSPs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these combined financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Presentation
These combined financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were approved by the Board of Directors and authorized for issue on February 23, 2023. These combined financial statements are being issued for the first time effective the fiscal year ended October 31, 2022, and the prior year comparatives for the year ended October 31, 2021 have also been presented on a combined basis.

Management has prepared combined financial statements for the related group of six insurance pools under administration by the Association as the insurance pools under administration do not represent an existing legal entity and management believes that the combined financial statements of the RSPs presented as a reporting entity are more meaningful to the users of the financial statements than separate financial statements of the individual insurance pools under administration. In the notes to these combined financial statements, management has provided certain information regarding the six insurance pools under administration. Harmonization of the rules for the six insurance pools under administration came into effect in January 2022 and allows for the preparation of combined financial statements. The six insurance pools under administration are related in their operations by virtue of the fact that they represent the means through which the members hold their interests in the RSPs and the underlying amounts due from members. For all years presented in these combined financial statements, the RSPs are under management of the Association and are therefore considered to be under common management, under common control by the same executive management, and under common governance oversight by the same Board.

In the preparation of these combined financial statements, transactions and balances between the individual RSPs have been eliminated.

Assets and liabilities expected to be recovered or settled within one year include cash in bank, accounts receivable from members, other assets, amounts due from members, funds held by members, funds provided by members, accounts payable to members, accounts payable to the Residual Market and Uninsured Automobile Funds, and other accounts payable. Provision for claims include balances that are both current and non-current.

Basis of measurement
These combined financial statements have been prepared under the historical cost convention, except for certain financial assets and financial liabilities that are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

Foreign currency translation
Items included in these combined financial statements are measured in Canadian dollars, which is the functional and presentation currency of the RSPs. Monetary assets and liabilities denominated in foreign currencies, if any, are translated in Canadian dollars using the exchange rates at the period-end reporting date and transactions in foreign currencies, if any, are translated in Canadian dollars at rates of exchange at the time of such transactions. As at October 31, 2022 and 2021, there are no assets and liabilities denominated in foreign currencies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash in bank
Cash in bank represents cash balances at a Canadian Schedule I bank.

Financial instruments
Financial assets
Financial assets within the scope of IAS 39: Financial Instruments: Recognition and Measurement are classified into the following categories – Fair Value Through Profit or Loss ("FVTPL") and loans and receivables. Transaction costs are capitalized into the carrying amount of loans and receivables.

Loans and receivables are measured at amortized cost using the effective interest method. The RSPs have classified accounts receivable from members, other assets, funds held by members, and amounts due from 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.

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 combined statement of operations. Accounts receivable that management considers uncollectible are written off in the period in which the amount is considered uncollectible.

Financial liabilities
Financial liabilities are measured at amortized cost using the effective interest method. They include accounts payable to members; accounts payable to the FARM and UAFs; other accounts payable; and funds provided by members. Gains and losses are reported in the combined statement of operations in the period in which the liability is derecognized.

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 that the carrying amounts approximate fair value.

The RSPs do not have any financial instruments classified as FVTPL and do not have any derivative financial instruments or embedded derivatives.

Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount reported only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Determination of fair value
The fair value of a financial instrument on initial recognition is normally the transaction price – the fair value of the consideration given or received.

Premiums written and earned
Premiums written are included in revenue on a daily pro rata basis over the term of policies in force. Premiums are deferred until earned. Unearned premium liabilities represent the deferral portion of the premiums written related to the unexpired terms of coverage.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Insurance contracts - 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 RSPs insurance products are standard automobile insurance contracts within the relevant jurisdictions in which the RSPs operate. All of the automobile insurance contracts issued by individual members and ceded to the collective of members through the RSPs contain significant insurance risk, and there are no financial risks that are required to be presented separately.

Deferred policy acquisition costs and premium deficiency reserve
Deferred policy acquisition costs are member expense allowances (which include commissions) related to the costs incurred by members in acquiring the insurance policies that the member subsequently cedes to the RSPs. The expenses are deferred and amortized to expenses as premiums are earned.

Costs are deferred only to the extent that unearned premiums, after recovery of the expected net claims and claims expenses, are sufficient to recover the amount deferred. Any identified deficiency is recognized as an expense in the combined statement of operations as a reduction to the deferred policy acquisition costs, or as an increase in the previously recognized premium deficiency reserve, in the combined 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 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.

Provision for claims liabilities
The provision for claims liabilities represents an estimate of the amount required to pay all outstanding claims, including an amount for unreported claims, and related applicable expense amounts. Claims liabilities are discounted using the market yield of the supporting assets to reflect the time value of money.

The provision is determined using accepted actuarial practice in Canada, and is based on historical experience, judicial interpretation of contracts, a provision for adverse deviation and management's best estimate assumptions. The estimation of the ultimate liability arising from claims made under insurance contracts is the most critical accounting estimate in these combined financial statements. There are several sources of uncertainty that are considered in the estimation of the claims liabilities. These estimates are subject to variability that could be material in the near term until additional information becomes known during the course of loss settlement. All changes in the estimates are recorded as claims incurred in the current period.

The RSPs have obligations to pay certain fixed amounts to claimants on a recurring basis and has purchased annuities from life insurers to provide for these payments (see Note 7). This exposure is further mitigated by the fact that any further obligations resulting from these payments are joint and several on all members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amounts due from members and Funds provided by members
Amounts due from members occur when total premiums transferred to the members exceed total paid losses, paid expenses, and administrative expenses.

Funds provided by members occur when transfers of total paid losses, paid expenses, and administration expenses exceed total premiums transferred to the members.

The "Funds provided by members" is netted against the "Amounts due from members" when they are from the same member giving a legal right of offset and the settlement of such balances is done on a net basis. The amount shown in the combined statement of amounts due from members, as "Cumulative (surplus) deficit settled with members" is the portion of the net operating results that have been settled with members.

Amounts due from members and funds provided by members are settled monthly and do not bear interest. Due to the short term nature of these amounts, the recorded carrying value is considered to approximate fair value.

Expense allowance
In accordance with the Plan, members transferring risks through the RSPs to the members are reimbursed, through an expense allowance, for their operating and claims adjusting costs. The expense allowance is charged to operations when the premiums are written. Such expense allowance is subject to deferral. The expense allowance is a function of the members' own expense structures with a maximum set annually by the Board.

Leases
IFRS 16 *Leases* ("IFRS 16") requires lessees to recognize right-of-use assets and lease liabilities on the combined statement of financial position, with depreciation expense on the right-of-use asset and interest expense on the lease liability recognized in the combined statement of operations.

Under a premises sub-lease arrangement that the Association has with the Insurance Bureau of Canada ("IBC") with respect to office space, the Association occupies a portion of two premises leased by IBC. The Association is required to pay IBC its share of the lease costs incurred by IBC under those leases, in direct proportion to the space the Association occupies. The Association is also required to pay IBC a share of the common area costs. This has been a longstanding arrangement and historically, the Association has run out the full term of the sub-lease when co-occupying premises with IBC, with the current sub-lease terms ending between 2027 and 2029.

Based on the current premises sub-lease arrangement with IBC, the Association's share of the cost to IBC for the total space occupied for the year ended October 31, 2022 is **$433** (2021: $614); of which **$203** (2021: $377) has been allocated by the Association to the RSPs and recorded as leases in Administration expenses (Note 5). As the sub-lease arrangement is between the Association and IBC, and not with the RSPs, management has determined that there is no other impact of IFRS 16 on these combined financial statements.

Income taxes
No provision for income taxes is recorded in these combined financial statements. The results of operations of the insurance pools under administration, including administration expenses incurred, are included in the members' income for tax assessment purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Use of estimates, assumptions and significant judgements
In the process of applying the RSPs' accounting policies, management is required to make judgements, estimates, and assumptions that affect 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. Key sources of estimation uncertainty include the provision for policy liabilities (see Notes 4 and 7). 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 RSPs' accounting policies and that have the most significant effect on the amounts recognized in these combined financial statements.

Valuation of policy liabilities of automobile insurance contracts

The Actuary is appointed by the Board. With respect to the preparation of these combined financial statements, the Actuary is required to carry out a valuation of the individual RSPs 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 consist 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 RSPs and the nature of the insurance policies issued by the members of the RSPs. Procedures are put in place by the Association to ensure that the data used in the valuation performed by the Actuary is sufficient and reliable for the valuation of policy liabilities. The Actuary also makes use of the management information provided by the RSPs and considers the work of the internal and external auditors with respect to the RSPs' underlying data used in the valuation. Incurred But Not Reported ("IBNR") is based on valuation data as at September 30, 2022 and 2021, and an estimate of expected claims activity for the month of October 2022 and 2021, respectively. The valuation is necessarily based on estimates and, consequently, the final values may vary from those estimates.

3. ACCOUNTING STANDARDS EFFECTIVE NEXT YEAR

The following IFRS standards have been issued but are 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. IFRS 9 was mandatorily effective for periods beginning on or after January 1, 2018. The RSPs elected to defer the adoption of IFRS 9 and adopt together with IFRS 17 *Insurance Contracts* ("IFRS 17"), based on guidance within the IFRS 17 standard.

Implementation update
The RSPs have decided to early adopt IFRS 9 together with IFRS 17 effective with the fiscal year commencing November 1, 2022, and have elected to adopt IFRS 9 with no restatement of comparative period financial information, as permitted by IFRS 9.

- Classification and measurement - Under IFRS 9, the classification and measurement of financial assets is amortized cost, fair value through other comprehensive income, or FVTPL, based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset, and for financial liabilities is amortized cost or FVPTL. Management has determined that the RSP's financial instruments will be classified and measured at amortized cost, which is similar to its existing policy under IAS 39.

- Financial statements impact - Management has determined that the adoption of IFRS 9 is not expected to have a material impact on the carrying value of the RSP's financial instruments, and on Amounts due from members as at November 1, 2022.

IFRS 17 *Insurance Contracts*
IFRS 17 *Insurance Contracts* ("IFRS 17") issued on May 18, 2017, supersedes IFRS 4 *Insurance Contracts* ("IFRS 4"). IFRS 17 establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. In June 2020, the IASB issued amendments to IFRS 17, one of which provided for a deferral of the date of initial application of IFRS 17 to annual periods beginning on or after January 1, 2023, with early adoption permitted. The IASB also changed the expiry date for the temporary exemption in IFRS 4 from applying IFRS 9, so that entities would be required to apply IFRS 9, along with IFRS 17, for annual periods beginning on or after January 1, 2023.

3. ACCOUNTING STANDARDS EFFECTIVE NEXT YEAR (continued)

Implementation update
The RSPs have decided to early adopt IFRS 17 together with IFRS 9, as permitted by IFRS 17. For the purpose of preparing the RSP's combined financial statements, the transition date for adoption of IFRS 17 is November 1, 2021 and the date of initial application is November 1, 2022. IFRS 17 requires that the RSPs apply the standard retrospectively unless impracticable, in which case the RSPs may elect to use a modified retrospective or fair value method. The RSPs expect to apply the standard using a full retrospective approach. The RSPs have provided key highlights of the expected qualitative and estimated quantitative impacts of adopting IFRS 17, as well as a summary of the key IFRS 17 accounting policies to be adopted. The RSPs are in the process of preparing its restated 2022 combined financial statements. The analysis below represents management's best estimates of outcomes, based on information currently available, and is subject to change.

- Measurement model - Under IFRS 17, there are two main measurement models to account for insurance contracts applicable to the RSPs; the general measurement model ("GMM") and the premium allocation approach ("PAA"). Under the GMM, insurance contracts must be valued using current estimates of discounted future cash flows, an explicit risk adjustment for non-financial risk, and a contractual service margin that reflects the present value of the expected profit from fulfilling the contracts to be recognized into income over the coverage period. The PAA is a simplified measurement model that is to be applied to insurance contracts with coverage periods of one year or less or where the liability for remaining coverage ("LRC") under the PAA is not materially different to the LRC under the GMM. Based on management's analysis, no such material differences in LRC were noted and the RSPs will apply the PAA to its insurance contracts.

- Discounting of insurance contract liabilities - Under IFRS 17, estimates of future cash flows are to be discounted to reflect the time value of money and financial risks related to those cash flows. The RSPs will discount estimates of future cash flows using risk-free yield curves adjusted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts.

- Risk adjustment - The measurement of insurance contract liabilities will include a risk adjustment for non-financial risk which will be applied to the present value of the estimated future cash flows. The risk adjustment is the RSPs compensation for bearing the uncertainty relating to non-financial risk. The non-financial risk pertains to the amount and timing of cash flows as the RSPs fulfil insurance contracts. The risk adjustment will replace the provision for adverse deviation. The RSPs expect to apply a hybrid approach, which incorporates elements of the margin approach, quantile technique and cost of capital technique, for its non-financial risk.

- Onerous contracts - To determine if a group of contracts are onerous, the RSPs consider facts and circumstances based on the expected fulfilment cash flows, pricing data, the outcomes of similar contracts, and the operating and regulatory environment. At initial recognition, the RSPs assume that contracts are onerous, unless facts and circumstances indicate otherwise, as all the RSPs contracts have been deemed to meet the PAA criteria. If at any time during the coverage period, the facts and circumstances indicate that a group of insurance contracts is onerous, the RSPs established a loss component as the difference between fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the LRC of the group. The RSPs expect onerous contracts to have a material impact on its transition to IFRS 17.

- Insurance acquisition cash flows - Insurance acquisition cash flows consist of costs of underwriting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs. The RSPs defer insurance acquisition cash flows and these expenses will be recognized as Insurance service expense as the related premiums are recognized as Insurance revenue.

3. ACCOUNTING STANDARDS EFFECTIVE NEXT YEAR (continued)

- Insurance revenue and Insurance service expenses - The RSPs will recognize insurance revenue for each period over the coverage period of a group of contracts. Insurance service expenses will consist of amortization of insurance acquisition cash flows, incurred claims and other insurance expenses, and losses on onerous groups of contracts and reversals of such losses. All expenses are directly attributable to insurance contracts and are classified in insurance service expenses.

- Presentation and disclosures - IFRS 17 introduces significant changes to the presentation and disclosure of insurance related items in the financial statements including the reclassification of premiums receivable, deferred policy acquisition costs, provision for claims liabilities, and unearned premium liabilities to be presented together as a single line item named insurance contract liabilities, premiums written will be replaced by insurance revenue where premiums will be recognized on an earned basis, and all directly attributable insurance acquisition expenses will be included in the insurance service expenses.

- Combined financial statements impact - Based on management's calculations to date, the estimated impact at November 1, 2021 is an increase in Amounts due from members of approximately $12,000, which is primarily attributable to increases due to a new loss component offset against reductions due to changes in risk adjustment and discounting on future cash flows under the new requirements, and for the year ended October 31, 2022, management estimates that the transition to IFRS 17 will have a positive impact to Excess of revenue over expenses primarily due to discounting on future cash flows and change in recognition of expense allowance. Management continues to monitor and refine certain elements of the calculations in advance of fiscal year 2023 reporting.

(in thousands of Canadian dollars)

4. POLICY LIABILITIES

Policy liabilities are comprised of provision for claims liabilities, unearned premium liabilities and any premium deficiencies and deferred policy acquisition costs. Provision for claims liabilities are established to reflect the full amount of all liabilities associated with the insurance policies as at the statement of financial position dates, including claims incurred but not reported. The ultimate cost of these liabilities will vary from the best estimate made as additional information with respect to the facts and circumstances of the claims incurred is received by management.

Amounts by insurance pool

	October 31, 2022			
	Provision for claims liabilities	**Unearned premium liabilities**	**Premium deficiency reserve**	**Deferred policy acquisition**
Ontario RSP	**$ 1,080,661**	**$ 264,813**	**$ 94,682**	**$ -**
Alberta Grid RSP	**389,639**	**180,204**	**-**	**24,605**
Alberta Non-Grid RSP	**257,607**	**91,112**	**6,069**	**-**
New Brunswick RSP	**35,111**	**7,373**	**88**	**-**
Nova Scotia RSP	**68,119**	**8,069**	**754**	**-**
Newfoundland and Labrador RSP	**5,401**	**2,369**	**128**	**-**
	$ 1,836,538	**$ 553,940**	**$ 101,721**	**$ 24,605**

	October 31, 2021			
	Provision for claims liabilities	Unearned premium liabilities	Premium deficiency reserve	Deferred policy acquisition costs
Ontario RSP	$ 1,013,340	$ 210,656	$ 44,569	$ -
Alberta Grid RSP	347,540	126,244	-	20,569
Alberta Non-Grid RSP	220,476	88,168	2,476	-
New Brunswick RSP	30,180	11,681	-	1,281
Nova Scotia RSP	69,485	21,452	-	77
Newfoundland and Labrador RSP	2,130	3,763	444	-
	$ 1,683,151	$ 461,964	$ 47,489	$ 21,927

(in thousands of Canadian dollars)

4. POLICY LIABILITIES (continued)

Movements

The following changes have occurred during the year:

Provision for claims liabilities

	October 31, 2022						
	Ontario RSP	**Alberta Grid RSP**	**Alberta Non-Grid RSP**	**New Brunswick RSP**	**Nova Scotia RSP**	**Newfoundland and Labrador RSP**	**TOTAL**
Balance - beginning of year	**$ 1,013,340**	**$ 347,540**	**$ 220,476**	**$ 30,180**	**$ 69,485**	**$ 2,130**	**$ 1,683,151**
Claims incurred	**424,803**	**150,609**	**138,877**	**15,035**	**19,101**	**3,482**	**751,907**
Claims paid	**(417,714)**	**(130,299)**	**(116,152)**	**(11,062)**	**(20,072)**	**(2,079)**	**(697,378)**
Change in IBNR	**50,365**	**17,210**	**10,723**	**506**	**(209)**	**1,599**	**80,194**
Change in discounting	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Change in actuarial present value adjustments	**9,867**	**4,579**	**3,683**	**452**	**(186)**	**269**	**18,664**
Balance - end of year	**1,080,661**	**389,639**	**257,607**	**35,111**	**68,119**	**5,401**	**1,836,538**
Comprising of							
Case reserves	**595,539**	**207,438**	**149,341**	**18,990**	**32,853**	**1,973**	**1,006,134**
IBNR	**349,843**	**142,179**	**82,316**	**12,635**	**28,172**	**2,937**	**618,082**
	945,382	**349,617**	**231,657**	**31,625**	**61,025**	**4,910**	**1,624,216**
Effect of discounting	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Actuarial present value adjustments	**135,279**	**40,022**	**25,950**	**3,486**	**7,094**	**491**	**212,322**
	$ 1,080,661	**$ 389,639**	**$ 257,607**	**$ 35,111**	**$ 68,119**	**$ 5,401**	**$ 1,836,538**

	October 31, 2021						
	Ontario RSP	Alberta Grid RSP	Alberta Non-Grid RSP	New Brunswick RSP	Nova Scotia RSP	Newfoundland and Labrador RSP	TOTAL
Balance - beginning of year	1,009,148	$ 350,149	$ 213,192	$ 26,433	$ 66,053	$ 18	$ 1,664,993
Claims incurred	288,828	109,456	91,044	9,217	24,512	1,235	524,292
Claims paid	(319,076)	(111,351)	(91,977)	(9,122)	(21,614)	(665)	(553,805)
Change in IBNR	37,593	261	7,857	3,287	215	1,322	50,535
Change in discounting	-	-	-	-	-	-	-
Change in actuarial present value adjustments	(3,153)	(975)	360	365	319	220	(2,864)
Balance - end of year	1,013,340	347,540	220,476	30,180	69,485	2.130	1,683,151
Comprising of							
Case reserves	588,450	187,128	126,616	15,017	33,824	570	951,605
IBNR	299,478	124,969	71,593	12,129	28,381	1,338	537,888
	887,928	312,097	198,209	27,146	62,205	1,908	1,489,493
Effect of discounting	-	-	-	-	-	-	-
Actuarial present value adjustments	125,412	35,443	22,267	3,034	7,280	222	193,658
	1,013,340	$ 347,540	$ 220,476	$ 30,180	$ 69,485	$ 2,130	$ 1,683,151

Since the time value of money is considered when determining the provision for claims liabilities, an increase or decrease in the discount rate would result in a change in the claims liability and incurred claims.

(in thousands of Canadian dollars)

4. POLICY LIABILITIES (continued)

As at October 31, 2022, the provision for claims liabilities prior to actuarial present value adjustments include $**1,128,480** (2021 - $1,029,216), expected to be settled (paid) more than twelve months after the reporting date.

Unearned premium liabilities

	October 31, 2022						
	Ontario RSP	**Alberta Grid RSP**	**Alberta Non-Grid RSP**	**New Brunswick RSP**	**Nova Scotia RSP**	**Newfoundland and Labrador RSP**	**TOTAL**
Balance - beginning of year	**$ 210,656**	**$ 126,244**	**$ 88,168**	**$ 11,681**	**$ 21,452**	**$ 3,763**	**$ 461,964**
Premiums written during the year	**521,012**	**317,478**	**162,810**	**15,168**	**13,938**	**5,200**	**1,035,606**
Less: premiums earned during the year	**(466,855)**	**(263,518)**	**(159,866)**	**(19,476)**	**(27,321)**	**(6,594)**	**(943,630)**
Balance – end of year	**$ 264,813**	**$ 180,204**	**$ 91,112**	**$ 7,373**	**$ 8,069**	**$ 2,369**	**$ 553,940**

	October 31, 2021						
	Ontario RSP	Alberta Grid RSP	Alberta Non Grid RSP	New Brunswick RSP	Nova Scotia RSP	Newfoundland and Labrador RSP	TOTAL
Balance - beginning of year	$ 225,666	$ 107,468	$ 63,362	$ 11,013	$ 24,800	$ 92	$ 432,401
Premiums written during the year	363,272	214,340	158,259	20,946	39,573	6,228	802,618
Less: premiums earned during the year	(378,282)	(195,564)	(133,453)	(20,278)	(42,921)	(2,557)	(773,055)
Balance – end of year	$ 210,656	$ 126,244	$ 88,168	$ 11,681	$ 21,452	$ 3,763	$ 461,964

(in thousands of Canadian dollars)

4. POLICY LIABILITIES (continued)

Premium deficiency reserve/Deferred policy acquisition costs

	Premium deficiency reserve / (Deferred policy acquisition costs)			
	Balance - beginning of year*	**Change in unearned premium liabilities**	**Change in future costs relative to unearned premium liabilities**	**Balance - end of year**
October 31, 2022				
Ontario RSP	**$ 44,569**	**$ 11,458**	**$ 38,655**	**$ 94,682**
Alberta Non-Grid RSP	**2,476**	**83**	**3,510**	**6,069**
New Brunswick RSP	**(1,281)**	**472**	**897**	**88**
Nova Scotia RSP	**(77)**	**48**	**783**	**754**
Newfoundland and Labrador RSP	**444**	**(164)**	**(152)**	**128**
	$ 46,131	**$ 11,897**	**$ 43,693**	**$ 101,721**
October 31, 2021				
Ontario RSP	47,466	(3,157)	260	44,569
Alberta Non-Grid RSP	3,816	1,494	(2,834)	2,476
Newfoundland and Labrador RSP	9	359	76	444
	51,291	(1,304)	(2,498)	47,489

	(Premium deficiency reserve) / Deferred policy acquisition costs			
October 31, 2022				
Alberta Grid RSP	**$ 20,569**	**$ 8,792**	**$ (4,756)**	**$ 24,605**
	$ 20,569	**$ 8,792**	**$ (4,756)**	**$ 24,605**
October 31, 2021				
Alberta Grid RSP	$ 17,145	$ 2,995	429	$ 20,569
New Brunswick RSP	1,883	114	(716)	1,281
Nova Scotia RSP	(1,818)	245	1,650	77
	$ 17,210	$ 3,354	$ 1,363	$ 21,927

* Balance - beginning of year may not agree with Statement of Financial Position as balances may change between premium deficiency reserve and deferred policy acquisition costs at the end of the year.

4. POLICY LIABILITIES (continued)

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 2012 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 because there is no reinsurance ceded.

The top (provisions) section of the table presents the estimated claims liabilities pertaining to each accident year as at each statement of financial position date. The lower (paid) section 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.

(in thousands of Canadian dollars)

4. POLICY LIABILITIES (continued)

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012 and prior	**Total**
Claims liabilities[1] - At end of fiscal accident year[2]	**$ 586,767**	$ 418,294	$ 434,896	$ 463,075	$ 469,081	$ 458,152	$ 348,614	$ 355,701	$ 368,316	$ 400,727	$ 1,432,638	
Estimates												
1 year later	-	384,291	368,719	406,883	430,985	454,661	365,046	372,019	355,332	387,660	1,395,407	
2 years later	-	-	343,476	396,938	394,908	402,876	370,363	359,576	342,949	335,580	1,357,555	
3 years later	-	-	-	394,785	400,004	389,081	360,356	350,187	322,257	335,731	1,269,112	
4 years later	-	-	-	-	391,380	388,047	359,245	346,064	322,838	327,902	1,228,945	
5 years later	-	-	-	-	-	386,506	365,861	339,948	313,236	320,698	1,221,669	
6 years later	-	-	-	-	-	-	358,439	338,166	306,193	316,699	1,213,674	
7 years later	-	-	-	-	-	-	-	332,190	306,200	314,566	1,206735	
8 years later	-	-	-	-	-	-	-	-	306,084	314,041	1,199,631	
9 years later	-	-	-	-	-	-	-	-	-	313,015	1,210,344	
10 years later	-	-	-	-	-	-	-	-	-	-	1,215,055	
Current estimates	**$ 586,767**	$ 384,291	$ 343,476	$ 394,785	$ 391,380	$ 386,506	$ 358,439	$ 332,190	$ 306,084	$ 313,015	$ 1,215,055	
Payments in subsequent periods												
1 year later	-	$ 104,342	$ 75,352	$ 96,451	$ 98,058	$ 103,091	$ 89,850	$ 80,532	$ 75,668	$ 80,452	$ 327,515	
2 years later	-	-	61,321	58,325	60,312	61,356	57,459	54,759	52,499	47,103	233,416	
3 years later	-	-	-	58,958	57,976	57,568	53,135	50,689	52,145	53,336	191,728	
4 years later	-	-	-	-	53,429	55,985	51,051	45,264	36,186	50,833	145,717	
5 years later	-	-	-	-	-	39,620	38,549	35,466	30,800	29,784	106,380	
6 years later	-	-	-	-	-	-	22,025	23,292	18,029	15,348	59,927	
7 years later	-	-	-	-	-	-	-	11,912	10,862	11,629	40,487	
8 years later	-	-	-	-	-	-	-	-	8,118	8,026	22,857	
9 years later	-	-	-	-	-	-	-	-	-	2,918	11,874	
10 years later	-	-	-	-	-	-	-	-	-	-	8,008	
Cumulative payments		$ 104,342	$ 136,673	$ 213,734	$ 269,775	$ 317,620	$ 312,069	$ 301,914	$ 284,307	$ 299,429	$ 1,147,909	
Deficiency/(redundancy) recognized in 2022		$ (34,003)	$ (25,243)	$ (2,153)	$ (8,624)	$ (1,541)	$ (7,422)	$ (5,976)	$ (116)	$ (1,026)	$ 4,711	$ (81,393)
Reconciliation to the statement of financial position												
Claims liabilities[1]	**$ 586,767**	$ 279,949	$ 206,803	$ 181,051	$ 121,605	$ 68,886	$ 46,370	$ 30,276	$ 21,777	$ 13,586	$ 67,146	$ 1,624,216
Actuarial present value adjustments												$ 212,322
Claims liabilities												$ 1,836,538

[1]Prior to actuarial present value adjustments

[2]Fiscal accident year "yyyy" reflects claims occurring during the period November 1, yyyy-1 to October 31, yyyy

4. POLICY LIABILITIES (continued)

Significant actuarial assumptions

The Actuary makes numerous assumptions to establish a point estimate for the provision for claims liabilities. These assumptions are made following accepted actuarial practice in Canada based on the appointed actuary's experience coupled with observed characteristics of the individual RSPs current and historic claims settlement processes. The actuarial assumptions that have the greatest impact on the estimation of the policy liabilities are:

- The selection of models used to forecast the timing and amount of claim settlements
- The selection of development and payment parameters used to fit the models to past experience
- The selection of ultimate loss ratios
- The selection of discount rate used to compute present value of estimated policy liabilities
- The selection of margins for adverse deviation in claims development
- The magnitude and timing of latent claims arising from environmental and other long-tail exposures

Processes and key actuarial assumptions used in the estimation of the insurance policy liabilities

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 RSP's 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.

To discount the future cash flows to reflect the time value of money, the Actuary considers the future yield expected to be realized on the investments supporting the policy liabilities, and the expected future cash flows. The Actuary then discounts the expected future cash flows, based on an assumed yield curve structure. The discount rate used in the valuation of the individual RSPs in these combined financial statements was **0.0%** (2021: 0.0%).

The Actuary selects 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 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.

(in thousands of Canadian dollars)

4. POLICY LIABILITIES (continued)

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. The current value of the provision for claims liabilities reflects management's best estimate of the amounts required to settle claims liabilities.

5. RELATED-PARTY TRANSACTIONS

Compensation of key management personnel

	2022	2021
Salaries, bonuses, and other short-term employee benefits	**$ 1,099**	$ 838
Healthcare benefits	**23**	23
Pension benefits	**50**	52
Independent directors' fees	**74**	79
	$ 1,246	$ 992

Commitments to the Association's administration expenses

Insurance pools under administration are committed to reimburse their share of any expenses the Association incurred while administering these insurance pools on behalf of their members. The allocation is based on management's annual study of time worked on these insurance pools by the Association's staff and is part of the Association's annual budget approved by the Board. All administration expenses are initially paid by the Association and subsequently reimbursed by the RSPs, FARM and UAFs. This generates intercompany amounts due to and from these separate reporting entities. In addition, settlements of cash made through a single payment by members to the RSPs, FARM and UAFs can create intercompany balances among these separate reporting entities.

For the year ended October 31, 2022 and 2021, the RSPs' share of the Association's administration expenses, including lease related expenses was as follows:

	2022	2021
Operations	**$ 4,326**	$ 3,565
Leases	**203**	377
Data processing	**1,481**	1,304
Professional fees	**2,042**	1,929
	$ 8,052	$ 7,175

(in thousands of Canadian dollars)

5. RELATED-PARTY TRANSACTIONS (continued)

The Association participates in the Insurance Bureau of Canada Staff Pension Plan (the "IBC Plan") where the IBC is the Plan Administrator. The IBC Plan design includes both a defined contribution plan and a defined benefit plan. The most recent valuation of the IBC Plan was filed as at December 31, 2019 with the next valuation date required at December 31, 2022. During the year ended October 31, 2022, the Association recognized total costs of **$297** (2021: $213) in respect of the defined contribution plan, of which **$152** (2021: $108) has been allocated to RSPs, and total costs of **$115** (2021: $107) in respect of the defined benefit plan, of which **$58** (2021: $54) has been allocated to RSPs. These expenses are included in Operations in the above table.

During the year ended October 31, 2022, the RSPs were provided with a float from the FARM and UAFs for payment of administration expenses. As at October 31, 2022 and 2021, the amounts payable to the Association and other insurance pools under administration are as follows:

	2022	2021
Accounts payable to related parties:		
Association	**$ 765**	$ -
Residual Market and Uninsured Automobile Funds	**$ 1,965**	$ 1,364
	$ 2,730	$ 1,364

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

6. MANAGEMENT OF CAPITAL

The RSPs are not required to maintain their own capital. The RSPs allocate their transactions and balances to members, and those members are responsible for maintaining appropriate capital to support those transactions and balances in accordance with applicable insurance regulatory requirements.

7. FINANCIAL RISK MANAGEMENT

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation resulting in a financial loss to the RSPs. The RSPs are exposed to this risk through cash in bank, accounts receivable from members, other assets, amounts due from members, funds held by members, and through Type 1 and Type 2 structured settlement annuities.

The cash in bank balance is with a highly rated financial institution and the Association does not expect any credit risk. The credit risk associated with receivables from members 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. 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.

7. FINANCIAL RISK MANAGEMENT (continued)

Credit risk also arises from structured settlements. This credit risk arises from the structured settlement annuity failing to pay cash to the claimant. Management considers that the maximum credit risk exposure to Type 2 structured settlements is equal to the discounted present value of the payments outstanding on annuities that are still in force. Management does not currently have an estimate of the maximum credit risk arising from structured settlements relevant to the RSPs. Obligations resulting from these structured settlements are joint and several on all members.

As at October 31, 2022 and 2021, management has determined that the maximum exposure to credit risk is equal to the carrying value of the amounts presented in the combined statement of financial position, and have contractual maturities or expected cash flow dates of less than one year.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rate.

As at October 31, 2022 and 2021, the discount rate used in the determination of the provision for unpaid claims is based on the expected return of Amounts due from members and as the supporting assets are non-interest bearing, a discount rate of 0.0% has been selected. Fluctuation of market interest rates therefore will have no impact on the valuation of the provision for claims liabilities.

Liquidity risk
Liquidity risk is the risk that the RSPs will encounter difficulties in raising funds to meet cash flow commitments as they become due.

Amounts due from members are subject to liquidity risk arising from the potential failure of a member or members to respond to a cash call or assessment by the RSPs. Liquidity risk is minimal for the RSPs 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 and hence ability to support the RSPs cash flows needs if called upon effectively mitigates the liquidity risk. This exposure is further mitigated through such obligations being joint and several on all members.

As at October 31, 2022 and 2021, management has determined that the exposure to liquidity risk for provision for claims liabilities are as follows with their contractual maturities or expected cash flow dates of less than one year (**2022: $560,422**; 2021: $520,113), one to five years (**2022: $980,167**; 2021: $919,134), and more than five years (**2022: $295,949**; 2021: $243,904). The exposure to liquidity risk for all other financial liabilities is equal to the carrying value of the amounts disclosed in the combined statement of financial position, and have contractual maturities or expected cash flow dates of less than one year.

Operational Risk
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 (“ERM”) framework, risk appetite, ERM approval authorities, risk domains to be on the ERM watch, and action plan annually, and review results. Operational risk is part of the ERM framework and monitored by the Board.

7. FINANCIAL RISK MANAGEMENT (continued)

Insurance risk
Insurance risk is that of adverse financial results arising from the issuance of insurance policies. The most significant risk the RSPs face is the difference between the expected and actual amount and the timing of loss payments. The variability of the ultimate loss amounts is dependent of the variations of pricing, insurance contracts ceded to the RSPs, and frequency and severity of claims payment amounts and patterns in relation to expectations. The concentration of insurance risk is composed entirely of private passenger automobile risks in the jurisdictions within which the RSPs operate. The risk management activities can be broadly separated into underwriting, claims management, and valuation of policy liabilities.

Underwriting
The RSPs result for the year is sensitive to pricing risk. Subject to the transfer rules set out in the Plan, the individual members that issue policies on their own accounts and at their own rate may transfer the whole of the policy or a portion thereof through the RSPs to the collective of members. Sensitivity to insurance risk is managed by setting appropriate policy limits within the laws of Canada. The Association conducts periodic underwriting audits on members to ensure compliance with the RSPs' underwriting rules and guidelines.

Claims management
The individual members who cede risk to the RSPs are responsible for handling claims transactions, including claim payments; recording provisions for outstanding claims; and collecting subrogation/salvage recoveries on a timely and accurate basis on behalf of the collective of members of the RSPs. The Association conducts periodic claims audits on members to ensure compliance with the RSPs' claims management rules and guidelines.

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 these combined 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 members who transferred insurance contracts to the RSPs;
- 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 RSPs; 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.

7. FINANCIAL RISK MANAGEMENT (continued)

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 internal controls over financial reporting are in place and operating effectively to provide reasonable assurance that the results of the valuation are accurately and completely incorporated into the combined financial statements. 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.

Sensitivity to insurance risk
The risks associated with the RSPs 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.

(in thousands of Canadian dollars)

8. STATEMENT OF OPERATIONS BY JURISDICTION

	October 31, 2022						
	Ontario RSP	**Alberta Grid RSP**	**Alberta Non-Grid RSP**	**New Brunswick RSP**	**Nova Scotia RSP**	**Newfoundland and Labrador RSP**	**TOTAL**
Underwriting Revenue							
Premiums written	$ 521,012	$ 317,478	$ 162,810	$ 15,168	$ 13,938	$ 5,200	$ **1,035,606**
(Increase) Decrease in unearned premium liabilities	(54,157)	(53,960)	(2,944)	4,308	13,383	1,394	**(91,976)**
Premiums Earned	**466,855**	**263,518**	**159,866**	**19,476**	**27,321**	**6,594**	**943,630**
Underwriting Expenses							
Claims and claims expenses incurred	485,035	172,398	153,283	15,993	18,706	5,350	**850,765**
Increase (Decrease) in premium deficiency reserve	50,113	(4,036)	3,593	1,369	831	(316)	**51,554**
Expense allowance	146,260	94,758	48,634	4,449	4,079	1,443	**299,623**
Provision for bad and doubtful accounts	2	-	-	-	-	-	**2**
Total Underwriting Expenses	**681,410**	**263,120**	**205,510**	**21,811**	**23,616**	**6,477**	**1,201,944**
Underwriting (Loss) Gain	**(214,555)**	**398**	**(45,644)**	**(2,335)**	**3,705**	**117**	**(258,314)**
Administration Expenses	2,263	1,393	1,421	1,138	1,133	704	**8,052**
(Deficiency) Excess of Revenue over Expenses	**$ (216,818)**	**$ (995)**	**$ (47,065)**	**$ (3,473)**	**$ 2,572**	**$ (587)**	**$ (266,366)**

	October 31, 2021						
	Ontario RSP	Alberta Grid RSP	Alberta Non-Grid RSP	New Brunswick RSP	Nova Scotia RSP	Newfoundland and Labrador RSP	TOTAL
Underwriting Revenue							
Premiums written	$ 363,272	$ 214,340	$ 158,259	$ 20,946	$ 39,573	$ 6,228	$ 802,618
(Increase) Decrease in unearned premium liabilities	15,010	(18,776)	(24,806)	(668)	3,348	(3,671)	(29,563)
Premiums Earned	378,282	195,564	133,453	20,278	42,921	2,557	773,055
Underwriting Expenses							
Claims and claims expenses incurred	323,268	108,742	99,261	12,869	25,046	2,777	571,963
Increase (Decrease) in premium deficiency reserve	(2,897)	(3,424)	(1,340)	602	(1,895)	435	(8,519)
Expense allowance	103,035	64,973	47,967	6,402	12,414	1,776	236,567
Provision for bad and doubtful accounts	2						2
Total Underwriting Expenses	423,408	170,291	145,888	19,873	35,565	4,988	800,013
Underwriting (Loss) Gain	(45,126)	25,273	(12,435)	405	7,356	(2,431)	(26,958)
Administration Expenses	2,029	1,252	1,259	1,013	1,004	618	7,175
(Deficiency) Excess of Revenue over Expenses	$ (47,155)	$ 24,021	$ (13,694)	$ (608)	$ 6,352	$ (3,049)	$ (34,133)