Combined Financial Statements of

FACILITY ASSOCIATION
RISK SHARING POOLS

For the years ended October 31, 2023 and 2022

FACILITY ASSOCIATION
RISK SHARING POOLS
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October 31, 2023

Deloitte LLP
Bay Adelaide East
8 Adelaide Street West
Suite 200
Toronto ON M5H 0A9
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

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 statements of financial position as at October 31, 2023, October 31, 2022 and November 1, 2021, and the combined statements of operations, amounts due from members and cash flows for the years ended October 31, 2023 and October 31, 2022, and notes to the combined financial statements, including material accounting policy information (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, 2023, October 31, 2022 and November 1, 2021, and its financial performance and its cash flows for the years ended October 31, 2023 and October 31, 2022 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 RSPs' 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 16, 2024

Ernst & Young LLP
Insurance and Actuarial Consulting Services
Ernst & Young Tower
100 Adelaide Street West, P.O. Box 1
Toronto, Ontario M5H 0B3

Cosimo Pantaleo, FCIA, FCAS
Tel: +1 416 943 3730
Email: cosimo.pantaleo@ca.ey.com
www.ey.com/ca

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 financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 October 2023.

In my opinion, the amount of policy liabilities is appropriate for this purpose. The valuation conforms to accepted actuarial practice in Canada and the financial statements fairly present the results of the valuation.

Toronto, Ontario
16 February 2024

Cosimo Pantaleo
Fellow, Canadian Institute of Actuaries

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

As at	Notes	October 31, 2023	October 31, 2022 Restated (Note 3)	November 1, 2021 Restated (Note 3)
Assets				
Cash in bank		**$ 1,576**	$ 2,436	$ 1,272
Accounts receivable from members		**38,557**	38,247	30,711
Other assets		**-**	1	5
Amounts due from members	2	**2,546,223**	2,221,146	2,119,366
Total assets		**$ 2,586,356**	$ 2,261,830	$ 2,151,354
Liabilities				
Accounts payable to members		**$ 37,333**	$ 37,968	$ 29,553
Accounts payable to related parties	5	**2,813**	2,730	1,364
Other accounts payable		**1**	2	1,087
Insurance contract liabilities				
Liability for remaining coverage	3, 4	**837,203**	687,167	596,838
Liability for incurred claims	3, 4	**1,709,006**	1,533,963	1,522,512
Total liabilities		**$ 2,586,356**	$ 2,261,830	$ 2,151,354

APPROVED BY THE BOARD

Karen Dyberg
.... Director

ajay tellis
.... Director

February 16, 2024
.... 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	Notes		2023		2022 Restated (Note 3)
Insurance revenue	2, 9	**$**	**722,138**	$	668,244
Incurred claims	4		**1,100,919**		896,473
Losses and reversals of losses on onerous contracts	4		**161,871**		162,187
Adjustments to liabilities for incurred claims	4		**419**		(139,152)
Administration expense	5		**7,878**		8,052
Insurance service expenses			**1,271,087**		927,560
Insurance service result			**(548,949)**		(259,316)
Net finance (expense) income from insurance contracts	8		(73,524)		184,759
Net financial result			**(73,524)**		**184,759**
Deficiency of revenue over expenses		**$**	**(622,473)**	$	(74,557)

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 year ended October 31, 2023	Notes		2023
Balance at November 1, 2022, as previously reported		$	**(2,437,059)**
Impact of adopting IFRS 9	3		-
Impact of adopting IFRS 17	3		215,913
Balance at November 1, 2022, as restated			**(2,221,146)**
Deficiency of revenue over expenses for the year			(622,473)
Net cash settlements with members			297,396
Balance - end of year			**(2,546,223)**

For the year ended October 31, 2022	Notes		2022 Restated (Note 3)
Balance at November 1, 2021, as previously reported		$	**(2,166,576)**
Impact of adopting IFRS 9	3		-
Impact of adopting IFRS 17	3		47,210
Balance at November 1, 2021, as restated			**(2,119,366)**
Deficiency of revenue over expenses for the year			(74,557)
Net cash settlements with members			(27,223)
Balance - end of year			**(2,221,146)**

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	Notes		2023		2022 Restated (Note 3)
Operating					
Deficiency of revenue over expenses		**$**	**(622,473)**	$	(74,557)
Adjustments for changes in operating assets and liabilities					
Accounts receivable from members			**(310)**		(7,536)
Other assets			**1**		4
Accounts payable to members			**(635)**		8,415
Accounts payable to related parties			**83**		1,366
Other accounts payable			**(1)**		(1,085)
Insurance contract liabilities					-
Liability for remaining coverage			**175,043**		90,329
Liability for incurred claims			**150,036**		11,451
Net cash settlements with members			**297,396**		(27,223)
Cash (used in) generated from operating activities			**(860)**		1,164
(Decrease) Increase in cash in bank during the year			**(860)**		1,164
Cash in bank, beginning of year			**2,436**		1,272
Cash in bank, end of year		**$**	**1,576**	$	2,436

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, other assets, amounts due from members, accounts payable to members, accounts payable to related parties and other accounts payable (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 insurance revenue, insurance service expenses and net financial result.

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 MATERIAL ACCOUNTING POLICIES

The material 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 16, 2024.

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.

The presentation currency used for the preparation of these financial statements is Canadian dollars, the same as the functional currency rounded to the nearest thousand.

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

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, accounts payable to members, accounts payable to related parties and other accounts payable. Insurance contract liabilities 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.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Insurance contracts
Insurance contracts are 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 individual members insurance contracts transferred through the RSPs to the members are standard automobile insurance contracts within the relevant jurisdictions in which the RSPs operate. These insurance contracts contain significant insurance risk, and there are no financial risks that are required to be presented separately.

Aggregation of insurance contracts
Insurance contracts are aggregated into groups for measurement under IFRS 17. Groups of insurance contracts are determined by identifying portfolios of insurance contracts that are subject to similar risks and managed together. These portfolios are further divided into annual cohorts by year of issue and each annual cohort is further divided into the following groups based on the profitability of contracts, as applicable:

- contracts that are onerous at initial recognition;
- contracts that at initial recognition have no significant possibility of becoming onerous subsequently; and
- remaining contracts in the portfolio.

The RSPs function as a facultative-obligatory reinsurance treaty and the Association's members assume their share of the financial results of each RSP.

Recognition of insurance contracts
The RSP is the counterparty to the arrangement with the cedant, irrespective of which member is ultimately responsible for benefiting from the rights and settling of the obligations. There would be no substantive rights or obligations that exist until the date on which a transfer notification is established to have left a member's Canadian head office, or the office designated by the member for that jurisdiction for submission to the RSP.

An insurance contract is recognized from the earliest of the beginning of the coverage period for a cession; or the dispatch date for a cession.

Insurance acquisition cash flows
Insurance acquisition cash flows are cash flows arising from the costs of selling, underwriting and starting a group of insurance contracts. The RSPs do not provide a distinct service to the members that results in a cost to the members for selling, underwriting and starting a group of insurance contracts that it issues, the expense allowance reflects a reduction in the transaction price, and not insurance acquisition cash flows to the RSPs.

There is no directly attributable insurance acquisition cash flows for the RSPs.

Contract boundaries
The measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group. For the RSPs the contract boundary is 12 months.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the RSPs can compel members to pay premiums or has a substantive obligation to provide services including insurance coverage and any investment services. A substantive obligation to provide services ends when:

- the members through the RSPs have the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or
- the members through the RSPs have the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio, and the pricing of the premiums up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

The RSPs have a right to receive the insurance premium from the members for each risk transferred into the insurance pools under administration.

As the RSPs are facultative-obligatory, the RSPs have no right to receive premiums beyond what has been transferred into the RSPs, and the members through the RSPs have no practical ability to reassess the risks of each cedant and reprice the insurance contract based on those reassessed risks. As a result, the RSPs have an obligation to provide service to the members for risks transferred, and anticipated risks to be transferred, from individual members to the members collectively through the RSPs.

Measurement – Premium Allocation Approach (“PAA”)
The IFRS 17: Insurance Contracts standard allows the PAA, which is a more simplified measurement model, to be applied if the entity has contracts with a coverage period of one year or less or where the liability for remaining coverage for the group under the PAA is not materially different to the one under the general measurement model. The insurance contracts transferred by members through the RSPs meet this PAA criterion.

On initial recognition of each group of contracts, the RSPs expect that the time between providing each part of the services and the related premium due date is no more than a year. Accordingly, the RSPs have chosen not to adjust the liability for remaining coverage (“LRC”) to reflect the time value of money and the effect of financial risk. Subsequently, the carrying amount of the LRC is increased by any premiums received and decreased by the amount recognized as insurance revenue for services provided.

If any time during the coverage period facts and circumstances indicate that a group of contracts is onerous or has the potential to turn onerous, the RSPs are required to recognize a loss in the Combined Statements of Operations. The recognition of the loss will increase the LRC to the extent that the current estimates of the fulfilment cash flows that relate to the remaining coverage exceed the carrying amount of the LRC. The fulfilment cash flows are discounted using risk-free yield curves adjusted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts if the liability for incurred claims (“LIC”) is also discounted.

The RSPs recognize the LIC of a group of insurance contracts at the amount of the fulfilment cash flows relating to incurred claims. The future cash flows are discounted using risk-free yield curves adjusted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts as they are not expected to be paid in one year or less from the date the claims are incurred.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Contract derecognition and modification
The RSPs derecognize a contract when extinguished and for a contract to be considered extinguished the following circumstances need to be present:

- The contract is at the end of the accident year; or
- when transfer premiums are not paid; or
- when new information has come to light that would make the risks transferred through the RSPs ineligible.

The RSPs also derecognize a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognized. If new information becomes available and eligibility for transfer of the risk through the RSPs remain, the contract will meet the criteria for modification. The original terms and conditions of the contract would be modified to accommodate the change in risk. In some cases, this would also result in a change in the premium being charged by members to the policyholder. This type of modification would meet the criteria for derecognition.

If a contract modification does not result in derecognition, then the RSPs treat the changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows.

Presentation
Portfolios of insurance contracts that are assets and those that are liabilities are presented separately in the Combined Statements of Financial Position at the carrying amounts.

The RSPs disaggregate amounts recognized in the Combined Statements of Operations into (a) an insurance service result, comprising insurance revenue and insurance service expenses; and (b) insurance finance income or expenses.

Financial instruments
Recognition and initial measurement
RSPs financial intruments are classified as amortized cost and presented as such on the Combined Statements of Financial Position. Financial instruments include the cash in bank, accounts receivable from members, other assets, amounts due from members, accounts payable to members, accounts payable to related parties and other accounts payable.

A financial asset or financial liability is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue.

Classification and subsequent measurement - financial assets
Classification
On initial recognition, a financial asset is classified as measured at amortized cost, Fair Value through Other Comprehensive Income (“FVOCI”) or Fair Value Through Profit & Loss (“FVTPL”). RSPs do not have Other Comprehensive Income. As such, no financial instruments are classified as FVOCI.

Financial assets are not reclassified subsequent to their initial recognition unless the RSPs change their business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

All financial assets not classified as measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition the RSPs may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment
The RSPs assess the objective of the business model in which a financial asset is held for each portfolio of financial assets as it best reflects the way that the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the RSPs management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the RSPs stated objective for managing the financial assets is achieved and how cash flows are realised.

Assessment of whether contractual cash flows are Solely Payments of Principal and Interest ("SPPI")
For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition. However, the principal may change over time (drawdown on principal due to repayments).

Interest is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic liquidity risk and administration costs, as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, the RSPs consider the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the RSPs consider:

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- prepayment and extension features;
- terms that limit the RSPs claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration for the time value of money (e.g. periodic reset of interest rates)

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

RSPs financial assets are measured at amortized cost. The financial assets consist of cash in bank, accounts receivable from members, other assets and amounts due from members. These meet the SPPI test and are held to collect contractuals cashflows from counterparties.

Subsequent measurement and gains and losses
Financial assets are measured at amortized cost using the effective interest method. Interest income and impairment are recognised in the Combined Statements of Operations. Any gain or loss on derecognition is also recognised in the Combined Statements of Operations.

Classification and subsequent measurement - financial liabilities
Classification
RSP's financial liabilities are measured at amortized cost.

Subsequent measurement and gains and losses
Financial liabilities are measured at amortized cost using the effective interest method. Interest expenses and foreign exchange gains and losses, if any, are recognised in the Combined Statement of Operations. Any gain or loss on derecognition is also recognized in administration expenses in the Combined Statement of Operations.

Financial liabilities include amounts payable to members, accounts payable to related parties and other accounts payable. These amounts are due on demand and, accordingly, management considers that the carrying amounts approximate fair value.

Classification and subsequent measurement - interest on financial instruments
Interest income and expenses are recognised in the Combined Statement of Operations using the effective interest method for all financial assets at amortized cost under IFRS 9. The effective interest rate is calculated on initial recognition of a financial instrument and is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset.

The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

The amortized cost of a financial asset is the amount at which the financial asset is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The gross carrying amount of a financial asset is its amortized cost before adjusting for any loss allowance.
Financial assets not credit - impaired on initial recognition
If the financial asset is not credit-impaired, then interest income is calculated by applying the effective interest rate to the gross carrying amount of the asset. When calculating the effective interest rate, the RSP estimates future cash flows considering all contractual terms of the asset, but not expected credit losses ("ECL").

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Financial assets credit – impaired
Interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves. If the financial asset has become credit-impaired subsequent to initial recognition, then interest income is calculated by applying the effective interest rate to the amortized cost of the asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income calculated using the effective interest method and other finance costs presented in the Combined Statement of Operations include interest on financial assets and financial liabilities measured at amortized cost.

Impairment - financial assets
The RSPs recognise loss allowances for ECL on financial assets measured at amortized cost.

The RSPs measure loss allowances at an amount equal to lifetime ECL, except other financial instruments for which credit risk has not increased significantly since initial recognition.

Financial instruments for which 12-month ECL are recognised are referred to as Stage 1 financial instruments. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Financial instruments for which lifetime ECL are recognised because of a significant increase in credit risk since initial recognition but that are not credit-impaired are referred to as Stage 2 financial instruments. Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as Stage 3 financial instruments.

In all cases, the maximum period considered when estimating ECL is the maximum contractual period over which the RSPs are exposed to credit risk.

Measurement of ECL
ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. A shortfall can be the difference between the cash flows due to the RSPs in accordance with the contract and the cash flows that the RSPs expect to receive.

Credit-impaired financial assets
At each reporting date, the RSPs assess whether financial assets measured at amortized cost are credit-impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the debtor;
- a breach of contract such as a default or past-due event;
- the restructuring of an amount due to the RSPs on terms that the RSPs would not otherwise consider;
- the debtor entering bankruptcy or other financial reorganisation becoming probable; or
- the disappearance of an active market for a security because of financial difficulties.

A financial asset that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Presentation of loss allowances in the Combined Statements of Financial Position
For financial assets measured at amortized cost, the loss allowance for ECL is deducted from the gross carrying amount of the assets.

Write-off
The gross carrying amount of a financial asset is written off when the RSPs have no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the RSPs determine that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Although the RSPs expect no significant recovery from amounts written off, financial assets that are written off could still be subject to enforcement activities in order to comply with the RSPs procedures for recovery of amounts due.

Derecognition and contract modification
Financial assets
The RSPs derecognize a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the RSPs neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount at the date of derecognition and the consideration received (including any new asset obtained less any new liability assumed) is recognised in the Combined Statements of Operations.

Financial liabilities
The RSPs derecognise a financial liability when its contractual obligations expire or are discharged or cancelled.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid including any non-cash assets transferred or liabilities assumed is recognised in the Combined Statements of Operations.

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

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

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.

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

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, 2023 and 2022, there are no assets and liabilities denominated in foreign currencies.

Amounts due from members
Amounts due from members occur when total insurance premiums transferred to the members exceed total insurance paid losses, paid expenses, and administration expenses.

Amounts due from 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 a function of the members' own expense structures with a maximum set annually by the Board. Although the expense allowance is charged to operations when the premiums are written, such expense allowance is subject to deferral, and therefore, prepaid expense allowance is used in the calculation of insurance revenue.

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 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 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 replaces the provision for adverse deviation. The RSPs apply a hybrid approach, which incorporates elements of the margin approach, quantile technique and cost of capital technique, for its non-financial risk.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Loss component (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 insurance contracts have been determined 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 establish 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.

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

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, 2023 is $**270** (2022: $433); of which **$65** (2022: $203) has been allocated by the Association to the RSPs and recorded in Administration expenses. 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 management, including administrative expenses incurred by the RSP, are included in the members’ income for tax assessment purposes.

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.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Management judgements and estimation uncertainty
The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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 insurance contract liability (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 judgement in applying accounting policies

The following is the critical judgement and estimation 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 insurance contract liabilities

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 insurance contract liabilities and report thereon to the members. The valuation is carried out in accordance with IFRS 17 following accepted actuarial practice in Canada. The scope of the valuation encompasses only the LRC and LIC. 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 insurance contract 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. The valuation is necessarily based on estimates and, consequently, the final values may vary from those estimates.

3. ADOPTION OF NEW ACCOUNTING POLICIES

The RSPs have adopted for the first time IFRS 17 and IFRS 9, including any consequential amendments to other standards, from November 1, 2022. These standards have brought significant changes to the accounting for insurance contracts and financial instruments, respectively. As a result, the RSPs have restated certain comparative amounts and presented an opening statement of financial position as at November 1, 2021.

Except for the changes below, the RSPs have consistently applied the accounting policies as set out in Note 2 to all periods presented in these combined financial statements. The nature and effects of the key changes in the RSPs accounting policies resulting from its adoption of IFRS 17 and IFRS 9 are summarized below.

IFRS 17 *Insurance Contracts*
IFRS 17 *Insurance Contracts* ("IFRS 17") replaces IFRS 4 *Insurance Contracts* ("IFRS 4"). The RSPs adopted IFRS 17 on November 1, 2022, with a transition date of November 1, 2021. The nature of the changes in accounting policies can be summarized, as follows:

Recognition, measurement and presentation of insurance contracts
IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts and reinsurance contracts. It introduces a model that measures groups of contracts based on the RSPs estimates of the present value of future cash flows that are expected to arise as the insurance contracts are fulfilled and an explicit risk adjustment for non-financial risk.

Under IFRS 17, insurance revenue in each reporting period represents the changes in the liabilities for remaining coverage that relate to services for which the RSPs expect to receive consideration.

Insurance finance income and expenses are presented separately from insurance revenue and insurance service expenses.

Under IFRS 17, there are two main measurement models to account for insurance contracts, 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 more 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.

The RSPs are applying the PAA to all the insurance contracts as they have coverage periods of one year or less. When measuring liabilities for remaining coverage, the PAA is similar to the RSPs previous accounting treatment under IFRS 4. However, when measuring liabilities for incurred claims, the RSPs discount the future cash flows and include an explicit risk adjustment for non-financial risk.

(in thousands of Canadian dollars)

3. ADOPTION OF NEW ACCOUNTING POLICIES (continued)

Transition

Changes in accounting policies resulting from the adoption of IFRS 17 have been applied using the full retrospective approach. Under the full retrospective approach, at November 1, 2021 the RSPs:

- identified, recognized and measured each group of insurance contracts as if IFRS 17 had always been applied;
- identified, recognized and measured any assets for insurance acquisition cash flows as if IFRS 17 had always been applied, except that the recoverability assessment was not applied before November 1, 2021;
- derecognized previously reported balances that would not have existed if IFRS 17 had always been applied. These included insurance receivable, payable, and amounts due to or from members. Under IFRS 17, they are included in the measurement of the insurance contracts; and
- recognized any resulting net difference in Combined Statements of Amounts Due from Members.

The following tables summarize the impact of IFRS 17 on the RSPs Combined Statements of Financial Position on transition.

	As at October 31, 2022		
	Previously reported IFRS 4 October 31, 2022	**IFRS 17 adjustments**	**Restated IFRS 17 October 31, 2022**
Assets			
Cash in bank	$ 2,436	$ -	$ 2,436
Accounts receivable from members	38,247	-	38,247
Other assets	1	-	1
Deferred policy acquisition costs	24,605	(24,605)	-
Funds held by members	92,002	(92,002)	-
Amounts due from members	2,437,059	(215,913)	2,221,146
Total assets	**$ 2,594,350**	**$ (332,520)**	**$ 2,261,830**
Liabilities			
Accounts payable to members	$ 37,968	$ -	$ 37,968
Accounts payable to related parties	2,730	-	2,730
Other accounts payable	2	-	2
Funds provided by members	61,451	(61,451)	-
Insurance contract liabilities			
Premium deficiency reserve	101,721	(101,721)	-
Unearned premium liabilities	553,940	(553,940)	-
Liability for remaining coverage	-	687,167	687,167
Provision for claims liabilities	1,836,538	(1,836,538)	-
Liability for incurred claims	-	1,533,963	1,533,963
Total liabilities	**$ 2,594,350**	**$ (332,520)**	**$ 2,261,830**

(in thousands of Canadian dollars)

3. ADOPTION OF NEW ACCOUNTING POLICIES (continued)

	As at November 1, 2021		
	Previously reported IFRS 4 October 31, 2021	**IFRS 17 adjustments**	**Restated IFRS 17 November 1, 2021**
Assets			
Cash in bank	$ 1,272	$ -	$ 1,272
Accounts receivable from members	30,711	-	30,711
Other assets	5	-	5
Deferred policy acquisition costs	21,927	(21,927)	-
Funds held by members	64,939	(64,939)	-
Amounts due from members	2,166,576	(47,210)	2,119,366
Total assets	**$ 2,285,430**	**$ (134,076)**	**$ 2,151,354**
Liabilities			
Accounts payable to members	$ 29,553	$ -	$ 29,553
Accounts payable to related parties	1,364	-	1,364
Other accounts payable	1,087	-	1,087
Funds provided by members	60,822	(60,822)	-
Insurance contract liabilities			
Premium deficiency reserve	47,489	(47,489)	-
Unearned premium liabilities	461,964	(461,964)	-
Liability for remaining coverage	-	596,838	596,838
Provision for claims liabilities	1,683,151	(1,683,151)	-
Liability for incurred claims	-	1,522,512	1,522,512
Total liabilities	**$ 2,285,430**	**$ (134,076)**	**$ 2,151,354**

3. ADOPTION OF NEW ACCOUNTING POLICIES (continued)

Summary of impact of adoption (IFRS 17 Adjustments)

Liability for remaining coverage (LRC)
The RSPs measure the carrying amount of the LRC at the end of each reporting period as the LRC at the beginning of the period, plus premiums received in the period, minus insurance acquisition cash flows paid or derecognized from insurance acquisition asset, plus any amounts relating to the amortization of the acquisition cash flows recognized as an expense in the reporting period, plus any adjustment to the financing component, where applicable, minus the amount recognized as insurance revenue for the coverage period, minus any investment component paid or transferred to the liability for incurred claims.

The RSPs' LRC balance replaces unearned premium, premium deficiency reserve, and deferred policy acquisition costs and is comprised of two major components:

LRC (excluding loss components)

- Unearned premium received – IFRS 17 requires that only premium received be recorded, which is a change from the IFRS 4 practice of recording premium when written. The RSPs collect premium from members each month, a month in arrears, and premium received in each month is estimated as being equal to the premium written in the previous month;
- Prepaid expense allowance - The members' expense allowance is treated as a reduction to premium as part of the calculation of insurance revenue.

Loss component (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. If at any time during the coverage period, the facts and circumstances indicate that a group of insurance contracts is onerous, the RSPs establish 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. Recognizing the results of the RSPs are future losses, the estimations lead to onerous contracts.

Liability for incurred claims
The RSPs' LIC balance replaces provision for claims liabilities and has changed for two assumptions, which are different from IFRS 4:

- **Discounting**
  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 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. This has resulted in a higher discount rate applied to the insurance contract liabilities compared to those under IFRS 4.

- **Risk adjustment**
  The measurement of insurance contract liabilities includes a risk adjustment for non-financial risk to 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, which pertains to the amount and timing of cash flows as the RSPs fulfil insurance contracts. The risk adjustment replaces the provision for adverse deviation and has resulted in a lower rate applied to insurance contract liabilities compared to those under IFRS 4. The RSPs are applying a hybrid approach for its non-financial risks.

3. ADOPTION OF NEW ACCOUNTING POLICIES (continued)

Amounts due from members

All transition adjustments are made against Member balances due. Funds held by/funds provided by members have been incorporated within the amounts due from members.

IFRS 9 *Financial Instruments*

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after January 1, 2018. However, the RSPs elected, under the amendments to IFRS 4 to apply the temporary exemption from IFRS 9, deferring the initial application date of IFRS 9 to align with the initial application of IFRS 17.

Implementation

The RSPs have adopted IFRS 9 effective November 1, 2022. The IFRS 17 amendment published by the IASB in December 2021 permitted an entity to apply a classification overlay in the comparative periods presented on initial application of IFRS 17 and IFRS 9, to avoid temporary accounting mismatches between financial assets and insurance contract liabilities. Management has determined that, based on the nature of the RSPs financial assets that are related to insurance contract liabilities, the classification overlay's impact on mitigating an accounting mismatch for the RSPs is limited. The significant impacts of the adoption of IFRS 9 on the RSPs combined financial statements are summarized below:

Classification of financial assets and financial liabilities

IFRS 9 includes three principal classification categories for financial assets: measured at amortized cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held-to-maturity investments, loans and receivables, and available-for-sale financial assets. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 has not had a significant effect on the RSPs accounting policies for financial liabilities.

Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with a forward-looking expected credit loss model. The new impairment model applies to financial assets measured at amortized cost, debt investments at FVOCI and lease receivables. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Effect of initial application - classification of financial assets and financial liabilities

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the RSP's financial assets and financial liabilities as at November 1, 2022.

(in thousands of Canadian dollars)

3. ADOPTION OF NEW ACCOUNTING POLICIES (continued)

	Measurement under IAS 39	Measurement under IFRS 9		Previous carrying amount under IAS 39 and new carrying amount under IFRS 9 November 1, 2022
Financial assets				
Cash in bank	Amortised cost	Amortised cost	$	2,436
Accounts receivable from members	Amortised cost	Amortised cost		38,247
Other assets	Amortised cost	Amortised cost		1
Total financial assets			**$**	**40,684**

	Measurement under IAS 39	Measurement under IFRS 9		Previous carrying amount under IAS 39 and new carrying amount under IFRS 9 November 1, 2022
Financial liabilities				
Accounts payable to members	Amortised cost	Amortised cost	$	37,968
Accounts payable to related parties	Amortised cost	Amortised cost		2,730
Other accounts payable	Amortised cost	Amortised cost		2
Total financial liabilities			**$**	**40,700**

The RSPs accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 2. The application of these policies resulted in the reclassifications set out in the table above and explained below.

- On adoption of IFRS 9, the RSPs have classified financial assets previously as loans and receivables as amortized cost. These instruments meet SPPI criterion, were not actively traded and were held with the intention to collect cash flows and without the intention to sell.

- Under IFRS 9, the RSPs have continued to assess its financial liabilities as amortized cost.

The total carrying value of financial assets under IFRS 9 remains unchanged from those under IAS 39 as there have been no remeasurements and no impairment provisions required.

4. INSURANCE CONTRACTS

Movements in insurance contract assets and insurance contract liabilities

The following reconciliations show how the net carrying amounts of insurance contracts in changed during the year as a result of cash flows and amounts recognised in the Combined Statements of Operations.

The following tables separately analyze movements in the liability for remaining coverage (LRC) and in the liability for incurred claims (LIC) and reconciles these movements to the line items in the Combined Statements of Operations.

(in thousands of Canadian dollars)

4. INSURANCE CONTRACTS (continued)

Insurance Contracts under PAA

Analysis by remaining coverage and incurred claims:

	2023					
	Liability for remaining coverage		Liability for incurred claims			
	Excluding loss component	Loss component	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Other	Total
Opening insurance contract assets	$ -	$ -	$ -	$ -	$ -	$ -
Opening insurance contract liabilities	327,279	359,888	1,414,655	119,308	-	2,221,130
Net opening balance as at November 1	327,279	359,888	1,414,655	119,308	-	2,221,130
Changes in the Combined Statements of Operations						
Insurance revenue	(722,138)	-	-	-	-	(722,138)
Incurred claims and other insurance service expenses	-	-	1,061,233	39,686	-	1,100,919
Losses and reversals of losses on onerous contracts	-	161,871	-	-	-	161,871
Adjustments to liabilities for incurred claims	-	-	38,259	(37,840)	-	419
Administration expenses	-	-	-	-	7,878	7,878
Insurance service expenses	-	161,871	1,099,492	1,846	7,878	1,271,087
Insurance service result	(722,138)	161,871	1,099,492	1,846	7.878	548,949
Net finance income (expenses) from insurance contracts	-	(3,315)	70,891	5,948	-	73,524
Total changes in the Combined Statements of Operations	(722,138)	158,556	1,170,383	7,794	7,878	622,473
Cash flows						
Premiums received	713,618	-	-	-	-	713,618
Claims and other insurance service expenses paid	-	-	(1,003,134)	-	-	(1,003,134)
Administration expense	-	-	-	-	(7,878)	(7,878)
Total cash flows	713,618	-	(1,003,134)	-	(7,878)	(297,394)
Net closing balance as at October 31	318,759	518,444	1,581,904	127,102	-	2,546,209
Closing insurance contract assets	-	-	-	-	-	-
Closing insurance contract liabilities	318,759	518,444	1,581,904	127,102	-	2,546,209
Net closing balance as at October 31	$ 318,759	$ 518,444	$ 1,581,904	$ 127,102	$ -	$ 2,546,209

(in thousands of Canadian dollars)

4. INSURANCE CONTRACTS (continued)

	2022 Restated (Note 3)					
	Liability for remaining coverage		Liability for incurred claims			
	Excluding loss component	Loss component	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Other	Total
Opening insurance contract assets	$ -	$ -	$ -	$ -	$ -	$ -
Opening insurance contract liabilities	262,871	333,967	1,404,370	118,142	-	2,119,350
Net opening balance as at November 1	262,871	333,967	1,404,370	118,142	-	2,119,350
Changes in the Combined Statements of Operations						
Insurance revenue	(668,244)	-	-	-	-	(668,244)
Incurred claims and other insurance service expenses	-	-	851,343	45,130	-	896,473
Losses and reversals of losses on onerous contracts	-	162,187	-	-	-	162,187
Adjustments to liabilities for incurred claims	-	-	(98,845)	(40,307)	-	(139,152)
Administration expenses	-	-	-	-	8,052	8,052
Insurance service expenses	-	162,187	752,498	4,823	8,052	927,560
Insurance service result	(668,244)	162,187	752,498	4,823	8,052	259,316
Net finance income (expenses) from insurance contracts	-	(136,266)	(44,836)	(3,657)	-	(184,759)
Total changes in the Combined Statements of Operations	(668,244)	25,921	707,662	1,166	8,052	74,557
Cash flows						
Premiums received	732,652	-	-	-	-	732,652
Claims and other insurance service expenses paid	-	-	(697,377)	-	-	(697,377)
Administration expense	-	-	-	-	(8,052)	(8,052)
Total cash flows	732,652	-	(697,377)	-	(8,082)	27,223
Net closing balance as at October 31	327,279	359,888	1,414,655	119,308	-	2,221,130
Closing insurance contract assets	-	-	-	-	-	-
Closing insurance contract liabilities	327,279	359,888	1,414,655	119,308	-	2,221,130
Net closing balance as at October 31	$ 327,279	$ 359,888	$ 1,414,655	$ 119,308	$ -	$ 2,221,130

4. INSURANCE CONTRACTS (continued)

At October 31, 2023, the carrying amounts of insurance contracts expected to be settled more than 12 months after the reporting date is **$1,362,927** (2022: $1,224,176).

Significant judgements and estimates

Fulfilment cash flows
Fulfilment cash flows are comprised of estimates of future cash flows; an adjustment to reflect the time value of money and the financial risks related to future cash flows, to the extent that the financial risks are not included in the estimates of future cash flows; and a risk adjustment for non-financial risk.

The RSPs' objective in estimating future cash flows is to determine the expected value of a range of scenarios that reflects the full range of possible outcomes. The cash flows from each scenario are discounted and weighted by the estimated probability of that outcome to derive an expected present value.

Estimates of future cash flows
In estimating future cash flows, the RSPs incorporate, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events.

The estimates of future cash flows reflect the RSPs view of current conditions at the reporting date, as long as the estimates of any relevant market variables are consistent with observable market prices. When estimating future cash flows, the RSPs take into account current expectations of future events that might affect those cash flows. However, expectations of future changes in legislation that would change or discharge a present obligation or create new obligations under existing contracts are not taken into account until the change in legislation is substantively enacted. The RSPs derive cost inflation assumptions through loss trend analysis of historical claims data and incorporation of known future events. Cash flows within the boundary of a contract relate directly to the fulfilment of the contract, including those for which the RSPs have discretion over the amount or timing. These include payments to (or on behalf of) members, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts.

As the sole purpose of the RSPs is to provide a means for individual members to cede insurance risk through the RSPs to the members collectively, all of the acquisition expenses incurred by (or attributed to) the RSPs are directly attributable to the fulfilment of insurance contracts.

4. INSURANCE CONTRACTS (continued)

Contract boundaries
The assessment of the contract boundary, which defines which future cash flows are included in the measurement of a contract, requires judgement and consideration of the RSPs substantive rights and obligations under the contract.

Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the RSPs can compel the policyholder to pay the premium, or in which the RSPs have a substantive obligation to provide the policyholder with services. Each of the RSPs allow members to cede qualifying personal automobile insurance exposures to the applicable provincial risk sharing pool. The RSPs have a right to receive the transfer premium from the cedant for each risk transferred into the pool.

As the RSPs function as facultative-obligatory reinsurance treaties, the RSPs have no right to receive premiums beyond what has been transferred into the RSPs; and due to the members (via the RSPs) having no practical ability to reassess the risks of each cedant and reprice the "contract" based on those reassessed risks, the RSPs have an obligation to provide service to each cedant for: a) risks transferred into the RSPs; and b) anticipated risks to be transferred into the RSPs (i.e. forecasted new business which has not yet been written).

A liability or an asset relating to expected premiums or claims outside the boundary of the insurance contract are not recognized. Such amounts relate to future insurance contracts.

The contract boundary for the insurance contracts is 12 months.

Insurance contracts
The RSPs estimate the ultimate cost of settling claims incurred but unpaid at the reporting date and the value of salvage and other expected recoveries by reviewing individual claims reported and making allowance for claims incurred but not yet reported (IBNR). The ultimate cost of settling claims is estimated using a range of loss reserving techniques - e.g. the chain-ladder and Bornhuetter-Ferguson methods. These techniques assume that the RSP's own claims experience is indicative of future claims development patterns and therefore ultimate claims cost. The ultimate cost of settling claims is estimated separately for each geographic area and line of business. The assumptions used, including loss ratios and future claims inflation, are implicitly derived from the historical claims development data on which the projections are based, although judgement is applied to assess the extent to which past trends might not apply in the future and future trends are expected to emerge.

Discount rates
All cash flows are discounted using risk-free yield curves adjusted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts. The RSPs generally determine the risk-free rates derived from Government of Canada debt securities of various maturities. The yield curve is interpolated between the last available market data point and an ultimate forward rate, which reflects long-term real interest rate and inflation expectations. Although the ultimate forward rate is subject to revision, it is expected to be stable and would change only on significant changes to long-term expectations. To reflect the liquidity characteristics of the insurance contracts, the risk-free yield curves are adjusted by an illiquidity premium. Illiquidity premiums are generally determined by comparing the spreads on a basket of investment-grade corporate bonds over the risk-free rate derived from Government of Canada debt securities.

(in thousands of Canadian dollars)

4. INSURANCE CONTRACTS (continued)

The tables below set out the yield curves used to discount the cash flows of insurance contracts.

	2023				**2022**			
	1 year	**5 years**	**10 years**	**15 years**	1 year	5 years	10 years	15 years
Interest rates								
CAD	**6.195%**	**5.848%**	**5.825%**	**5.805%**	5.256%	5.150%	5.175%	5.246%

Risk adjustment for non-financial risk

Risk adjustments for non-financial risk are determined to reflect the compensation that the RSPs would require for bearing non-financial risk and are allocated to groups of contracts based on an analysis of the risk profiles of the groups. Risk adjustments for non-financial risk reflect the diversification benefits from contracts issued by the RSPs, in a way that is consistent with the compensation that it would require and that reflects its degree of risk aversion, and the effects of the diversification benefits are determined using a correlation matrix technique.

The risk adjustment was calculated at the RSPs level and then allocated down to each group of contracts in accordance with their risk profiles.

The risk adjustment for non-financial risk is determined using a hybrid approach, whereby a calibration model based on a simplified Cost of Capital technique is used to periodically calibrate risk adjustment. The results of the Cost of Capital technique are converted to risk adjustment factors (i.e., margin approach) applicable to insurance liabilities.

The Cost of Capital method used to select the risk adjustment for the RSPs relies on an assumption of the insurance risk distribution derived from the Office of the Superintendent of Financial Institutions (“OSFI”) Minimum Capital Test (MCT) insurance risk distributions. The RSPs selected risk adjustments for non-financial risk correspond to a 90% confidence level based on this analysis.

(in thousands of Canadian dollars)

4. INSURANCE CONTRACTS (continued)

INSURANCE CONTRACT LIABILITIES

a. Composition of liability for remaining coverage (LRC) for the twelve-month accident period ended October 31, unless otherwise noted.

	October 31, 2023						
	Ontario RSP	**Alberta Grid RSP**	**Alberta Non-Grid RSP**	**New Brunswick RSP**	**Nova Scotia RSP**	**Newfoundland and Labrador RSP**	**Total**
LRC (excluding loss component)	**$ 161,689**	**$ 91,998**	**$ 54,987**	**$ 4,143**	**$ 4,949**	**$ 993**	**$ 318,759**
Loss component	**381,274**	**43,482**	**75,635**	**6,902**	**8,829**	**2,322**	**518,444**
Liability for remaining coverage	**$ 542,963**	**$ 135,480**	**$ 130,622**	**$ 11,045**	**$ 13,778**	**$ 3,315**	**$ 837,203**

	October 31, 2022 (Restated) (Note 3)						
	Ontario RSP	Alberta Grid RSP	Alberta Non-Grid RSP	New Brunswick RSP	Nova Scotia RSP	Newfoundland and Labrador RSP	Total
LRC (excluding loss component)	$ 159,046	$ 105,089	$ 52,773	$ 4,112	$ 4,741	$ 1,518	$ 327,279
Loss component	266,886	21,720	55,602	6,250	8,122	1,308	359,888
Liability for remaining coverage	$ 425,932	$ 126,809	$ 108,375	$ 10,362	$ 12,863	$ 2,826	$ 687,167

(in thousands of Canadian dollars)

4. INSURANCE CONTRACTS (continued)

b. Composition of liability for incurred claims (LIC) for the twelve-month accident period ended October 31, unless otherwise noted.

	October 31, 2023						
	Ontario RSP	Alberta Grid RSP	Alberta Non-Grid RSP	New Brunswick RSP	Nova Scotia RSP	Newfoundland and Labrador RSP	Total
Case reserves	$ 617,013	$ 245,927	$ 173,132	$ 18,195	$ 31,142	$ 2,262	$1,087,671
IBNR	417,119	184,793	109,808	12,521	20,383	2,308	746,932
Effect of discounting	(151,172)	(55,153)	(35,410)	(4,339)	(6,058)	(567)	(252,699)
Present value of future cash flows	882,960	375,567	247,530	26,377	45,467	4,003	1,581,904
Risk adjustment	73,108	41,086	25,632	3,002	4,126	336	147,290
Discounting - risk adjustment	(10,818)	(5,225)	(3,201)	(420)	(482)	(42)	(20,188)
Liability for incurred claims	$ 945,250	$ 411,428	$ 269,961	$ 28,959	$ 49,111	$ 4,297	$ 1,709,006

(in thousands of Canadian dollars)

4. INSURANCE CONTRACTS (continued)

	October 31, 2022 (Restated) (Note 3)						
	Ontario RSP	Alberta Grid RSP	Alberta Non-Grid RSP	New Brunswick RSP	Nova Scotia RSP	Newfoundland and Labrador RSP	Total
Case reserves	$ 595,538	$ 207,438	$ 149,341	$ 18,990	$ 32,853	$ 1,973	$ 1,006,133
IBNR	349,843	142,179	82,316	12,635	28,172	2,937	618,082
Effect of discounting	(129,374)	(41,389)	(26,978)	(4,187)	(7,092)	(540)	(209,560)
Present value of future cash flows	816,007	308,228	204,679	27,438	53,933	4,370	1,414,655
Risk adjustment	69,854	34,736	22,392	3,586	5,542	564	136,674
Discounting - risk adjustment	(9,473)	(4,098)	(2,617)	(473)	(643)	(62)	(17,366)
Liability for incurred claims	$ 876,388	$ 338,866	$ 224,454	$ 30,551	$ 58,832	$ 4,872	$ 1,533,963

(in thousands of Canadian dollars)

4. INSURANCE CONTRACTS (continued)

c. Claims development table

The table below presents changes in the historical claims liabilities (prior to actuarial present value adjustments) that were established in 2014 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.

October 31, 2023	2014	2015	2016	2017	2018	2019	2020	2021	2022	**2023**	Total
Estimates of undiscounted ultimate gross claims											
At the end of accident year	$ 539,033	$ 541,353	$ 537,109	$ 709,040	$ 743,963	$ 737,901	$ 708,841	$ 631,857	$ 913,493	$ 1,154,792	$ -
1 year later	526,049	557,671	553,541	705,549	705,867	681,709	642,664	597,854	942,842	-	-
2 years later	513,666	545,228	558,858	653,764	669,790	671,764	617,421	545,575	-	-	-
3 years later	492,974	535,839	548,851	639,969	674,886	669,611	655,595	-	-	-	-
4 years later	493,555	531,716	547,740	638,935	666,262	688,405	-	-	-	-	-
5 years later	483,953	525,600	554,356	637,394	694,290	-	-	-	-	-	-
6 years later	476,910	523,818	546,934	639,779	-	-	-	-	-	-	-
7 years later	476,917	517,842	538,418	-	-	-	-	-	-	-	-
8 years later	476,801	526,906	-	-	-	-	-	-	-	-	-
9 years later	475,859	-	-	-	-	-	-	-	-	-	-
Cumulative gross claims paid	459,172	505,802	510,009	598,247	614,873	560,236	503,701	326,220	522,007	493,511	5,093,778
Gross liabilities - accident years from 2014-2023	**16,687**	**21,104**	**28,409**	**41,532**	**79,417**	**128,169**	**151,894**	**219,355**	**420,835**	**661,281**	**1,768,683**
Gross liabilities - accident years before 2014											65,920
Effect of discounting and risk adjustment											(125,597)
Gross liabilities for incurred claims included in the combined statements of financial position											$ 1,709,006

4. INSURANCE CONTRACTS (continued)

Significant actuarial assumptions

The Actuary makes numerous assumptions to establish a point estimate for the insurance contract liabilities. These assumptions are made in accordance with IFRS 17 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 insurance contract 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 insurance contract liabilities
- The selection of risk adjustment for non-financial risk
- 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 contract liabilities

In estimating the insurance contract 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 risk adjustment for non-financial risk). 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 computes the yield curve as the risk-free rate plus an illiquidity premium, as described above. The Actuary then discounts the expected future cash flows, based on the calculated curve. The Actuary used the published Canadian Institute of Actuaries (CIA) IFRS 17 Reference Curves, as the source of the yield curve in the discounting calculation. The annual effective discount rate used in the valuation of the individual RSPs in these combined financial statements varied from **5.97%-6.01%** depending on the province (2022: varied from 5.3%-5.4% depending on the province).

The Actuary advises the RSP on the selection of the risk adjustment for non-financial risk in accordance with Standards of Practice of the Canadian Institute of Actuaries. Considerations for selection of the risk adjustment for non-financial risk include, but are not limited to non-financial risk inherent in the insurance contracts, the compensation the RSP mechanism requires for bearing the uncertainty of its net exposure, and the quality and availability of data for assessing these risks.

(in thousands of Canadian dollars)

5. ADMINISTRATION EXPENSES AND RELATED-PARTY TRANSACTIONS

Compensation of key management personnel

		October 31, 2023		October 31, 2022
Wages and salaries	**$**	**1,186**	$	1,099
Healthcare benefits		**22**		23
Pension benefits		**46**		50
Independent directors' fees		**71**		74
	$	**1,325**	$	1,246

Commitments to the Association's administration expenses

Insurance pools under administration are committed to reimburse their share of any expenses the Association incurs while administering the 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 and the FARM and UAFs. This generates intercompany amounts due to and from these two separate reporting entities. In addition, settlements of cash made through a single payment by members to the RSPs and the FARM and UAFs can create intercompany balances among these two separate reporting entities.

For the year ended October 31, 2023 and 2022, the Association allocated total administration expenses to the RSPs amounting to **$7,878** (2022 - $8,052).

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, 2022 with the next valuation date required at December 31, 2025. During the year ended October 31, 2023, the Association recognized total costs of **$364** (2022: $297) in respect of the defined contribution plan, of which **$167** (2022: $152) has been allocated to RSPs, and total costs of **$110** (2022: $115) in respect of the defined benefit plan, of which **$51** (2022: $58) has been allocated to RSPs. These costs are included in Administration expenses.

(in thousands of Canadian dollars)

5. ADMINISTRATION EXPENSES AND RELATED-PARTY TRANSACTIONS (continued)

During the years ended October 31, 2023 and 2022, the RSPs were provided with a float of up to **$0** and $907 respectively, from the FARM and UAFs for payment of administration expenses.

As at October 31, 2023 and 2022, the amounts payable to the Association and the FARM and UAFs are as follows:

		2023		2022
Accounts payable to related parties:				
Association	**$**	**819**	$	765
FARM and UAFs		**1,994**		1,965
	$	**2,813**	$	2,730

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

6. MANAGEMENT OF CAPITAL

The RSPs are not required to maintain 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. RISK AND RISK MANAGEMENT

Financial risks

Credit risk

Credit risk is that of adverse financial results arising from the failure of a debtor to make payments when due. The RSPs are exposed to this risk through cash in bank, accounts receivable from members, other assets, amounts due from 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. While credit risk associated with receivables is limited ultimately by the fact that obligations are joint and several on all members, the Association monitors receivables monthly and follows up as appropriate to limit aged receivables. 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. The Association also assesses the measurement and recording of any ECL required.

7. RISK AND RISK MANAGEMENT (continued)

Maximum exposure to credit risk
As at October 31, 2023 and 2022, management has determined that the maximum exposure to credit risk is equal to the carrying value of the amounts presented in the Combined Statements of Financial Position, and have contractual maturities or expected cash flow dates of less than one year.

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 RSP. Obligations resulting from these structured settlements are joint and several on all members.

Amounts arising from ECL on financial assets
Significant increase in credit risk
When determining whether the credit risk (i.e. risk of default) on financial assets has increased significantly since initial recognition, the Association considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both qualitative and quantitative information and analysis based on the Association's experience, credit assessment and forward-looking information.

Modified financial assets
The contractual terms of a financial asset may be modified for a number of reasons, including changing market conditions and other factors, not related to current or potential credit deterioration of the debtor. An existing financial asset whose terms have been modified may be derecognized and the renegotiated asset recognized as a new financial asset at fair value plus eligible transaction costs in accordance with the accounting policies in Note 2. The new asset is allocated to Stage 1 (assuming that it is not credit-impaired at the date of modification).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of:
- its remaining lifetime PD as at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

Definition of default
The Association considers a financial asset to be in default when:
- the debtor is unlikely to pay its credit obligation to the Association in full, without recourse by the Association to action such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

In assessing whether a debtor is in default, the Association considers indicators that are:
- qualitative, e.g. breaches of covenant;
- quantitative, e.g. overdue status and non-payment of another obligation of the same debtor to the Association;
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

(in thousands of Canadian dollars)

7. RISK AND RISK MANAGEMENT (continued)

Liquidity risk
Liquidity risk is the risk of adverse financial results arising from having to liquidate assets in order to meet all cash flow obligations 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 RSP. Liquidity risk is minimal for the RSPs since members are required to settle all balances as they become due on a monthly basis. This exposure is further mitigated through such obligations being joint and several on all members.

The exposure of the RSPs to liquidity risk for insurance contract liabilities as at October 31, 2023 and 2022, is portrayed in the table below; it presents insurance contract liabilities according to their contractual maturities or expected cash flow dates. Liabilities for remaining coverage measured under the PAA have been excluded from this analysis.

The maturity profile of insurance contract liabilities at October 31, 2023 is as follows:

As at October 31, 2023	**1 year or less**	**1 to 5 years**	**More than 5 years**	**Total**	**Carrying value in the combined statements of financial position**
Accounts payable to members	**$ 37,333**	**$ -**	**$ -**	**$ 37,333**	**$ 37,333**
Accounts payable to related parties	**2,813**	**-**	**-**	**2,813**	**2,813**
Other accounts payable	**1**	**-**	**-**	**1**	**1**
Insurance contract liabilities					
Liability for incurred claims	**$ 521,010**	**$ 924,885**	**$ 263,111**	**$ 1,709,006**	**$ 1,709,006**
Total	**$ 561,157**	**$ 924,885**	**$ 263,111**	**$ 1,749,153**	**$ 1,749,153**

The maturity profile of insurance contract liabilities at October 31, 2022 is as follows:

As at October 31, 2022	1 year or less	1 to 5 years	More than 5 years	Total	Carrying value in the combined statements of financial position
Accounts payable to members	$ 37,968	$ -	$ -	$ 37,968	$ 37,968
Accounts payable to related parties	2,730	-	-	2,730	2,730
Other accounts payable	2	-	-	2	2
Insurance contract liabilities					
Liability for incurred claims	468,177	819,621	246,165	1,533,963	1,533,963
Total	$ 508,877	$ 819,621	$ 246,165	$ 1,574,663	$ 1,574,663

7. RISK AND RISK MANAGEMENT (continued)

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market risk comprises of interest rate risk.

Interest rate risk
Interest rate risk is adverse financial results arising from changes in the value of financial instruments in response to a change in interest rates. The RSPs have policies in place to measure this risk and communicate it to the RSPs members, who are responsible for managing the financial impact of this risk. These policies consider the unique characteristics of the underlying liabilities, including but not limited to expected payouts and liquidity requirements. Risk measurement considers potential changes under a variety of interest rate scenarios.

The estimated impact on the Combined Statements of Operations of an immediate parallel decrease of 1% in interest rates as at October 31, 2023 (2022: 1%), across the yield curve would be an increase in deficiency of revenue over expenses of **$73,800** (2022: $71,500). Conversely, an immediate parallel increase of 1% in interest rates would result in an estimated decrease in deficiency of revenue over expenses of **$70,000** (2022: $67,200).

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

In relation to financial assets, the assets of the RSPs are primarily receivables from members, which are not discounted in these combined financial statements.

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 insurance contract 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.

7. RISK AND RISK MANAGEMENT (continued)

Valuation of insurance contract liabilities
Risk management activities related to the valuation of insurance contract 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.

Insurance contract liabilities consist of liability for incurred claims and liability for remaining coverage.

Additional information on the accounting policy for the determination of the insurance contract liabilities is provided in Note 2.

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 the cost of certain legal and professional claims expenses allowed in excess of the RSP expense allowance;
- 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.

The Deficiency of revenue over expenses and amounts due from members would have (increased) decreased by **$79,095** in 2023 (2022: $70,733) if 5% increase (decrease) in ultimate claims that were reasonably possible at the reporting date had occurred.

(in thousands of Canadian dollars)

8. NET FINANCE INCOME / EXPENSE FROM INSURANCE CONTRACTS

The following table analyzes the RSPs' Deficiency of revenue over expenses in the Combined Statements of Operations:

	2023	2022
Interest accreted	$ (134,045)	(81,244)
Effect of changes in interest rates	60,521	266,003
Net finance (expense) income from insurance contracts	$ (73,524)	$ 184,759

9. SUMMARY STATEMENTS OF OPERATIONS BY INSURANCE POOL

	October 31, 2023						
	Ontario RSP	Alberta Grid RSP	Alberta Non-Grid RSP	New Brunswick RSP	Nova Scotia RSP	Newfoundland and Labrador RSP	Total
Insurance revenue	$ 364,340	$ 212,038	$ 122,586	$ 10,070	$ 10,391	$ 2,713	$ 722,138
Insurance service expenses	774,252	264,512	208,751	12,484	7,296	3,792	1,271,087
Insurance service result	$ (409,912)	$ (52,474)	$ (86,165)	$ (2,414)	$ 3,095	$ (1,079)	$ (548,949)
Net finance expense from insurance contracts	(44,540)	(13,428)	(10,101)	(1,775)	(3,513)	(167)	(73,524)
Deficiency of revenue over expenses	$ (454,452)	$ (65,902)	$ (96,266)	$ (4,189)	$ (418)	$ (1,246)	$ (622,473)

(in thousands of Canadian dollars)

9. SUMMARY STATEMENTS OF OPERATIONS BY INSURANCE POOL (continued)

	October 31, 2022						
	Ontario RSP	Alberta Grid RSP	Alberta Non-Grid RSP	New Brunswick RSP	Nova Scotia RSP	Newfoundland and Labrador RSP	Total
Insurance revenue	$ 334,944	$ 184,301	$ 111,727	$ 13,629	$ 18,908	$ 4,735	$ 668,244
Insurance service expenses	551,037	182,669	149,681	19,133	20,672	4,368	927,560
Insurance service result	$ (216,093)	$ 1,632	$ (37,954)	$ (5,504)	$ (1,764)	$ 367	$ (259,316)
Net finance income from insurance contracts	100,734	46,757	26,292	3,610	6,800	566	184,759
(Deficiency) Excess of revenue over expenses	$ (115,359)	$ 48,389	$ (11,662)	$ (1,894)	$ 5,036	$ 933	$ (74,557)