Financial Statements of

FACILITY ASSOCIATION
RESIDUAL MARKET SEGMENT
and
UNINSURED AUTOMOBILE FUNDS

For the year ended October 31, 2022

FACILITY ASSOCIATION
RESIDUAL MARKET SEGMENT and
UNINSURED AUTOMOBILE FUNDS
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October 31, 2022

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Independent Auditor's Report

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

Opinion

We have audited the financial statements of Facility Association Residual Market Segment and Uninsured Automobile Funds (the "Association"), which comprise the statement of financial position as at October 31, 2022, and the statements of operations, amounts due (from) to members and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Association 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 Association's 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 Association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Association's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's 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 Association to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
February 23, 2023

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APPOINTED ACTUARY'S REPORT

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

I have valued the policy liabilities of the Facility Association Residual Market and Uninsured Automobile Funds for its statement of financial position at 31 October 2022 and their changes in the statement of income for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

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

Toronto, Ontario
23 February 2023

Cosimo Pantaleo
Fellow, Canadian Institute of Actuaries

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

As at	Note	October 31, 2022	October 31, 2021
ASSETS			
Cash and cash equivalents	4	**$ 235,394**	$ 200,634
Premiums and other receivables	6	**121,397**	134,971
Accounts receivable from related parties	6, 9	**2,045**	1,364
Accrued interest income		**651**	63
Deferred policy acquisition costs	5	**18,359**	18,898
Amounts due from members		**59,558**	-
Funds held by members	6	**572,845**	669,489
		$ 1,010,249	$ 1,025,419

	Note	October 31, 2022	October 31, 2021
LIABILITIES			
Accounts payable and other liabilities		**$ 56,626**	$ 135,810
Servicing carrier operating fees payable		**18,502**	18,952
Unearned premium liabilities	5	**241,950**	249,860
Provision for claims liabilities	5	**693,033**	597,832
Amounts due to members		**-**	22,827
Funds provided by members	6	**138**	138
		$ 1,010,249	$ 1,025,419

APPROVED BY THE BOARD

.... Director

.... Director

February 23, 2023
.... Date

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

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

For the year ended October 31	Note	2022	2021
UNDERWRITING REVENUE			
Premiums written		**$ 484,058**	$ 480,809
Decrease (Increase) in unearned premium liabilities		**7,910**	(27,214)
PREMIUMS EARNED		**491,968**	453,595
UNDERWRITING EXPENSES			
Claims and claims expenses incurred		**343,172**	304,501
Servicing carrier operating fees		**50,138**	49,826
Commissions		**36,664**	36,269
Decrease (Increase) in deferred policy acquisition costs		**539**	(1,995)
Motor vehicle reports		**3,661**	3,677
Unclaimed property and doubtful accounts	8	**(450)**	141
TOTAL UNDERWRITING EXPENSES		**433,724**	392,419
UNDERWRITING GAIN		**58,244**	61,176
ADMINISTRATION EXPENSES	9	**8,524**	7,385
EXCESS OF REVENUE OVER EXPENSES BEFORE INTEREST INCOME		**49,720**	53,791
INTEREST INCOME		**2,879**	420
EXCESS OF REVENUE OVER EXPENSES		**$ 52,599**	$ 54,211

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

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

For the year ended October 31	Note	**2022**	2021
BALANCE AT BEGINNING OF YEAR		**$ 22,827**	$ (11,696)
Excess of revenue over expenses		**52,599**	54,211
Distributions to members		**(134,984)**	(19,688)
BALANCE AT END OF YEAR		**$ (59,558)**	$ 22,827

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

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

For the year ended October 31	Note	**2022**	2021
OPERATING			
Excess of revenue over expenses		**$ 52,599**	$ 54,211
Adjustments for changes in operating assets and liabilities:			
Premiums and other receivables		**13,574**	(8,266)
Accounts receivable from related parties		**(681)**	(304)
Accrued interest income		**(588)**	(40)
Deferred policy acquisition costs		**539**	(1,995)
Funds held by members		**96,644**	(138,845)
Accounts payable and other liabilities		**(79,184)**	89,386
Servicing carrier operating fees payable		**(450)**	2,868
Unearned premium liabilities		**(7,910)**	27,214
Provision for claims liabilities		**95,201**	108,539
Funds provided by members		**-**	(1)
Distributions to members		**(134,984)**	(19,688)
Cash generated from operating activities		**34,760**	113,079
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR		**34,760**	113,079
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**200,634**	87,555
CASH AND CASH EQUIVALENTS, END OF YEAR		**$ 235,394**	$ 200,634

Cash and cash equivalents consists of:		
Cash in bank	**$ 46,611**	$ 160,641
Cash equivalents	**188,783**	39,993
	$ 235,394	$ 200,634

The attached notes form an integral part of these 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 other province and territory in which the Association operates or a very similar statute has been enacted in those other 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. Funds held by members, amounts due from members, and funds provided by members (as applicable) do not bear interest.

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

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

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

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

All underwriting and claims settlement activities are conducted by servicing carriers contracted by the FARM to issue and service policies on behalf of the member insurance companies. The servicing carrier who issues the initial policy remains responsible for servicing the policy, including any settlement of claims that may arise from the policy. Servicing carriers are compensated through operating fees, in respect of their underwriting and general administration services, and claims servicing fees, all of which are specified in the Plan.

The UAFs for New Brunswick, Newfoundland and Labrador, Prince Edward Island, and Nova Scotia fund valid claims for damages made by persons who cannot obtain satisfaction for damages under a contract of automobile insurance and where there is no other insurance or where other insurance is inadequate with respect to the damages claimed.

The UAFs commenced operations as follows:

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

The UAFs are governed by the respective provincial Insurance Acts. The responsibilities of the Association are to administer claims recording, claims adjustment, and payment processes; to allocate to members their share of the experience; and to assess members to fund underwriting deficits. The UAFs do not generate revenue as there is no premium collected by them.

1. NATURE OF FACILITY ASSOCIATION (continued)

The Association, acting on behalf of its members, entered into a Transfer and Assumption Agreement as at January 1, 2020 (the "Agreement") with Judgment Recovery (N.S.) Ltd. ("JRNS") and administration of the funds to be recovered from the judgement debtors was moved from JRNS to the Association. JRNS was an enterprise which had been formed by, and administered under, the statute "An Act to Incorporate Judgment Recovery (N.S.) Ltd - 1989". Its role was to pay judgments arising out of automobile accidents to the limits and on the terms and conditions prescribed in the Motor Vehicle Act, and then to assume the creditor rights against the uninsured parties. With the creation of the Nova Scotia UAF on July 1, 1996, (administered by the Association), the handling of Uninsured Automobile Claims moved from the JRNS to the Association. JRNS continued as a legal entity, administering the ongoing collection of payments from pre-1996 claims until it ceased operations on January 1, 2020. The Agreement provided the Association with control of assets under administration, less the costs to wind up the JRNS, as well as rights against remaining debtors. The members who funded the costs related to JRNS are the same members who share in the costs of the Nova Scotia UAF, therefore, the rights and obligations of the Association's members remain substantially unchanged. The impact of the Agreement to the Association's financial statements is trivial as these judgments are over 20 years old and hence statute barred.

The financial statements contained herein are for the results of the FARM and UAFs (hereinafter referred to as the "FARM" or "FARM and UAFs") administered by the Association and account for the financial results of the risks written by the FARM and the cost of administering the insurance pools, including the participation of members in sharing the associated results. These 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 FARM.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation
These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were approved by the Board of Directors and authorized for issue on February 23, 2023.

Assets and liabilities expected to be recovered or settled within one year include cash and cash equivalents, premiums and other receivables, accounts receivable from related parties, accrued interest income, deferred policy acquisition costs, amounts due from members, accounts payable and other liabilities, servicing carrier operating fees payable, amounts due to members, unearned premium liabilities, funds held by members and funds provided by members. Provision for claims liabilities include balances that are both current and non-current.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Cash and cash equivalents
Cash represents cash balances at a Canadian Schedule I bank and cash equivalents are highly liquid investments that are readily convertible into cash and have an original term to maturity of three months or less from the date of purchase. Cash and cash equivalents are recorded at amortized cost. Management considers the fair value of cash equivalents to approximate their carrying amounts.

Financial instruments
Financial assets
Financial assets within the scope of IAS 39: Financial Instruments: Recognition and Measurement are classified into the following categories – Fair Value Through Profit or Loss (“FVTPL”), Available for Sale (“AFS”), Held to Maturity (“HTM”) and loans and receivables. Transaction costs are capitalized into the carrying amount of loans and receivables.

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

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

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

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

The FARM does not have any financial instruments classified as FVTPL or AFS and does not have any derivative financial instruments or embedded derivatives.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value
Fair value represents the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties. Management considers quoted market prices as the most reliable source of fair value for actively traded securities. Where market prices are unavailable, management's best estimate based on a range of methodologies and assumptions may be used. Because these estimates involve uncertainties, the fair values may not reflect the amount realizable on immediate settlement.

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

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

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

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

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

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

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

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

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

The UAFs are not standard insurance contracts but represent a statutory obligation of members within each jurisdiction in which they operate. They fund valid claims for damages made by persons who cannot obtain satisfaction for damages under a contract of automobile insurance and where there is no other insurance or where other insurance is inadequate with respect to the damages claimed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred policy acquisition costs and premium deficiency reserve

Deferred policy acquisition costs are commissions related to the costs incurred in acquiring the insurance policies. The expenses are deferred in relation to the unexpired portion of policies in force, subject to a test of recoverability. Premium tax is not a deferrable expense for the purpose of the FARM and UAFs' financial statements because premium taxes are not included in these financial statements. Such taxes are assessed and paid by individual members on the basis of their direct written premiums, which include their share of the FARM's premiums written.

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

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

Provision for claims liabilities

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

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

The FARM has obligations to pay certain fixed amounts to claimants on a recurring basis and has purchased annuities from life insurers to provide for these payments (see Notes 5 and 11).

Amounts due to or from members and Funds held by or provided by members

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

Funds held by or provided by members represent a portion of the premiums written amounts that are not yet required by the FARM and UAFs to settle claims and pay operating expenses. These available funds have been transferred to members. Funds held by or provided by members are due or payable on demand and accordingly, are recorded at the amounts receivable or payable at the date of the statement of financial position, and do not bear interest. Management considers that the carrying amounts approximate fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Leases
IFRS 16 *Leases* ("IFRS 16") requires lessees to recognize right-of-use assets and lease liabilities on the statement of financial position, with depreciation expense on the right-of-use asset and interest expense on the lease liability recognized in the 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 amended premises sub-lease arrangement with IBC , the Association's share of the cost to IBC for the total space occupied for the year ended October 31, 2022 is **$433** (2021: $614); of which **$194** (2021: $361) has been allocated by the Association to the FARM and UAFs and recorded as leases in Administration expenses (Note 9). As the sub-lease arrangement is between the Association and IBC, and not with the FARM and UAFs, management has determined that there is no other impact of IFRS 16 on these financial statements.

Income taxes
No provision for income taxes is recorded in these financial statements. The results of operations of the insurance pools under administration, including administration expenses incurred by the FARM and UAFs and interest income earned on insurance pools assets invested by the FARM, 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.

Use of estimates, assumptions and significant judgements
In the process of applying the FARM's accounting policies, management is required to make judgements, estimates, and assumptions that affect the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.

Key sources of estimation uncertainty include provision for policy liabilities (see Notes 5 and 10). 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical judgements in applying accounting policies

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

Valuation of policy liabilities of automobile insurance contracts

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

In performing the valuation of the liabilities for these inherently variable future events, the Actuary makes assumptions as to future rates of claim frequency and severity, inflation, expenses, and other matters, taking into consideration the circumstances of the FARM and the nature of the insurance policies issued by the members of the FARM. Procedures are put in place by the FARM to ensure that the data used in the valuation performed by the Actuary is sufficient and reliable for the valuation of policy liabilities. The Actuary also makes use of the management information provided by the FARM and considers the work of the internal and external auditors with respect to the FARM's underlying data used in the valuation. Incurred But Not Reported ("IBNR") is based on valuation data as at September 30, 2022 and 2021, and an estimate of expected claims activity for the month of October 2022 and 2021, respectively. The valuation is necessarily based on estimates and, consequently, the final values may vary from those estimates.

3. ACCOUNTING STANDARDS EFFECTIVE NEXT YEAR

The following IFRS standards have been issued but are not yet effective:

IFRS 9 *Financial Instruments*
IFRS 9 *Financial Instruments* ("IFRS 9") issued on July 24, 2014, is the International Accounting Standards Board's ("IASB's") replacement of IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). The standard includes requirements for recognition and measurement, impairment, derecognition, and general hedge accounting. IFRS 9 was mandatorily effective for periods beginning on or after January 1, 2018. The FARM elected to defer the adoption of IFRS 9 and adopt together with IFRS 17 *Insurance Contracts* ("IFRS 17"), based on guidance within the IFRS 17 standard.

3. ACCOUNTING STANDARDS EFFECTIVE NEXT YEAR (continued)

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

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

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

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

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

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

3. ACCOUNTING STANDARDS EFFECTIVE NEXT YEAR (continued)

- 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 FARM will discount estimates of future cash flows using risk-free yield curves adjusted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts.

- Risk adjustment - The measurement of insurance contract liabilities will include a risk adjustment for non-financial risk which will be applied to the present value of the estimated future cash flows. The risk adjustment is the FARM's 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 FARM fulfils insurance contracts. The risk adjustment will replace the provision for adverse deviation. The FARM expects to apply a hybrid approach, which incorporates elements of the margin approach, quantile technique and cost of capital technique, for its non-financial risk.

- Onerous contracts - To determine if a group of contracts are onerous, the FARM considers facts and circumstances based the on expected fulfilment cash flows, pricing data, the outcomes of similar contracts, and the operating and regulatory environment. At initial recognition, the FARM assumes that no contracts are onerous, unless facts and circumstances indicate otherwise, as all the FARM's contracts have been deemed to meet the PAA criteria. If at any time during the coverage period, the facts and circumstances indicate that a group of insurance contracts is onerous, the FARM establishes a loss component as the difference between fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the LRC of the group. The FARM does not expect onerous contracts to have any impact on its transition to IFRS 17.

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

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

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

- Financial statements impact - Based on management's calculations to date, the estimated impact at November 1, 2021 is an increase in Amounts due from members of approximately $26,000, which is primarily due to changes in risk adjustment and discounting on future cash flows, and for the year ended October 31, 2022, management estimates that the transition to IFRS 17 will have a positive impact to Excess of revenue over expenses due to discounting on future cash flows. Management continues to monitor and refine certain elements of the calculations in advance of fiscal year 2023 reporting.

(in thousands of Canadian dollars)

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of bank balances and highly liquid investments that are readily convertible to cash and have an original maturity of three months or less from the date of purchase.

5. POLICY LIABILITIES

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

Amounts by jurisdiction

Provision for claims liabilities

	October 31, 2022	October 31, 2021
Ontario	**$ 285,576**	$ 264,914
Alberta	**200,543**	157,784
Newfoundland and Labrador	**64,684**	61,253
Nova Scotia	**73,461**	52,969
New Brunswick	**52,854**	46,591
Prince Edward Island	**9,685**	7,773
Northwest Territories	**3,059**	3,381
Yukon	**2,400**	2,368
Nunavut	**771**	799
	$ 693,033	$ 597,832

Unearned premium liabilities

	October 31, 2022	October 31, 2021
Ontario	**$ 98,661**	$ 105,206
Alberta	**76,732**	68,556
Newfoundland and Labrador	**19,775**	22,004
Nova Scotia	**23,833**	29,139
New Brunswick	**15,911**	17,168
Prince Edward Island	**3,542**	3,675
Northwest Territories	**1,623**	1,913
Yukon	**1,153**	1,532
Nunavut	**720**	667
	$ 241,950	$ 249,860

(in thousands of Canadian dollars)

5. POLICY LIABILITIES (continued)

Movements

The following changes have occurred during the years ended October 31:

Provision for claims liabilities

	October 31, 2022	October 31, 2021
Balance - beginning of year	**$ 597,832**	$ 489,293
Claims incurred	**254,058**	212,229
Claims paid and related expenses	**(247,971)**	(195,962)
Change in IBNR and claims expense provision	**78,148**	80,454
Change in actuarial present value adjustments	**10,966**	11,818
Balance - end of year	**693,033**	597,832
Comprising of		
Case reserves	**299,478**	293,391
IBNR	**277,469**	206,185
Claims expense provision	**41,093**	34,229
	618,040	533,805
Actuarial present value adjustments	**74,993**	64,027
	$ 693,033	$ 597,832

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

As at October 31, 2022, the provision for claims liabilities prior to actuarial present value adjustments include **$439,590** (2021 - $374,067), expected to be settled (paid) more than twelve months after the reporting date.

(in thousands of Canadian dollars)

5. POLICY LIABILITIES (continued)

Unearned premium liabilities

	October 31, 2022	October 31, 2021
Balance - beginning of year	**$ 249,860**	$ 222,646
Premiums written during the year	**484,058**	480,809
Less: premiums earned during the year	**(491,968)**	(453,595)
Balance - end of year	**$ 241,950**	$ 249,860

Deferred policy acquisition costs

	October 31, 2022	October 31, 2021
Balance - beginning of year	**$ 18,898**	$ 16,903
Changes due to:		
change in unearned premium liabilities	**(598)**	2,066
change in future costs and/or deferrable amounts, relative to unearned premium liabilities	**59**	(71)
Balance - end of year	**$ 18,359**	$ 18,898

Claims development table

The table on the following page presents changes in the historical claims liabilities (prior to actuarial present value adjustments) that were established in 2012 and prior, and the associated provision arising in each subsequent accident year. This table is presented on both a gross and net-of-reinsurance basis because there is no reinsurance ceded.

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

FACILITY ASSOCIATION
RESIDUAL MARKET SEGMENT and
UNINSURED AUTOMOBILE FUNDS
Notes to the Financial Statements (continued)
For the year ended October 31, 2022
(in thousands of Canadian dollars)

5. POLICY LIABILITIES (continued)

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012 and prior	Total
Claims liabilities[1] - At end of fiscal accident year[2]												
	$ 215,113	$ 169,773	$ 126,792	$ 123,987	$ 84,185	$ 73,931	$ 76,900	$ 84,717	$ 88,894	$ 91,530	$ 440,765	
Estimates												
1 year later		177,181	136,844	137,861	95,572	73,809	84,035	90,082	91,648	95,895	436,701	
2 years later			130,077	140,491	89,754	72,719	81,071	88,864	87,536	92,464	436,485	
3 years later				146,322	90,468	69,485	79,926	88,218	85,160	90,494	426,519	
4 years later					91,577	69,919	79,861	92,049	82,221	90,248	428,653	
5 years later						71,515	79,981	94,276	83,421	91,619	422,042	
6 years later							79,146	93,418	85,852	91,139	413,796	
7 years later								92,266	84,308	90,546	415,822	
8 years later									83,873	89,750	441,018	
9 years later										89,228	452,561	
10 years later											453,362	
Current estimates	**$ 215,113**	$ 177,181	$ 130,077	$ 146,322	$ 91,577	$ 71,515	$ 79,146	$ 92,266	$ 83,873	$ 89,228	$ 453,362	
Payments in subsequent periods												
1 year later		$ 38,265	$ 29,005	$ 36,166	$ 25,492	$ 18,371	$ 20,291	$ 19,825	$ 21,310	$ 19,954	$ 112,002	
2 years later			16,934	23,186	12,311	11,096	11,484	14,072	10,929	14,870	89,445	
3 years later				18,791	9,789	8,530	11,940	16,916	11,004	9,884	58,770	
4 years later					8,897	10,017	12,195	11,507	13,038	14,157	44,614	
5 years later						5,852	4,900	10,976	10,835	6,685	37,876	
6 years later							4,722	6,848	6,420	9,097	20,490	
7 years later								3,253	3,747	4,656	11,451	
8 years later									3,105	2,863	9,702	
9 years later										937	4,993	
10 years later											37,155	
Cumulative payments		$ 38,265	$ 45,939	$ 78,143	$ 56,489	$ 53,866	$ 65,532	$ 83,397	$ 80,388	$ 83,103	$ 426,498	
Deficiency/(redundancy) recognized in 2022		$ 7,408	$ (6,767)	$ 5,831	$ 1,109	$ 1,596	$ (835)	$ (1,152)	$ (435)	$ (522)	$ 801	$ 7,034
Reconciliation to the statement of financial position												
Claims liabilities[1]	$ 215,113	$ 138,916	$ 84,138	$ 68,179	$ 35,088	$ 17,649	$ 13,614	$ 8,869	$ 3,485	$ 6,125	$ 26,864	$ 618,040
Actuarial present value adjustments												74,993
Claims liabilities												$ 693,033

[1]Prior to actuarial present value adjustments

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

5. POLICY LIABILITIES (continued)

Significant actuarial assumptions

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

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

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

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

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

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

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

5. POLICY LIABILITIES (continued)

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

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

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

Type 1 and Type 2 structures, as defined by *OSFI Guideline D-5 Accounting for Structured Settlements,* are entered into by servicing carriers, and the FARM and UAFs are exposed to credit risk to the extent that the life insurers providing the annuity fail to fulfill their obligations. The risk is mitigated to varying degrees through the Association's requirement for servicing carriers to acquire annuities from life insurers with proven financial stability.

The maximum exposure for the FARM and UAFs is the discounted value of the payments outstanding on such annuities that are still in force. The FARM and UAFs estimate the original purchase value of annuities in force as at October 31, 2022, to be **$150,112** (2021: $155,243). The maximum exposure is for the discounted present value of the payments outstanding on such annuities that are still in force. This exposure is further mitigated by the fact that any obligations resulting from these structured settlements are joint and several on all members.

6. PREMIUMS AND OTHER RECEIVABLES

Premiums and other receivables, accounts receivable from related parties, and accrued interest income are non-interest bearing and are normally settled between thirty days and twelve months. Management considers the carrying amount of accounts receivable, net of a provision for doubtful accounts, to be a reasonable approximation of the fair value of the assets because of the short-term nature of the assets. A portion of the receivables balance is due from related parties (see Note 9), which is considered to be fully recoverable. As at October 31, 2022, the provision for doubtful accounts is **$38** (2021: $286).

(in thousands of Canadian dollars)

7. FUNDS HELD BY/(PROVIDED BY) MEMBERS

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

Net funds transferred during the year ended October 31, 2022, between the FARM and members (excluding transfers related to settlement of operating results) were **$0** (2021: $160,000). The funds are allocated to individual members based on their share of unearned premiums and the provision for unpaid and unreported claims. Transfer of funds does not change the members' obligations to the FARM.

8. UNCLAIMED PROPERTY AND DOUBTFUL ACCOUNTS

For the year ended October 31, 2022, unclaimed property and doubtful accounts include write-offs of bad debt expenses and recoveries that resulted in a net recovery of **$251** (2021: net loss of $285), and unclaimed property distributed to members as income in accordance with the Association's "Unclaimed Property Guidelines and Procedures."

During the fiscal year ended October 31, 2022, the FARM treated certain unclaimed premium refund and claim cheques as abandoned considering applicable unclaimed property legislation in each of the corresponding jurisdictions and recorded **$199** (2021: $144) into income.

9. RELATED-PARTY TRANSACTIONS

Compensation of key management personnel

	2022	2021
Salaries, bonuses, and other short-term employee benefits	**$ 1,053**	$ 806
Healthcare benefits	**22**	22
Pension benefits	**47**	52
Independent directors' fees	**73**	75
	$ 1,195	$ 955

Commitments to the Association's administration expenses

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

(in thousands of Canadian dollars)

9. RELATED-PARTY TRANSACTIONS (continued)

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

		2022		2021
Operations	**$**	**4,304**	$	3,478
Leases		**194**		361
Data processing		**2,233**		1,431
Professional fees		**1,793**		2,115
	$	**8,524**	$	7,385

The Association participates in the Insurance Bureau of Canada Staff Pension Plan (the "IBC Plan") where the IBC is the Plan Administrator. The IBC Plan design includes both a defined contribution plan and a defined benefit plan. The most recent valuation of the IBC Plan was filed as at December 31, 2019 with the next valuation date required at December 31, 2022. During the year ended October 31, 2022, the Association recognized total costs of **$297** (2021: $213) in respect of the defined contribution plan, of which **$146** (2021: $105) has been allocated to FARM and UAFs, and total costs of **$115** (2021: $107) in respect of the defined benefit plan, of which **$56** (2021: $53) has been allocated to FARM and UAFs. These expenses are included in Operations in the above table.

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

		2022		2021
Accounts receivable from related parties:				
Association	**$**	**80**	$	-
Ontario RSP		**553**		370
Alberta Grid RSP		**366**		233
Alberta Non-Grid RSP		**367**		232
New Brunswick RSP		**281**		187
Nova Scotia RSP		**268**		185
Newfoundland and Labrador RSP		**130**		157
	$	**2,045**	$	1,364

As at October 31, 2022 and 2021, the related-party balances are non-interest bearing and due on demand.

10. MANAGEMENT OF CAPITAL

The FARM and UAFs are not required to maintain their own capital. The FARM and UAFs 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.

11. FINANCIAL RISK MANAGEMENT

Credit risk

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

The cash balance is with a highly rated financial institution and the Association does not expect any credit risk. The credit risk associated with receivables from members is limited ultimately by the fact that obligations are joint and several on all members, the Association monitors receivables monthly and follows up as appropriate to limit aged receivables. Further, because all licensed automobile insurance companies in the jurisdictions the Association serves are required to be members of the Association by operation of law, the financial strength of the Association is effectively the financial strength of the automobile insurance industry in the jurisdictions the Association serves. The Association also monitors large balances of any member group for concentration risk.

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 (see Note 5). Obligations resulting from these structured settlements are joint and several on all members.

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

Interest rate risk

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

As at October 31, 2022 and 2021, none of the FARM's financial instruments were subject to interest rate risk and the cash and cash equivalents held have a maturity date of three months or less. Further, the discount rate used in the determination of the provision for unpaid claims is based on the expected return of Amounts due from members and as the supporting assets are non-interest bearing, a discount rate of 0.0% has been selected. Fluctuation of market interest rates therefore will have no impact on the valuation of the provision for claims liabilities.

Liquidity risk

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

Amounts due from members are subject to liquidity risk arising from the potential failure of a member or members to respond to a cash call or assessment by the FARM. Liquidity risk is minimal for the FARM because all licensed automobile insurance companies in the jurisdictions the Association serves are required to be members of the Association by operation of law, the financial strength and hence ability to support the FARM cash flows needs if called upon effectively mitigates the liquidity risk.

11. FINANCIAL RISK MANAGEMENT (continued)

As at October 31, 2022 and 2021, management has determined that the exposure to liquidity risk for provision for claims liabilities are as follows with their contractual maturities or expected cash flow dates of less than one year (**2022: $200,056**; 2021: $178,889), one to five years (**2022: $398,202**; 2021: $344,971), and more than five years (**2022: $94,775**; 2021: $73,972). The exposure to liquidity risk for all other financial liabilities is equal to the carrying value of the amounts disclosed in the statement of financial position, and have contractual maturities or expected cash flow dates of less than one year.

Operational Risk

The Board is responsible for providing the stewardship and oversight of management and operations of the Association, including oversight responsibilities with respect to risk management. The Plan gives the Board express authority to consider and approve the enterprise risk-management ("ERM") framework, risk appetite, ERM approval authorities, risk domains to be on the ERM watch, and action plan annually, and review results. Operational risk is part of the ERM framework and monitored by the Board

Insurance risk

The most significant risk the FARM faces 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, and frequency and severity of claims, payment amounts and patterns in relation to expectations. The concentration of insurance risk is composed entirely of automobile risks in the jurisdictions the FARM operates in. The risk management activities can be broadly separated into underwriting, claims management, and valuation of policy liabilities.

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

Underwriting

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

The FARM tries to keep its market position non-competitive and aims to set the rates in each jurisdiction in which it operates at levels sufficient for members to cover their costs as a result of their compulsory membership in the FARM. The Association conducts periodic underwriting audits on servicing carriers to ensure compliance with the FARM's underwriting rules and guidelines.

11. FINANCIAL RISK MANAGEMENT (continued)

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

Servicing carriers are responsible for handling claims transactions, including claims payments; recording provisions for outstanding claims; and collecting subrogation/salvage recoveries in a timely and accurate basis on behalf of the FARM members. A Claims Committee, consisting of representatives from members of the Association, will review large claims and make recommendations on case reserves and strategies to bring claims to a conclusion as well as provide support in deciding on coverage and/or liability in disputed claims.

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

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

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

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

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.

11. FINANCIAL RISK MANAGEMENT (continued)

Management ensures that appropriate controls are in place and working effectively to provide reasonable assurance that the results of the valuation are accurately incorporated into the financial statements. 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 FARM are subject to a number of variables that complicate quantitative sensitivity analysis. The principal assumption underlying the claims liabilities estimates is that the members' future claims development will follow a similar pattern to past claims development experience. Claims liabilities estimates are also based on various quantitative and qualitative factors, including:

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

(in thousands of Canadian dollars)

12. GEOGRAPHIC RESULTS OF OPERATIONS BY JURISDICTION

	2022									
	ON	NS	PE	NB	NL	AB	YT	NT	NU	Total
Facility Association Residual Market Segment										
Underwriting										
Premiums earned	$ 196,112	$ 52,894	$ 7,474	$ 33,245	$ 40,130	$ 153,420	$ 3,007	$ 4,487	$ 1,199	$ 491,968
Underwriting expenses	170,309	53,491	6,203	30,726	36,072	130,542	1,515	2,119	397	431,374
Net underwriting gain (loss)	25,803	(597)	1,271	2,519	4,058	22,878	1,492	2,368	802	60,594
Administration expenses	2,875	765	169	535	622	2,463	97	121	77	7,724
Excess (deficiency) of revenue over expenses before interest income of the FARM	22,928	(1,362)	1,102	1,984	3,436	20,415	1,395	2,247	725	52,870
Interest income	1,244	302	65	194	163	864	21	18	8	2,879
Excess (deficiency) of revenue over expenses of FARM	$ 24,172	$ (1,060)	$ 1,167	$ 2,178	$ 3,599	$ 21,279	$ 1,416	$ 2,265	$ 733	$ 55,749
Uninsured Automobile Funds										
Underwriting										
Premiums earned	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Underwriting expenses	-	1,529	-	1,014	(193)	-	-	-	-	2,350
Net underwriting gain (loss)	-	(1,529)	-	(1,014)	193	-	-	-	-	(2,350)
Administration expenses	-	200	200	200	200	-	-	-	-	800
(Deficiency) of revenue over expenses of UAFs	-	(1,729)	(200)	(1,214)	(7)	-	-	-	-	(3,150)
Total excess (deficiency) of revenue over expenses	$ 24,172	$ (2,789)	$ 967	$ 964	$ 3,592	$ 21,279	$ 1,416	$ 2,265	$ 733	$ 52,599

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

(in thousands of Canadian dollars)

12. GEOGRAPHIC RESULTS OF OPERATIONS BY JURISDICTION

	2021									
	ON	NS	PE	NB	NL	AB	YT	NT	NU	Total
Facility Association Residual Market Segment										
Underwriting										
Premiums earned	$ 183,865	$ 52,035	$ 6,895	$ 33,425	$ 38,837	$ 130,786	$ 2,223	$ 4,418	$ 1,111	$ 453,595
Underwriting expenses	183,144	42,387	1,224	26,085	31,372	102,200	760	1,984	195	389,351
Net underwriting gain (loss)	721	9,648	5,671	7,340	$ 7,465	28,586	1,463	2,434	$ 916	64,244
Administration expenses	2,543	810	182	516	588	1,781	105	129	87	6,741
Excess (deficiency) of revenue over expenses before interest income of the FARM	(1,822)	8,838	5,489	6,824	6,877	26,805	1,358	2,305	829	57,503
Interest income	176	39	6	33	42	118	2	3	1	420
Excess (deficiency) of revenue over expenses of FARM	$ (1,646)	$ 8,877	$ 5,495	$ 6,857	$ 6,919	$ 26,923	$ 1,360	$ 2,308	$ 830	$ 57,923
Uninsured Automobile Funds										
Underwriting										
Premiums earned	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Underwriting expenses	-	2,188	(1)	732	149	-	-	-	-	3,068
Net underwriting gain (loss)	-	(2,188)	1	(732)	(149)	-	-	-	-	(3,068)
Administration expenses	-	161	161	161	161	-	-	-	-	644
(Deficiency) of revenue over expenses of UAFs	-	(2,349)	(160)	(893)	(310)	-	-	-	-	(3,712)
Total excess (deficiency) of revenue & assessment over expenses	$ (1,646)	$ 6,528	$ 5,335	$ 5,964	$ 6,609	$ 26,923	$ 1,360	$ 2,308	$ 830	$ 54,211

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