Financial Statements of

FACILITY ASSOCIATION
RESIDUAL MARKET SEGMENT
and
UNINSURED AUTOMOBILE FUNDS

For the year ended October 31, 2023 and 2022

FACILITY ASSOCIATION
RESIDUAL MARKET SEGMENT and
UNINSURED AUTOMOBILE FUNDS
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October 31, 2023

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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, 2023, October 31, 2022 and November 1, 2021, and the statements of operations, funds held by members and cash flows for the years ended October 31, 2023 and October 31, 2022, and notes to the 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 Association 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 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 16, 2024

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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 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
RESIDUAL MARKET SEGMENT and
UNINSURED AUTOMOBILE FUNDS
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 and cash equivalents	3	$ 326,810	$ 235,394	$ 200,634
Other receivables	5	70,818	13,068	28,923
Accounts receivable from related parties	7	1,903	2,045	1,364
Accrued interest income		1,512	651	63
Funds held by members	6	642,311	610,913	672,686
Total assets		$ 1,043,354	$ 862,071	$ 903,670
Liabilities				
Accounts payable and other liabilities		$ 156,987	$56,626	$135,810
Servicing carrier operating fees payable		17,765	18,502	18,952
Insurance contract liabilities				
Liability for remaining coverage	4	213,043	187,699	192,903
Liability for incurred claims	4	655,559	599,244	556,005
Total liabilities		$ 1,043,354	$ 862,071	$ 903,670

APPROVED BY THE BOARD

Karen Dyberg .... Director

ajay tellis .... Director

February 16, 2024
.... Date

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

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

For the years ended October 31	Notes	2023	2022 Restated (Note 3)
Insurance revenue		**$ 506,728**	**$ 491,968**
Incurred claims		345,453	329,949
Amortization of insurance acquisition cash flows		43,124	39,422
Adjustments to liabilities for incurred claims		(38,656)	(9,236)
Administration expense	7	65,404	58,213
Insurance service expenses		**415,325**	**418,348**
Insurance service result		**91,403**	**73,620**
Net investment income	10	12,984	2,879
Net finance (expenses) income from insurance contracts	10	(27,033)	29,505
Net financial result		**(14,049)**	**32,384**
Excess of revenue over expenses		**$ 77,354**	**$ 106,004**

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

FACILITY ASSOCIATION
RESIDUAL MARKET SEGMENT and
UNINSURED AUTOMOBILE FUNDS
Statements of Funds Held by Members
(in thousands of Canadian dollars)

For the year ended October 31, 2023	Notes		2023
Balance at November 1, 2022, as previously reported		$	572,845
Impact of adopting IFRS 9	3		-
Impact of adopting IFRS 17	3		38,068
Balance at November 1, 2022, as restated			610,913
Excess of revenue over expenses for the year			77,354
Net cash settlements with members			(45,956)
Balance - end of year		$	642,311

For the year ended October 31, 2022	Notes		2022 Restated (Note 3)
Balance at November 1, 2021, as previously reported		$	669,489
Impact of adopting IFRS 9	3		-
Impact of adopting IFRS 17	3		3,197
Balance at November 1, 2021, as restated			672,686
Excess of revenue over expenses for the year			106,004
Net cash settlements with members			(167,777)
Balance - end of year		$	610,913

The accompanying notes are an integral part of these financial statements

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

For the years ended October 31	Notes	2023	2022 Restated (Note 3)
Operating			
Excess of revenue over expenses		$ 77,354	$ 106,004
Adjustments for changes in operating assets and liabilities			
Other receivables		(57,750)	15,855
Accounts receivable from related parties		142	(681)
Accrued interest income		(861)	(588)
Funds held by members		(31,398)	61,773
Accounts payable and other liabilities		100,361	(79,184)
Servicing carrier operating fees payable		(737)	(450)
Insurance contract liabilities			
Liability for remaining coverage		25,344	(5,204)
Liability for incurred claims		56,315	43,239
Cash generated from operating activities		168,770	140,764
Financing			
Distribution of operating results		(77,354)	(106,004)
Cash used in financing activities		(77,354)	(106,004)
Increase in cash and cash equivalents during the year		91,416	34,760
Cash and cash equivalents, beginning of year		235,394	200,634
Cash and cash equivalents, end of year		$ 326,810	$ 235,394
Cash and cash equivalents consists of:			
Cash in bank		163,607	46,611
Cash equivalents		163,203	188,783
		$ 326,810	$ 235,394

The accompanying notes are 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. Other receivables, Accounts receivable from related parties and Funds held by members, 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 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 members of 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 MATERIAL 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 16, 2024.

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 and cash equivalents, other receivables, accounts receivable from related parties, accrued interest income, and funds held by members. Insurance contract 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 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 FARM's insurance contracts as assumed by members are standard automobile insurance contracts within the relevant jurisdictions in which it operates. These insurance contracts contain significant insurance risk, and there are no financial risks that are required to be presented separately.

The UAFs are not standard automobile 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.

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.

Similar to a direct insurer, contracts get added to the FARM throughout the calendar year – based on effective date.

Recognition of insurance contracts
Contracts under the residual market mechanism are issued by approved servicing carriers on behalf of members. Such contracts are recognized initially when the servicing carriers issue the insurance contract to the policyholder, which is also when the servicing carriers report an 'entry date' or 'issue date' to FARM as specified in the publicly posted policy papers.

An insurance contract is recognized from the earliest of the beginning of the coverage period of the group of contracts, the date when the first payment from a policyholder in the group becomes due, and for a group of onerous contracts, when the group becomes onerous.

Insurance acquisition cash flows
Insurance acquisition cash flows are cash flows arising from the cost of selling, underwriting and starting a group of insurance contracts that are both directly and indirectly attributable to the portfolio of insurance contracts to which the group belongs. If insurance acquisition cash flows are directly attributable to a portfolio but not to a group of contracts, then they are allocated to groups in the portfolio using a systematic and rational method.

Insurance acquisition cash flows arising before the recognition of the related group of contracts are recognized as an asset. Insurance acquisition cash flows arise when they are paid or when a liability is required to be recognized under a standard other than IFRS 17. Such an asset is recognized for each group of contracts to which the insurance acquisition cash flows are allocated. The asset is derecognized, fully or partially, when the insurance acquisition cash flows are included in the measurement of the group of contracts.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Recoverability assessment

At each reporting date, if facts and circumstances indicate that an asset for insurance acquisition cash flows may be impaired, the FARM must:

- recognize an impairment loss in the statement of operations so that the carrying amount of the asset does not exceed the expected net cash inflow for the related group; and
- if the asset relates to future renewals, recognize an impairment loss in the statement of operations to the extent that it expects those insurance acquisition cash flows to exceed the net cash inflow for the expected renewals and this excess has not already been recognized as an impairment loss.

The FARM reverses any impairment losses in the statement of operations and increases the carrying amount of the asset to the extent that the impairment conditions have improved.

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 FARM the contract boundary is up to 12 months.

Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the FARM 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 FARM 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 FARM 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.

Once a policy has been issued, members assuming their share of the financial results from the FARM have no substantive right to premiums as a policyholder can cancel their policy or cease paying premiums without notice, and the FARM has a substantive obligation to provide services for the coverage during the contractual term (i.e. up to 12 months from the start of the coverage period), as long as the policyholders continue to pay their premiums.

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 issued by servicing carriers through the FARM meet this PAA criterion.

On initial recognition of each group of contracts, the FARM expects that the time between providing each part of the services and the related premium due date is no more than a year. Accordingly, the FARM has 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.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

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 FARM is required to recognize a loss in the statement 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 FARM recognizes 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.

Contract derecognition and modification
The FARM derecognizes 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 premiums are not paid.

If a contract modification does not result in derecognition, then the FARM treats 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 statement of financial position.

FARM disaggregates amounts recognized in the statement 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
FARM and UAF's financial instruments are classified as amortized cost and presented as such on the statement of financial position. Financial instruments include the cash and cash equivalents, accounts receivable from members, other assets, funds held by 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 or Loss ("FVTPL"). FARM does not have other comprehensive income. As such, no financial instruments are classified as FVOCI.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Financial assets are not reclassified subsequent to their initial recognition unless the FARM and UAF changes its 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.

All financial assets not classified as measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition the FARM and UAF 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 FARM and UAF assesses 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 FARM and UAF's 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 FARM and UAF's 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 FARM and UAF considers 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 FARM and UAF considers:

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- prepayment and extension features;
- terms that limit the FARM and UAF's 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)

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

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.

FARM and UAFs financial assets are measured at amortized cost. The financial assets consists of cash and cash equivalents, other receivables, accounts receivable from related parties, accrued interest income and funds held by members. These meet the SPPI test and are held to collect contractual cash flows from counterparties. . The funds held by 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.

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

Classification and subsequent measurement - financial liabilities
Classification
FARM and UAF'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 recognized in the statement of operations. Any gain or loss on derecognition is also recognized in the statement of operations.

Classification and subsequent measurement - interest on financial instruments
Interest income and expenses are recognized in the 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.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

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 amortization 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 FARM and UAF estimates future cash flows considering all contractual terms of the asset, but not expected credit losses (“ECL”).

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 Statement of Operations include interest on financial assets and financial liabilities measured at amortized cost.

Impairment - financial assets
The FARM and UAF recognizes loss allowances for ECL on financial assets measured at amortized cost.

The FARM and UAF measures 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 recognized 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 recognized 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 recognized and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

In all cases, the maximum period considered when estimating ECL is the maximum contractual period over which the FARM and UAF is 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 FARM and UAF in accordance with the contract and the cash flows that the FARM and UAF expects to receive.

Credit-impaired financial assets
At each reporting date, the FARM and UAF assesses 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.

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 FARM and UAF on terms that the FARM and UAF 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 statement 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 FARM and UAF has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the FARM and UAF determines 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 FARM and UAF expects 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 FARM and UAF's procedures for recovery of amounts due.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Derecognition and contract modification

Financial assets

FARM and UAF derecognizes 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 FARM and UAF 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 recognized in the statement of operations.

Financial liabilities

The FARM and UAF derecognizes 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 statement of operations.

The FARM does not have any financial instruments classified as FVTPL 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 MATERIAL ACCOUNTING POLICIES (continued)

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.

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

Funds held by members
Funds held by members represent a portion of the insurance premium 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 members are due on demand and, are recorded at the amounts receivable at the date of the statement of financial position, and do not bear interest. Management considers that the carrying amounts approximate fair value.

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 discounts 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 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 fulfil insurance contracts. The risk adjustment replaces the provision for adverse deviation. The FARM applies a hybrid approach, which incorporates elements of the margin approach, quantile technique and cost of capital technique, for its non-financial risk.

Loss component (Onerous contracts)
To determine if a group of contracts are onerous, the FARM considers 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 FARM assumes that no 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 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.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Insurance revenue and insurance service expenses

The FARM recognize insurance revenue for each period over the coverage period of a group of contracts. Insurance service expenses 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 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 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 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 **$77** (2022: $194) has been allocated by the Association to the FARM and UAFs and recorded in Administration expenses. 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 management, including administrative expenses incurred by the FARM and UAF, 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.

Management judgements and estimation uncertainty

The preparation of financial statements in accordance with IFRS and accepted actuarial practices in Canada 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 liabilities (see Notes 4 and 9). 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 MATERIAL ACCOUNTING POLICIES (continued)

Critical judgement in applying accounting policies

The following is the critical judgement and estimation 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 insurance contract liabilities

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's insurance contract liabilities and report thereon to the members. The valuation is carried out in accordance with IFRS17. 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 FARM and the nature of the insurance policies issued by the members of the FARM. 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 FARM and considers the work of the internal and external auditors with respect to the FARM's 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 FARM and UAF 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 and reinsurance contracts and financial instruments, respectively. As a result, the FARM and UAF has restated certain comparative amounts and presented an opening statement of financial position as at November 1, 2021.

Except for the changes below, the FARM and UAF has consistently applied the accounting policies as set out in Note 2 to all periods presented in these financial statements. The nature and effects of the key changes in the FARM and UAF's accounting policies resulting from its adoption of IFRS 17 and IFRS 9 are summarised below.

IFRS 17 Insurance Contracts

IFRS 17 *Insurance Contracts* ("IFRS 17") replaces IFRS 4 *Insurance Contracts* ("IFRS 4"). The FARM and UAF 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 FARM 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 FARM expects 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 FARM is 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 FARM's previous accounting treatment under IFRS 4. However, when measuring liabilities for incurred claims, the FARM 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 FARM:

- 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 funds held by members. Under IFRS 17, they are included in the measurement of the insurance contracts; and
- recognized any resulting net difference in Statements of Funds Held by Members.

The following tables summarize the impact of IFRS 17 on the FARM and UAFs' 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 and cash equivalents	$ 235,394	$ -	$ 235,394
Other receivables	-	13,068	13,068
Accounts receivable from related parties	2,045	-	2,045
Accrued interest income	651	-	651
Insurance contract assets			
Deferred policy acquisition costs	18,359	(18,359)	-
Premiums receivable	121,397	(121,397)	-
Amounts due from members	59,558	(59,558)	-
Funds held by members	572,845	38,068	610,913
Total assets	**$ 1,010,249**	**$ (148,178)**	**$ 862,071**
Liabilities			
Other accounts payable	$ 56,626	$ -	$ 56,626
Servicing carrier operating fees payable	18,502	-	18,502
Insurance contract liabilities			
Unearned premium liabilities	241,950	(241,951)	-
Liability for remaining coverage	-	187,699	187,699
Provision for claims liabilities	693,033	(693,033)	-
Liability for incurred claims	-	599,244	599,244
Funds provided by members	138	(138)	-
Total liabilities	**$ 1,010,249**	**$ (148,178)**	**$ 862,071**

(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 and cash equivalents	$ 200,634	$ -	$ 200,634
Other receivables	-	28,923	28,923
Accounts receivable from related parties	1,364	-	1,364
Accrued interest income	63	-	63
Insurance contract assets			
Deferred policy acquisition costs	18,898	(18,898)	-
Premiums receivable	134,971	(134,971)	-
Funds held by members	669,489	3,197	672,686
Total assets	**$ 1,025,419**	**$ (121,749)**	**$ 903,670**
Liabilities			
Accounts payable and other liabilities	$ 135,810	$ -	$ 135,810
Servicing carrier operating fees payable	18,952	-	18,952
Insurance contract liabilities			
Unearned premium liabilities	249,860	(249,860)	-
Liability for remaining coverage	-	192,903	192,903
Provision for claims liabilities	597,832	(597,832)	-
Liability for incurred claims	-	556,005	556,005
Amounts due to members	22,827	(22,827)	-
Funds provided by members	138	(138)	-
Total liabilities	**$ 1,025,419**	**$ (121,749)**	**$ 903,670**

3. ADOPTION OF NEW ACCOUNTING POLICIES (continued)

Summary of impact of adoption (IFRS 17 Adjustments)

Liability for remaining coverage (LRC)
The FARM measures 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 FARM's LRC balance replaces unearned premium liabilities, premiums receivables, 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 FARM collects premium from members each month, with some policyholders paying in full at the time of the initiation of the insurance contract and some policyholders on a monthly payment plan. Premium received in each month is estimated as being equal to the premium written in the current month for all provinces except Ontario and Newfoundland and Labrador. For monthly pay plans, premium received is recognised as cash is collected each month;
- Unamortized insurance acquisition cash flows – comprising of agent commissions and driver record abstract costs are amortized and expensed monthly.

Loss component (Onerous contracts)
To determine if a group of contracts are onerous, the FARM considers 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 FARM 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. At initial recognition, the FARM assumes that no contracts are onerous, unless facts and circumstances indicate otherwise.

Liability for incurred claims
The FARM's 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 FARMs 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.

3. ADOPTION OF NEW ACCOUNTING POLICIES (continued)

- **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 FARM's compensation for bearing the uncertainty relating to non-financial risk, which pertains to the amount and timing of cash flows as the FARM fulfils 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 FARM is applying a hybrid approach for its non-financial risks.

Funds held by members
All transition adjustments are made against member balances due. Amounts due from/to members and Funds provided by members have been incorporated within the Funds held by 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 FARM and UAFs 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 FARM and UAFs 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 FARM and UAFs financial assets that are related to insurance contract liabilities, the classification overlay's impact on mitigating an accounting mismatch for the FARM is limited. The significant impacts of the adoption of IFRS 9 on the FARM 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 generally 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 FARM and UAFs' 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 recognized earlier than under IAS 39.

(in thousands of Canadian dollars)

3. ADOPTION OF NEW ACCOUNTING POLICIES (continued)

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 FARM and UAF's financial assets and financial liabilities as at November 1, 2022.

	Measurement under IAS39	Measurement under IFRS9		Previous carrying amount under IAS39 and new carrying amount under IFRS9 November 1, 2022
Financial assets				
Cash and cash equivalents	Amortized cost	Amortized cost	$	235,394
Other receivables	Amortized cost	Amortized cost		13,068
Accounts receivable from related parties	Amortized cost	Amortized cost		2,045
Accrued interest income	Amortized cost	Amortized cost		651
Total financial assets			**$**	**251,158**
Financial liabilities				
Other accounts payable	Amortized cost	Amortized cost	$	56,626
Servicing carrier operating fees payable	Amortized cost	Amortized cost		18,502
Total financial liabilities			**$**	**75,128**

The FARM and UAFs' 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 FARM and UAFs 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 FARM and UAFs have continued to assess its financial liabilities as amortized cost.

The total carrying value of financial instruments under IFRS 9 remains unchanged at **$251,158** 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 changed during the year as a result of cash flows and amounts recognized in the statements of operations.

The following tables separately analyze movements in the liability for remaining coverage (LRC) and movements in the liability for incurred claims (LIC) and reconciles these movements to the line items in the 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	$ 187,699	-	$ 541,730	$ 57,514	-	$ 786,943
Net opening balance as at November 1	187,699	-	541,730	57,514	-	786,943
Changes in the Statements of Operations						
Insurance revenue	**(506,728)**	**-**	**-**	**-**	**-**	**(506,728)**
Incurred claims and other insurance service expenses	-	-	327,882	17,571	-	345,453
Amortisation of insurance acquisition cash flows	43,124	-	-	-	-	43,124
Adjustments to liabilities for incurred claims	-	-	(17,587)	(21,069)	-	(38,656)
Administration expenses	-	-	-	-	65,404	65,404
Insurance service expenses	43,124	-	310,295	(3,498)	65,404	415,325
Insurance service result	(463,604)	-	310,295	(3,498)	65,404	(91,403)
Net finance income from insurance contracts	-	-	24,401	2,632	-	27,033
Net investment income	-	-	-	-	(12,984)	(12,984)
Total changes in the Statements of Operations	**(463,604)**	**-**	**334,696**	**(866)**	**52,420**	**(77,354)**
Cash flows						
Premiums received	488,948	-	-	-	-	488,948
Claims and other insurance service expenses paid	-	-	(277,515)	-	(52,420)	(329,935)
Total cash flows	488,948	-	(277,515)	-	(52,420)	159,013
Net closing balance as at October 31	**213,043**	**-**	**598,911**	**56,648**	**-**	**868,602**
Closing insurance contract assets						
Closing insurance contract liabilities	213,043	-	598,911	56,648	-	868,602
Net closing balance as at October 31	**213,043**	**-**	**598,911**	**56,648**	**-**	**868,602**

(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	$ 192,903	-	$ 505,194	$ 50,811	-	$ 748,908
Net opening balance as at November 1	192,903	-	505,194	50,811		748,908
Changes in the Statements of Operations						
Insurance revenue	**(491,968)**	**-**	**-**	**-**	**-**	**(491,968)**
Incurred claims and other insurance service expenses	-	-	309,626	20,323	-	329,949
Amortisation of insurance acquisition cash flows	39,422	-	-	-	-	39,422
Adjustments to liabilities for incurred claims	-	-	1,898	(11,134)	-	(9,236)
Administration expenses	-	-	-	-	58,213	58,213
Insurance service expenses	39,422	-	311,524	9,189	58,213	418,348
Insurance service result	(452,546)	-	311,524	9,189	58,213	(73,620)
Net finance income from insurance contracts	-	-	(27,019)	(2,486)		(29,505)
Net investment income	-	-	-	-	(2,879)	(2,879)
Total changes in the Statements of Operations	**(452,546)**	**-**	**284,505**	**6,703**	**55,334**	**(106,004)**
Cash flows						
Premiums received	447,342	-	-	-		447,342
Claims and other insurance service expenses paid		-	(247,969)		(55,334)	(303,303)
Total cash flows	447,342	-	(247,969)	-		144,039
Net closing balance as at October 31	**$ 187,699**	**-**	**$ 541,730**	**$ 57,514**	**-**	**$ 786,943**
Closing insurance contract assets	-	-	-	-		-
Closing insurance contract liabilities	187,699	-	541,730	57,514		786,943
Net closing balance as at October 31	**$ 187,699**	**-**	**$ 541,730**	**$ 57,514**	**-**	**$ 786,943**

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 $527,205 (2022: $426,210).

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 FARM's 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 FARM incorporates, 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 FARM's 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 FARM takes 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 FARM derives 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 FARM has 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 FARM is to ensure 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, all of the acquisition expenses incurred by (or attributed to) the FARM are directly attributable to the fulfilment of insurance contracts.

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 FARM's 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 FARM can compel the policyholder to pay the premium, or in which the FARM has a substantive obligation to provide the policyholder with services. A substantive obligation to provide services ends when:

(in thousands of Canadian dollars)

4. INSURANCE CONTRACTS (continued)

- The FARM has the practical ability to reassess the risk of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or
- Both of the following criteria are satisfied:
  - The FARM has the practical ability to reprice the contract or a portfolio so that the price fully reflected the reassessed risk of that portfolio; and
  - The pricing of premiums up to the date when risks are reassessed does not reflect the risks related to period beyond the reassessment date.

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

The contract boundary for each insurance contract is up to 12 months.

Insurance contracts
The FARM estimates 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 FARM'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 FARM generally determines 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.

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

	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%

(in thousands of Canadian dollars)

4. INSURANCE CONTRACTS (continued)

Risk adjustment for non-financial risk

Risk adjustments for non-financial risk are determined to reflect the compensation that the FARM 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 FARM, 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 FARM 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 FARM 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 FARM’s selected risk adjustments for non-financial risk correspond to a 90% confidence level based on this analysis.

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

		October 31, 2023		October 31, 2022 Restated
Case Reserves	$	324,701	$	299,479
IBNR		324,967		279,187
Claims expense provision		46,331		40,866
Effect of discounting		(97,088)		(77,802)
Present value of future cash flows		598,911		541,730
Risk adjustment		65,473		65,246
Discounting - Risk adjustment		(8,825)		(7,732)
Liability for incurred claims	**$**	655,559	$	599,244

As at October 31, 2023, the LIC include $527,205 (2022: $426,210), which is expected to be settled (paid) more than twelve months after the reporting date.

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 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.

(in thousands of Canadian dollars)

4. INSURANCE CONTRACTS (continued)

October 31, 2023	2014	2015	2016	2017	2018	2019	2020	2021	2022	**2023**	Total
Estimates of undiscounted ultimate gross cumulative claims and claims expenses											
At the end of accident year	$ 142,204	$ 138,024	$ 128,062	$ 122,287	$ 138,203	$ 205,945	$ 225,584	$ 270,387	$ 325,172	**$ 354,180**	
1 year later	144,958	143,389	135,197	122,165	149,590	219,819	235,636	277,795	347,635		
2 years later	140,846	142,171	132,233	121,075	143,772	222,449	228,869	267,724			
3 years later	138,470	141,525	131,088	117,841	144,486	228,280	228,064				
4 years later	135,531	145,356	131,023	118,275	145,595	232,777					
5 years later	136,731	147,583	131,143	119,871	135,353						
6 years later	139,162	146,725	130,308	119,372							
7 years later	137,618	145,572	130,427								
8 years later	137,183	142,009									
9 years later	140,493										
Cumulative gross claims paid	137,587	137,122	122,858	108,547	113,775	180,021	164,139	160,313	177,057	126,580	1,427,999
Gross liabilities - accident years from 2014-2023	2,905	4,887	7,569	10,825	21,578	52,756	63,925	107,411	170,578	**227,600**	670,034
Gross liabilities - accident years before 2014											25,965
Effect of discounting and risk adjustment											(40,440)
Gross liabilities for incurred claims included in the statement of financial position (see A)											$ 655,559

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 following IFRS17 and 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 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 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 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 FARM in these financial statements was **6.66%** (2022: varied from 5.3%-5.4% depending on the province). There were no variations between provinces in 2023.

4. INSURANCE CONTRACTS (continued)

The Actuary advises the FARM on the selection of the risk adjustment for non-financial risk in accordance with the 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.

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, 2023, to be **$141,841** (2022: $150,112). 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.

5. OTHER RECEIVABLES

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 an expected credit loss allowance, 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 7), which is considered to be fully recoverable. As at October 31, 2023, the expected credit loss allowance is **$38** (2022: $38).

6. FUNDS HELD 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, 2023, between the FARM and members (excluding transfers related to settlement of operating results) were **$0** (2022: $0). The funds are allocated to individual members based on their share of liabilities for remaining coverage and the provision for unpaid and unreported claims. Transfer of funds does not change the members' obligations to the FARM.

(in thousands of Canadian dollars)

7. ADMINISTRATION EXPENSES AND RELATED-PARTY TRANSACTIONS

Compensation of key management personnel

	October 31, 2023	October 31, 2022
Wages and salaries	**$ 1,392**	$ 1,053
Healthcare benefits	**26**	22
Pension benefits	**54**	47
Independent directors' fees	**83**	73
Total operating expenses	**$ 1,555**	$ 1,195

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 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 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 FARM and UAFs amounting to $10,293 (2022 - $8,524)

(in thousands of Canadian dollars)

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

The Association participates in the Insurance Bureau of Canada Staff Pension Plan (the "IBC Plan") where the IBC is the Plan Administrator. The IBC Plan design includes both a defined contribution plan and a defined benefit plan. The most recent valuation of the IBC Plan was filed as at December 31, 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 **$197** (2022: $146) has been allocated to FARM and UAFs, and total costs of **$110** (2022: $115) in respect of the defined benefit plan, of which **$60** (2022: $56) has been allocated to FARM and UAFs. These expenses are included in administration expenses.

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, 2023 and 2022, the amounts receivable from the Association and other insurance pools under administration are as follows:

	2023	2022
Accounts receivable(payable) from(to) related parties:		
Association	**$ (91)**	$ 80
Ontario RSP	**540**	553
Alberta Grid RSP	**366**	366
Alberta Non-Grid RSP	**345**	367
New Brunswick RSP	**301**	281
Nova Scotia RSP	**312**	268
Newfoundland and Labrador RSP	**130**	130
	$ 1,903	$ 2,045

As at October 31, 2023 and 2022, the related-party balances are non-interest bearing and due on demand.

8. MANAGEMENT OF CAPITAL

The FARM and UAFs are not required to maintain 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.

9. FINANCIAL 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 FARM and UAF is exposed to this risk through accounts receivable from members, funds held by members, and through Type 1 and Type 2 structured settlement annuities.

The Cash and Cash Equivalents are 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.

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

9. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 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 Group.
- 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.

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.

Funds held by 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 and UAFs. Liquidity risk is minimal for the FARM and UAFs 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.

(in thousands of Canadian dollars)

9. FINANCIAL RISK MANAGEMENT (CONTINUED)

The exposure of the FARM and UAFs to liquidity risk 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 financial 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 statements of financial position
Accounts payable and other liabilities	$156,987	$ -	$ -	$156,987	$156,987
Servicing carrier operating fees payable	17,765	-	-	17,765	17,765
Insurance contract liabilities					
Liability for incurred claims	128,353	416,831	110,375	655,559	655,559
Total	**$ 303,105**	**$ 416,831**	**$ 110,375**	**$ 830,311**	**$ 830,311**

The maturity profile of financial 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 statements of financial position
Accounts payable and other liabilities	$ 56,626	$ -	$ -	$ 56,626	$ 56,626
Servicing carrier operating fees payable	18,502			18,502	18,502
Insurance contract liabilities					
Liability for incurred claims	173,034	344,301	81,909	599,244	599,244
Total	**$ 248,162**	**$ 344,301**	**$ 81,909**	**$ 674,372**	**$ 674,372**

9. FINANCIAL 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 FARM and UAFs have policies in place to measure this risk and communicate it to the FARM's 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 statements of operations of an immediate parallel decrease of 1% in interest rates as at October 31, 2023 (2022: 1%), across the yield curve in all markets would be a decrease in excess of revenue over expenses of $13.8 million (2022: $13.0 million). Conversely, an immediate parallel increase of 1% in interest rates would result in an estimated increase in excess of revenue over expenses of $13.1 million (2022: $12.4 million).

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. Investment contracts with fixed and guaranteed terms held to maturity are accounted for at amortized cost and their carrying amounts are not sensitive to changes in the level of interest rates.

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

9. FINANCIAL RISK MANAGEMENT (CONTINUED)

Insurance risk

Insurance risk is that of adverse financial results arising from the issuance of insurance policies. The most significant risk the 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 insurance contract 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 insurance revenue.

Underwriting

The FARMs 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 FARMs 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 FARM's underwriting rules and guidelines.

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, reviews 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.

9. FINANCIAL 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 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 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 the cost of certain legal and professional claims expenses allowed;
- 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 Excess of revenue over expenses and Funds held by members would have (decreased) increased by **$32,778** in 2023 (2022: $29,962) if 5% increase (decrease) in ultimate claims that were reasonably possible at the reporting date had occurred.

(in thousands of Canadian dollars)

10. NET FINANCIAL RESULT

The following table analyzes the FARM and UAFs' net financial result in the statements of operations.

	2023	2022
Investment income		
Interest revenue calculated using the effective interest method	$ 12,984	$ 2,879
Total investment income	**12,984**	**2,879**
Net finance income (expenses) from insurance contracts		
Interest accreted	(38,095)	(21,348)
Effect of changes in interest rates and other financial assumptions	11,062	50,853
Total net finance income (expenses) from insurance contracts	**(27,033)**	**$ 29,505**

(in thousands of Canadian dollars)

11. GEOGRAPHIC RESULTS OF OPERATIONS BY JURISDICTION

	2023									
	ON	NS	PE	NB	NL	AB	YT	NT	NU	Total
Insurance revenue	$ 197,836	$ 50,061	$ 7,655	$ 34,235	$ 40,720	$ 167,337	$ 3,115	$ 4,444	$ 1,325	$ 506,728
Insurance services expenses	150,030	42,792	5,263	29,288	32,991	150,716	1,363	2,152	731	415,326
Insurance service result	47,806	7,269	2,392	4,947	7,729	16,621	1,752	2,292	594	91,402
Investment income	4,098	1,458	272	909	603	5,470	65	81	29	12,985
Net finance income (expenses) from insurance contracts	(11,894)	(1,857)	(214)	(809)	(3,064)	(8,887)	(92)	(161)	(55)	(27,033)
Net financial result	(7,796)	(399)	58	100	(2,461)	(3,417)	(27)	(80)	(26)	(14,048)
Excess of revenue over expenses	$ 40,010	$ 6,870	$ 2,450	$ 5,047	$ 5,268	$ 13,204	$ 1,725	$ 2,212	$ 568	$ 77,354

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).

11. GEOGRAPHIC RESULTS OF OPERATIONS BY JURISDICTION (continued)

	2022 Restated									
	ON	NS	PE	NB	NL	AB	YT	NT	NU	Total
Insurance revenue	$ 196,112	$ 52,894	$ 7,474	$ 33,245	$ 40,130	$ 153,420	$ 3,007	$ 4,487	$ 1,199	$ 491,968
Insurance services expenses	166,951	52,764	6,154	31,364	34,880	122,101	1,503	2,205	426	418,348
Insurance service result	29,161	130	1,320	1,881	5,250	31,319	1,504	2,282	773	73,620
Investment income	1,244	302	65	194	163	864	21	18	8	2,879
Net finance income (expenses) from insurance contracts	18,243	1,468	208	2,268	1,374	5,822	35	69	17	29,505
Net financial result	19,487	1,770	273	2,462	1,538	6,686	56	87	25	32,384
Excess of revenue over expenses	$ 48,648	$ 1,900	$ 1,593	$ 4,343	$ 6,788	$ 38,005	$ 1,560	$ 2,369	$ 798	$ 106,004

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).