Financial Statements of

FACILITY ASSOCIATION
RESIDUAL MARKET SEGMENT
and
UNINSURED AUTOMOBILE FUNDS

For the year ended October 31, 2020

FACILITY ASSOCIATION
RESIDUAL MARKET SEGMENT and
UNINSURED AUTOMOBILE FUNDS
Table of Contents
October 31, 2020

Independent Auditor's Report	1
Appointed Actuary's Report	3
Statement of Financial Position	4
Statement of Operations	5
Statement of Amounts Due from Members	6
Statement of Cash Flows	7
Notes to the Financial Statements	7–44

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

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

Independent Auditor's Report

To the Members of
Facility Association 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, 2020, and the statements of operations, amounts due from members and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as at October 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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 19, 2021

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

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

APPOINTED ACTUARY'S REPORT

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

I have valued the policy liabilities of the Facility Association Residual Market and Uninsured Automobile Funds for its statement of financial position at 31 October 2020 and their changes in the statement of income for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

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

Toronto, Ontario
19 February 2021

Cosimo Pantaleo
Fellow, Canadian Institute of Actuaries

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

As at	Note	October 31, 2020	October 31, 2019
ASSETS			
Cash and cash equivalents	7	**$ 87,555**	$ 79,964
Premiums and other receivables	6	**126,705**	111,871
Accounts receivable from other pools	6, 15	**1,060**	1,121
Accrued interest income	6	**23**	113
Deferred policy acquisition costs	8	**16,903**	14,483
Amounts due from members	10	**11,696**	27,127
Funds held by members	11	**530,644**	439,808
		$ 774,586	$ 674,487
LIABILITIES			
Accounts payable and other liabilities		**$ 46,424**	$ 41,660
Servicing carrier operating fees payable		**16,084**	15,737
Unearned premium liabilities	8	**222,646**	194,909
Provision for claims liabilities	9	**489,293**	422,006
Funds provided by members	11	**139**	175
		$ 774,586	$ 674,487

APPROVED BY THE BOARD

..... Director

..... Director

February 19, 2021
..... Date

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

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

For the year ended October 31	Note	2020	2019
UNDERWRITING REVENUE			
Premiums written		**$ 408,396**	$ 372,203
(Increase) in unearned premium liabilities		**(27,737)**	(61,894)
PREMIUMS EARNED		**380,659**	310,309
UNDERWRITING EXPENSES			
Claims and claims expenses incurred	13	**267,034**	228,498
Servicing carrier operating fees		**42,340**	38,525
Commissions		**31,005**	28,326
(Increase) in deferred policy acquisition costs		**(2,420)**	(4,595)
Motor vehicle reports		**3,461**	3,959
Unclaimed property and doubtful accounts	14	**(168)**	(152)
TOTAL UNDERWRITING EXPENSES		**341,252**	294,561
UNDERWRITING GAIN		**39,407**	15,748
ADMINISTRATIVE EXPENSES	15	**6,480**	6,726
EXCESS OF REVENUE OVER EXPENSES BEFORE INTEREST INCOME		**32,927**	9,022
INTEREST INCOME	12	**824**	1,139
EXCESS OF REVENUE OVER EXPENSES		**$ 33,751**	$ 10,161

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

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

For the year ended October 31	Note	**2020**	2019
BALANCE AT BEGINNING OF YEAR		**$ (27,127)**	$ (31,906)
Excess of revenue over expenses		**33,751**	10,161
Distributions to members	10	**(18,320)**	(5,382)
BALANCE AT END OF YEAR		**$ (11,696)**	$ (27,127)

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

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

For the year ended October 31	**2020**	2019
OPERATING		
Excess of revenue over expenses	**$ 33,751**	$ 10,161
Adjustments for changes in operating assets and liabilities:		
Premiums and other receivables	**(14,834)**	(48,612)
Accounts receivable from other pools	**61**	303
Accrued interest income	**90**	(50)
Deferred policy acquisition costs	**(2,420)**	(4,595)
Funds held by members	**(90,836)**	(83,175)
Accounts payable and other liabilities	**4,764**	36,799
Servicing carrier operating fees payable	**347**	7,238
Unearned premium liabilities	**27,737**	61,894
Provision for claims liabilities	**67,287**	55,122
Funds provided by members	**(36)**	10
Distributions to members	**(18,320)**	(5,382)
Cash generated from operating activities	**7,591**	29,713
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	**7,591**	29,713
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**79,964**	50,251
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 87,555**	$ 79,964
Cash and cash equivalents consists of:		
Cash in bank	**$ 57,562**	$ 45,047
Cash equivalents	**29,993**	34,917
	$ 87,555	$ 79,964

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

INDEX

For ease of reference, an index of the notes to the financial statements is provided below.

Notes **Page**

1. NATURE OF FACILITY ASSOCIATION 9
2. FORMATION AND OPERATION OF THE RESIDUAL MARKET SEGMENT, UNINSURED AUTOMOBILE FUNDS, AND RISK SHARING POOLS 10
3. SIGNIFICANT ACCOUNTING POLICIES 14
4. FUTURE ACCOUNTING STANDARDS 19
5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY 19
6. PREMIUMS AND OTHER RECEIVABLES 20
7. CASH EQUIVALENTS 20
8. PROVISION FOR OTHER POLICY LIABILITIES; I.E., UNEARNED PREMIUM LIABILITIES, AND DEFERRED POLICY ACQUISITION COSTS 21
9. PROVISION FOR CLAIMS LIABILITIES 22
10. AMOUNTS DUE FROM MEMBERS 28
11. FUNDS HELD BY/(PROVIDED BY) MEMBERS 28
12. INTEREST INCOME 29
13. CLAIMS AND CLAIMS EXPENSES INCURRED 29
14. UNCLAIMED PROPERTY AND DOUBTFUL ACCOUNTS 29
15. RELATED-PARTY TRANSACTIONS 29
16. FAIR VALUES 31
17. MANAGEMENT OF CAPITAL 32
18. RISKS AND RISK MANAGEMENT 32
19. GEOGRAPHIC RESULTS OF OPERATIONS BY JURISDICTION 41
20. AUTHORIZATION OF THE FINANCIAL STATEMENTS 44

1. NATURE OF FACILITY ASSOCIATION

Facility Association (the "Association") is an unincorporated non-profit association established on June 28, 1977 and then continued pursuant to subsection 7(1) 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") are further described in Note 2 and 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 & Labrador. The address of the Association's registered office is 777 Bay Street, Suite 2400, Toronto, Ontario, Canada, M5G 2C8.

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 the insurance pools under administration; rather, they are incurred by members directly and recorded only in each member's own financial statements. The related costs and revenues not accounted for in these financial statements are described in Note 2.

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

In accordance with the Plan, Article XV:

1. *In the event of failure of any member, through insolvency or otherwise, to pay promptly its portion of any loss or expense after the Board shall have made written demand upon the member to pay such loss or expense, the Board shall report the delinquency to all members.*

2. *If the loss or expense remains unpaid beyond a reasonable period, all of the other members, upon notification by the Board, shall promptly pay their respective shares of such loss or expense…*

1. NATURE OF FACILITY ASSOCIATION (continued)

Revenue associated with the FARM is affected by the regulation of automobile premium rates through government regulatory authorities in jurisdictions in which the Association operates. In general, the associated rate regulatory approval processes can result in the prescription of automobile premium rates at levels other than those individual members deem appropriate for the risks to be underwritten by them. To the extent that individual member premium rate levels are inadequate and/or to the extent that FARM premium rate levels are competitive with the voluntary market, there will tend to be an increased number of policies written by the members of FARM.

In these notes to the financial statements, reference to FARM (RSP/UAF), is to be understood as the members who constitute the FARM (RSP/ UAF). The UAFs do not generate revenue as there is no premium collected by them.

Claims costs are also influenced by actions of the governments of provinces and territories to the extent that the nature and extent of benefits and other requirements that affect claims costs and the settlement process are specified in legislation or regulations.

The impact on the financial performance and financial position of the FARM and UAFs of such government and regulator future actions, whether in relation to rate approval processes, product reform, or other such action, is not determinable.

2. FORMATION AND OPERATION OF THE RESIDUAL MARKET SEGMENT, UNINSURED AUTOMOBILE FUNDS, AND RISK SHARING POOLS

The operations of the Association are conducted in accordance with the Plan approved by the members. As authorized by statute within each of the jurisdictions noted below, every insurer licensed to write automobile liability insurance is a member of the Association by operation of law.

The Association administers the sharing mechanisms for a segment of the members' insurance business. The results of this business flow from the insurance pools under administration and are incorporated into the members' overall results, where applicable. The insurance pools under administration are as follows:

- 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*;

2. FORMATION AND OPERATION OF THE RESIDUAL MARKET SEGMENT, UNINSURED AUTOMOBILE FUNDS, AND RISK SHARING POOLS (continued)

- 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 administrative services, and claims servicing fees, all of which are specified in the Plan.

Members assume the risk and share in the experience of the FARM in accordance with their participation ratio, reflecting their share of the market by jurisdiction, business segment, and accident year in accordance with relevant provisions of 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. Members share in the experience of the UAFs in accordance with their participation ratio, reflecting their share of the market by jurisdiction and accident year in accordance with relevant provisions of the Plan.

  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,

2. FORMATION AND OPERATION OF THE RESIDUAL MARKET SEGMENT, UNINSURED AUTOMOBILE FUNDS, AND RISK SHARING POOLS (continued)

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

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

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

  - The Ontario Risk Sharing Pool ("Ontario RSP") has operated since January 1, 1993, and is composed of private passenger business as defined in the Plan. Ontario members share in the experience of the Ontario RSP by accident year in relation to their share of the Ontario private passenger market and their usage of the Ontario RSP weighted at 50% each in accordance with the relevant provisions of the Plan.

  - The two Alberta Risk Sharing Pools ("Alberta RSPs") commenced operations on October 1, 2004. The Grid Pool provides a means for Alberta members to transfer private passenger use automobile insurance policies that are subject to the statutory maximum premium. The Non-Grid Pool provides a means for Alberta members to transfer certain private passenger use automobile insurance policies they underwrite that are not subject to the statutory maximum premium. Members share in the experience of the Alberta RSPs by accident year in relation to their share of the Alberta private passenger market in accordance with the relevant provisions of the Plan.

2. FORMATION AND OPERATION OF THE RESIDUAL MARKET SEGMENT, UNINSURED AUTOMOBILE FUNDS, AND RISK SHARING POOLS (continued)

- The New Brunswick Risk Sharing Pool ("New Brunswick RSP") commenced operations on January 1, 2005. This RSP provides a means for New Brunswick members to transfer certain private passenger use automobile insurance policies they underwrite that are eligible for the "First Chance" discount mandated by law in that province. Members share in the experience of the New Brunswick RSP by accident year in relation to their share of the New Brunswick private passenger market in accordance with the relevant provisions of the Plan.

- The Nova Scotia Risk Sharing Pool ("Nova Scotia RSP") commenced operations on January 1, 2007. This RSP provides a means for Nova Scotia members to transfer certain private passenger use automobile insurance policies they underwrite that are rated for drivers licensed less than six years with a clean record in that province. Members share in the experience of the Nova Scotia RSP by accident year in relation to their share of the Nova Scotia private passenger market in accordance with the relevant provisions of the Plan.

- The Newfoundland & Labrador Risk Sharing Pool ("Newfoundland & Labrador RSP") commenced operations on July 1, 2020. This RSP provides a means for Newfoundland & Labrador members to transfer certain private passenger use automobile insurance policies they underwrite that are eligible. Members share in the experience of the Newfoundland & Labrador RSP by accident year in relation to their share of the Newfoundland & Labrador private passenger market in accordance with the relevant provisions of the Plan.

All of the premiums of the insurance pools under administration are allocated to members, who are required by the Office of the Superintendent of Financial Institutions ("OSFI") to record these premiums in their accounting records as direct written premiums. Under provincial regulation, members are required to pay premium taxes, and health and other levies, directly to the provinces based on these direct written premiums. Members also incur other costs, such as membership dues to industry organizations, where such other costs are derived based on direct written premiums. Accordingly, these costs are not recorded in the accounting records of the insurance pools under administration. Similarly, investment income earned with respect to funds of the insurance pools under administration that are held by members is also not reflected in these financial statements.

The financial statements contained herein are for the FARM and UAFs operations administered by the Association and account for the financial results of the risks insured by members of the FARM and the cost of managing these insurance exposures, administering the UAFs, and managing 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 FARM.

The results of the operations and financial position of the RSPs are not included in these financial statements. Separate financial statements are prepared by management for each of the RSPs.

3. SIGNIFICANT ACCOUNTING POLICIES

As described in note 1, reference to FARM refers to the members in whose name policies are issued and who assume the risk.

The accompanying financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). 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.

The significant accounting policies adopted are summarized in sections 3 (a) to (l) below.

(a) Product classification

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

The FARM's insurance products as assumed by members are standard automobile insurance contracts within each jurisdiction in which it operates. All of the FARM insurance products 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.

(b) Financial instruments

Financial assets

Financial assets are classified as loans and receivables, or held at fair value through profit or loss ("FVTPL"). Transaction costs are capitalized into the carrying amount of loans and receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- Loans and receivables

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

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

- FVTPL: Cash and cash equivalents

  Cash and cash equivalents are classified as FVTPL. Cash represents cash balances at Canadian Schedule I banks. Cash equivalents are highly liquid investments with an original term to maturity of three months or less. Management considers the fair value of cash equivalents to approximate their carrying amounts.

Financial liabilities

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

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

(c) Accrued interest income

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

(d) Premiums earned

Premiums are deferred until earned. Premiums are included in revenue on a daily pro rata basis over the term of policies while in force.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Unearned premium liabilities, and deferred policy acquisition costs

Unearned premium liabilities represent the deferred portion of the premiums written related to the unexpired terms of coverage.

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

A determination is made by the FARM's Actuary (the "Actuary") on whether the unearned premium liabilities are sufficient to cover the unrecorded claims and the deferred policy acquisition costs that relate to the unexpired portion of the policies in force at fiscal year-end. Any identified premium deficiency is recognized as an expense in the statement of operations and as a reduction to the deferred policy acquisition costs, or as an increase in the previously recognized premium deficiency reserve, in the statement of financial position. A separate provision is established for the amount of the deficiency, if any, that exceeds the deferred policy acquisition costs.

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

(f) Provision for claims liabilities

An estimate of the amount required to pay all outstanding claims (whether reported or not) and related applicable expense amounts in connection to the FARM and UAFs is included in these financial statements. The provision is determined by the Actuary, using accepted actuarial estimation techniques. These techniques take into consideration prior claims experience and estimates of future trends in the severity of claims settlements. Assumptions were selected on the basis of the historical experience of the FARM, supplemented as appropriate by the experience of the voluntary market in the respective jurisdictions. The estimates are periodically reviewed and, as adjustments to these liabilities become necessary, they are reflected in current operations. Claims-related balances are carried on an actuarial present value basis to reflect the time value of money and include explicit provisions for adverse deviations in accordance with accepted actuarial practice in Canada. Accordingly, the discount rate selected to reflect the time value of money is based on the expected return on assets supporting the liabilities. As the supporting assets are non-interest bearing, a discount rate of 0.0% has been selected.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The initial estimate for the appropriate provision for amounts in relation to claims incurred but not reported and for the development on known claims (collectively referred to as "IBNR") is based on data valued as at September 30. As the Association's annual financial statements are presented as at October 31, the initial estimate of the provision includes consideration of expected claims activity during the month of October. Claims activity during the month of October consists of recording of claims unrecorded at September 30 ("unknown" or "unreported" claims, including claims occurring during the month of October and development on claims already recorded or "known" as at September 30). The initial estimate derived as part of the valuation process is adjusted based on the deviation between the actual claims reported activity during the month and the expected activity underlying the initial estimate of the provision.

(g) Amounts due from members

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

The amount shown within the Statement of Amounts Due from Members under the line "Distributions to members" reflects the operating results that were distributed for accident years 2019 and prior, calculated as at October 31, 2020 (accident years 2018 and prior calculated at October 31, 2019).

(h) Funds held by members

Funds held by members represent a portion of the premium dollars 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 reflect the amounts held by them after operating results were distributed for accident years 2019 and prior, and available funds distributed calculated as at October 31, 2020 (accident years 2018 and prior calculated at October 31, 2019). Funds held by members are due on demand and accordingly, are recorded at the amounts receivable at the date of the statement of financial position, and do not bear interest.

(i) Servicing carriers' operating fees payable

In accordance with the Plan, servicing carriers are reimbursed on a formula basis for their operating and claims adjusting costs. Servicing carriers' operating fees payable relate to underwriting and are charged to operations when premiums are written. Claims adjusting costs are determined based on the loss ratio experienced in each accident year and are expensed on an ongoing basis. Additional claims adjusting fees are paid based on emerging loss experience. The additional fees are calculated annually and expensed in the year of calculation. Servicing carriers' fees are payable within one year.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) IFRS 16 Leases

IFRS 16 *Leases* ("IFRS 16") was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019. IFRS 16 introduced a new single lessee accounting model for all leases by eliminating the distinction between operating and financing leases and requires lessees to recognize right-of-use assets and lease liabilities on the statement of financial position. Depreciation expense on the right-of-use asset and interest expense on the lease liability replace the operating lease expense.

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. 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, 2020 is **$611** (2019: $548), of which **$376** (2019: $286) has been allocated by the Association to the FARM and UAFs and is recorded in Administrative 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 the FARM and UAFs' financial statements.

(k) Management judgements and estimation uncertainty

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Please refer to Note 5.

Significant estimates and assumptions are made in the areas of determining the provision for unpaid and unreported claims and fair value of financial instruments (see Note 5). Actual results may differ materially from those estimates.

(l) Income taxes

No provision for income taxes is recorded in these financial statements. The results of operations of the insurance pools under administration, including administrative expenses incurred by the FARM and UAFs and interest income earned on insurance pool assets invested by the FARM, are included in the members' income for tax assessment purposes.

(m) 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.

4. FUTURE ACCOUNTING STANDARDS

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

(a) IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* ("IFRS 9") issued on July 24, 2014, is the International Accounting Standards Board's ("IASB's") replacement of IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). The standard includes requirements for recognition and measurement, impairment, derecognition, and general hedge accounting. The IASB completed its project to replace IAS 39 in phases, adding to the standard as it completed each phase. IFRS 9 was mandatorily effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted (subject to local regulatory requirements). The FARM and UAFs has not previously applied any version of IFRS 9 and its predominant activity is to ensure that a contract of automobile insurance is provided on behalf of members with respect to every application for automobile insurance submitted under the Plan. It has decided to adopt the deferral approach, which permits an entity to continue to apply IAS 39 rather than IFRS 9 for annual reporting periods, until the new insurance contract standard IFRS 17 becomes mandatorily effective, see Note 4(b) below. Management is assessing the impact of IFRS 9 on the FARM and UAFs financial statements.

(b) IFRS 17 Insurance Contracts

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

The IASB also changed the expiry date for the temporary exemption in IFRS 4 from applying IFRS 9, so that entities would be required to apply IFRS 9 for annual periods beginning on or after January 1, 2023. Management is assessing the impact of IFRS 17 on the FARM and UAFs financial statements.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the FARM and UAFs' accounting policies (described in Note 3), management is required to make judgements, estimates, and assumptions about the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical judgements in applying accounting policies

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

Valuation of liabilities of automobile insurance contracts

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

In performing the valuation of the liabilities for these inherently variable future events, the Actuary makes assumptions as to future rates of claim frequency and severity, inflation, expenses, and other matters, taking into consideration the circumstances of the FARM and the nature of the insurance policies, which are issued by the members of FARM. Procedures are put in place by the Actuary to ensure that the data used in the valuation is sufficient and reliable for the valuation of policy liabilities. The Actuary also makes use of the management information provided by the FARM, and considers the work of the internal and external auditors with respect to the FARM's underlying data used in the valuation. IBNR is based on valuation data as at September 30, 2020, and an estimate of expected claims activity for the month of October 2020. The valuation is necessarily based on estimates and, consequently, the final values may vary significantly from those estimates.

6. PREMIUMS AND OTHER RECEIVABLES

Premiums and other receivables, accounts receivable from other insurance pools under administration, and accrued interest income are non-interest bearing and are normally settled between thirty days and twelve months. Management considers the carrying amount of accounts receivable, net of a provision for doubtful accounts, to be a reasonable approximation of the fair value of the assets because of the short-term nature of the assets. A portion of the receivables balance is due from related parties (see Note 15), which is considered to be fully recoverable. As at October 31, 2020, the provision for doubtful accounts is **$174** (2019: $148).

7. CASH EQUIVALENTS

The FARM limits its cash equivalent investments to bankers' acceptances. All cash equivalents mature in three months or less.

8. PROVISION FOR OTHER POLICY LIABILITIES; I.E., UNEARNED PREMIUM LIABILITIES, AND DEFERRED POLICY ACQUISITION COSTS

(a) Reconciliation of movements in unearned premium liabilities for the fiscal year

		2020		2019
Unearned premium liabilities, beginning of year	**$**	**194,909**	$	133,015
Changes due to:				
add premiums written		**408,396**		372,203
less premiums earned		**(380,659)**		(310,309)
Unearned premium liabilities, end of year	**$**	**222,646**	$	194,909

(b) Liability adequacy test/premium deficiency reserve

The Actuary uses current estimates of future cash flows under the FARM's insurance contracts to assess at the end of each reporting period whether the unearned premium liabilities (after adjustment for related deferred policy acquisition costs) are adequate. Where the assessment indicates that the carrying amount (after adjustment) is inadequate in light of all current estimates of all future contractual cash flows, the entire deficiency (or change in deficiency, where a deficiency existed in the prior period) is recognized in the statement of operations.

(c) Reconciliation of movements in deferred policy acquisition costs

		2020		2019
Deferred policy acquisition costs, beginning of year	**$**	**14,483**	$	9,888
Changes due to:				
change in unearned premium liabilities		**2,061**		4,601
change in future costs and/or deferrable amounts, relative to unearned premium liabilities		**359**		(6)
Deferred policy acquisition costs, end of year	**$**	**16,903**	$	14,483

9. PROVISION FOR CLAIMS LIABILITIES

(a) Composition of claims liabilities for the twelve-month accident period ended October 31, unless otherwise noted

		2020		2019
Case reserves	**$**	**277,124**	$	235,859
IBNR		**131,630**		113,092
Claims fee adjustment and allowed claims expense provision		**28,330**		28,279
	$	**437,084**	$	377,230
Actuarial present value adjustments		**52,209**		44,776
Claims liabilities	**$**	**489,293**	$	422,006

As at October 31, 2020, the claims liabilities prior to actuarial present value adjustments include **$309,905** (2019: $258,959), which is expected to be settled (paid) more than twelve months after the reporting date.

The actuarial present value adjustments are comprised of provisions for discounting, adverse deviations in investment returns, and adverse deviations in claims development. The discount provision of **$0** (2019: $0) is estimated by the application of a **0.0%** (2019: 0.0%) discount rate to the expected cash flows of the claims liability prior to actuarial present value adjustments (shown in the table above). The discount rate is determined based on the expected return on assets supporting the liabilities. The provision for adverse deviation in investment returns of $0 (2019: $0) is estimated as the difference in the discount provision if a rate of **0** basis points (2019**:** 0) lower was used. Finally, the provision for adverse deviations in claims development, **$52,209** (2019: $44,776), is derived by application of Margins for Adverse Deviations ("MfADs") to the claims liability prior to actuarial present value adjustments, adjusted to include the effect of the discount provision. The estimated impacts of changes in assumptions are presented in a table in Note 9(e)(ii).

(b) Claims liabilities by jurisdiction for the twelve-month period ended October 31, unless otherwise noted

		2020		2019
Ontario	**$**	**185,625**	$	142,066
Nova Scotia		**43,692**		39,213
Prince Edward Island		**10,785**		9,764
New Brunswick		**43,228**		42,115
Newfoundland and Labrador		**63,059**		63,397
Alberta		**135,012**		116,752
Yukon		**2,808**		3,334
Northwest Territories		**4,062**		4,099
Nunavut		**1,022**		1,266
Claims liabilities, end of year	**$**	**489,293**	$	422,006

9. PROVISION FOR CLAIMS LIABILITIES (continued)

(c) Activity in claims liabilities

		2020		2019
Provision for claims liabilities, beginning of year	**$**	**422,006**	$	366,884
Incurred for:				
current year's claims		**249,708**		225,844
prior years' claims		**17,326**		2,654
Payments attributable to:				
current year's claims		**(106,788)**		(85,768)
prior years' claims		**(92,959)**		(87,608)
Provision for claims liabilities, end of year	**$**	**489,293**	$	422,006

(d) 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 2010 and prior, and the associated provision arising in each subsequent accident year. This table is presented on both a gross and net-of-reinsurance basis because there is no reinsurance ceded.

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

9. PROVISION FOR CLAIMS LIABILITIES (continued)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010 and prior	Total
Claims liabilities[1] - At end of fiscal accident year[2]												
	$ 126,792	$ 123,987	$ 84,185	$ 73,931	$ 76,900	$ 84,717	$ 88,894	$ 91,530	$ 87,336	$ 92,360	$ 829,539	
Revised estimates												
1 year later		139,255	93,216	73,958	84,646	90,712	92,218	96,103	87,998	88,965	736,535	
2 years later			80,395	70,851	82,032	89,814	88,325	92,695	90,255	86,113	686,000	
3 years later				67,372	82,838	89,339	86,103	90,682	90,113	83,675	661,595	
4 years later					84,679	93,945	83,536	90,507	92,461	84,216	667,160	
5 years later						95,771	85,065	92,011	91,886	84,995	656,596	
6 years later							90,658	92,030	92,310	78,872	643,177	
7 years later								90,119	95,594	79,068	644,572	
8 years later									98,753	71,218	636,247	
9 years later										65,141	626,294	
10 years later											648,916	
Current estimates	**$ 126,792**	$ 139,255	$ 80,395	$ 67,372	$ 84,679	$ 95,771	$ 90,658	$ 90,119	$ 98,753	$ 65,141	$ 648,916	
Payments in subsequent periods												
1 year later		$ 37,560	$ 23,136	$ 18,520	$ 20,902	$ 20,455	$ 21,880	$ 20,162	$ 22,485	$ 20,317	$ 181,333	
2 years later			5,308	9,079	11,834	14,392	11,148	14,893	13,150	11,721	$ 119,651	
3 years later				8,285	13,891	17,087	11,158	9,841	13,857	12,788	$ 108,374	
4 years later					14,101	12,282	13,410	14,228	11,493	10,446	$ 68,808	
5 years later						10,575	11,164	6,818	12,887	7,986	$ 50,525	
6 years later							9,582	9,596	6,310	2,647	$ 32,150	
7 years later								3,338	6,318	6,108	$ 19,775	
8 years later									5,684	(5,268)	$ 10,661	
9 years later										(5,594)	$ 7,410	
10 years later											4,120	
Cumulative payments		$ 37,560	$ 28,444	$ 35,884	$ 60,728	$ 74,791	$ 78,342	$ 78,876	$ 92,184	$ 61,151	$ 602,807	
Deficiency/(redundancy) **recognized in 2020**		$ 15,268	$ (12,821)	$ (3,479)	$ 1,841	$ 1,826	$ 5,593	$ (1,911)	$ 3,159	$ (6,077)	$ 22,622	$ 26,021
Reconciliation to the statement of financial position **Claims liabilities**[1]	**$ 126,792**	$ 101,695	$ 51,951	$ 31,488	$ 23,951	$ 20,980	$ 12,316	$ 11,243	$ 6,569	$ 3,990	$ 46,109	$ 437,084
Actuarial present value adjustments												52,209
Claims liabilities												$ 489,293

[1]Prior to actuarial present value adjustments

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

9. PROVISION FOR CLAIMS LIABILITIES (continued)

(e) Actuarial assumptions

The following processes and key actuarial assumptions were used in the estimation of the insurance policy liabilities consisting of claims liabilities (the provision for unpaid claims whether reported or not) and premium liabilities at the reporting date:

i. Processes used to determine the assumptions

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

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

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

To discount the future cash flows to reflect the time value of money, the Actuary considers the future yield expected to be realized on investments supporting the policy liabilities and the expected future cash flows. The Actuary discounts the expected future cash flows, based on an assumed yield curve structure. The discount rate used in the valuation of the FARM and UAFs was **0.0%** (2019: 0.0%).

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

9. PROVISION FOR CLAIMS LIABILITIES (continued)

ii. Changes in actuarial present value adjustments

	Discount amount	Provision for adverse investment return	Provision for adverse development	Total
For year ended October 31, 2020				
Actuarial present value adjustments, beginning of year	**$ -**	**$ -**	**$ 44,776**	**$ 44,776**
Changes due to:				
change in claims liabilities (excluding actuarial present value adjustments)	**-**	**-**	**7,726**	**7,726**
change in selected discount rate	**-**	**-**	**-**	**-**
change in selected margins	**-**	**-**	**(293)**	**(293)**
Actuarial present value adjustments, end of year	**$ -**	**$ -**	**$ 52,209**	**$ 52,209**
For year ended October 31, 2019				
Actuarial present value adjustments, beginning of year	$ -	$ -	$ 37,952	$ 37,952
Changes due to:				
change in claims liabilities (excluding actuarial present value adjustments)	-	-	7,352	7,352
change in selected discount rate	-	-	-	-
change in selected margins	-	-	(528)	(528)
Actuarial present value adjustments, end of year	$ -	$ -	$ 44,776	$ 44,776

(f) Fair values

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

(g) 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").

9. PROVISION FOR CLAIMS LIABILITIES (continued)

Type 1

In a Type 1 structured settlement, the FARM servicing carrier or UAF representative has purchased an annuity that pays directly to the claimant and the annuity is non-commutable, non-assignable, and non-transferable.

OSFI Guideline D5 *Accounting for Structured Settlements* ("Guideline D5") requires that claims and annuities of Type I structures are derecognized from the property and casualty ("P&C") insurer's statement of financial position.

The claimant's recourse to the P&C insurer represents a guarantee of the annuity underwriter's obligation to make payments to the claimant pursuant to the terms and conditions of the structured settlement. The financial guarantee on initial recognition is generally recognized at nil value. Subsequently, the guarantee is measured in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Type 2

In Type 2 structures, the annuity is commutable, assignable, or transferable; that is, there is some form of reversionary interest or continuing right to a benefit for the P&C insurer.

For Type 2 structures, OSFI Guideline D5 requires that the annuity and insurance claim remain on the P&C insurer's statement of financial position.

Structured settlements and the FARM and UAFs

As a result of Type 1 and Type 2 structures entered into by servicing carriers, 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 member acquiring 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 do not have an accurate estimate of the undiscounted outstanding payments but estimate the original purchase value of annuities in force as at October 31, 2020, to be **$157,730** (2019: $157,188). 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 further obligations resulting from these structured settlements are joint and several on all members.

10. AMOUNTS DUE FROM MEMBERS

The balance of amounts due from members at October 31, 2020, is composed of the following:

Fiscal year	Accumulated excess of revenue over expenses	Net payments (to) members	Amount due to (from) members
2020	**$ 33,751**	**$ (18,320)**	**$ 15,431**
2019	10,161	(5,382)	4,779
2018 and prior	1,339,108	(1,371,014)	(31,906)
	$ 1,383,020	**$ (1,394,716)**	**$ (11,696)**

Within one year	$ (11,696)
More than one year	$ -

11. FUNDS HELD BY/(PROVIDED BY) MEMBERS

It is the Association's practice to transfer all available funds arising from FARM operations to its members. The Association maintains only sufficient funds to meet its daily cash flow needs. The funds are due from members to the Association 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, 2020, between the FARM and members (excluding transfers related to settlement of operating results) were **$110,000** (2019: $90,000). The funds are allocated to individual members based on their shares of unearned premiums and the provision for unpaid and unreported claims. Transfer of funds does not change the members' obligations to the FARM.

The balance of funds held by members and funds provided by members at October 31, 2020, is composed of the following:

	2020	2019
Funds held by members, beginning of year	**$ 439,808**	$ 356,633
Funds transferred to (from) members	**90,836**	83,175
Funds held by members, end of year	**$ 530,644**	$ 439,808

Funds provided by members, beginning of year	**$ 175**	$ 165
Funds transferred from (to) members	**(36)**	10
Funds provided by members, end of year	**$ 139**	$ 175

12. INTEREST INCOME

Interest income for the year ended October 31 represents:

	2020	2019
Interest income on cash and cash equivalents	**$ 824**	$ 1,139
	$ 824	$ 1,139

13. CLAIMS AND CLAIMS EXPENSES INCURRED

	2020	2019
Claims paid	**$ 157,260**	$ 136,652
Claims-related expenses	**42,487**	36,724
Increase in provision for claims liabilities	**67,287**	55,122
	$ 267,034	$ 228,498

Total claims expenses include the cost of claims events that occurred in the current financial year and a reassessment of the claims events that occurred in all previous financial periods.

14. UNCLAIMED PROPERTY AND DOUBTFUL ACCOUNTS

Unclaimed property and doubtful accounts include write-offs of bad debt expenses and recoveries that resulted in a net loss of **$43** (2019: net income of $44), and unclaimed property distributed to members as income in accordance with the Association's "Unclaimed Property Guidelines and Procedures."

During the fiscal year ended October 31, 2020, the Association treated certain unclaimed premium refund and claim cheques as abandoned considering applicable unclaimed property legislation in each of the corresponding jurisdictions and recorded **$211** into income (2019: $196).

15. RELATED-PARTY TRANSACTIONS

All related-party transactions are considered to be in the normal course of business and are measured at the exchange amount, which is the amount of consideration as agreed to between the related parties.

15. RELATED-PARTY TRANSACTIONS (continued)

(a) Compensation of key management personnel

The Association's key management compensation was allocated to the FARM and UAFs as follows:

		2020		2019
Salaries, bonuses, and other short-term employee benefits	**$**	**882**	$	896
Healthcare benefits		**19**		18
Pension benefits		**55**		387
Independent directors' fees		**62**		44
	$	**1,018**	$	1,345

(b) Commitments to the Association's administration expenses

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

During the years ended October 31, 2020 and 2019 the FARM and UAFs' share of the Association's administration and lease obligation expenses was as follows:

		2020		2019
Head office and operations	**$**	**2,856**	$	3,809
Leases		**376**		286
Data processing		**1,698**		1,530
Professional fees		**1,550**		1,101
	$	**6,480**	$	6,726

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, 2017 with the next valuation date required at December 31, 2020. During the year ended October 31, 2020, the Association recognized total costs of **$170** (2019: $151) in respect of the defined contribution plan, of which **$85** (2019: $78) has been allocated to FARM and UAFs, and total costs of **$149** ($126) in respect of the defined benefit plan, of which **$75** (2019: $65) has been allocated to FARM and UAFs. These expenses are included in administrative expenses and operations expenses in the above table.

15. RELATED-PARTY TRANSACTIONS (continued)

The following balances are due to or from other insurance pools under administration as at October 31, unless otherwise noted:

	2020	2019
Accounts receivable from other pools:		
Ontario RSP	**$ 272**	$ 281
Alberta Grid RSP	**199**	195
Alberta Non-Grid RSP	**200**	196
New Brunswick RSP	**107**	222
Newfoundland & Labrador RSP	**145**	-
Nova Scotia RSP	**137**	227
	$ 1,060	$ 1,121

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

16. FAIR VALUES

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

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

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

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

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

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

16. FAIR VALUES (continued)

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

The fair values of funds held by members reflect transfer of all available funds arising from the FARM's operations to its members. These funds are due on demand and, accordingly, management considers that the carrying amounts approximate fair value.

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

17. MANAGEMENT OF CAPITAL

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

18. RISKS AND RISK MANAGEMENT

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

The Board is supported by committees of the Board and by the Association's management who are, in turn, supported by various committees. The majority of the committees' members are volunteers from the Association's members and brokerages that are part of the automobile insurance industry in Canada.

The Board is composed of sixteen directors, ten of whom are elected or appointed from among representatives of members. Three are elected or appointed from among any persons approved by the Insurance Brokers Association of Canada, and two are elected or appointed as independent directors. The Board appoints the Association's President and Chief Executive Officer, who is a director by virtue of his or her office.

The governance structure of the Association and detailed descriptions of its various committees and/or council are as follows:

The Audit and Risk Committee is responsible for exercising due diligence on matters related to but not limited to the internal control environment; regulatory, underwriting, and claims compliance audits, and internal audits; accounting policy and practice; work of the Actuary; work of external auditors; and the Association's overall ERM. ERM encompasses the processes undertaken by the Association to identify, measure, monitor, and report on risks and their impact on the Association's objectives. The overall objective of ERM for the Association is to establish a consistent and sustainable approach for risk management that is integrated and aligned with the strategic management processes of the Association,

18. RISKS AND RISK MANAGEMENT (continued)

allowing for the proactive management of risk to the Association's objectives. The committee recommends the appointment of the Independent Auditor to the membership when required. The committee's responsibilities with respect to ERM include monitoring major risk exposures and emerging risks, annually reviewing the Association's overall ERM framework and the effectiveness of these processes, and, when appropriate, reviewing and addressing management's corrective actions for deficiencies, including communication about escalating risk, crisis preparedness, and recovery plans.

The Governance and Human Resources Committee is responsible for key aspects of corporate governance, including making recommendations regarding the selection and appointment of the Chair of the Board and Deputy Chair of the Board, nominating persons for election or appointment to the Board, and appointing committee members where approval of the Board is not specifically required. The committee considers and approves performance plans and compensation arrangements with respect to executive management, and considers and approves human resources policies for the Association.

The Board benefits from the input of the following Advisory Council.

The Data Governance Council was constituted in February 2020 to advise the Board on Data Governance and Technology. The Data Governance Council is responsible for providing advice and making recommendations to the Board on all aspects of data management including policies and procedures and data governance projects including but not limited to Data Governance Threat Analysis.

The Association's management benefits from the input of the following Advisory Committees.

The role of the Rules and Rates Committee is to review and support management's recommendations on pricing for the FARM, and therefore to ensure that FARM rates remain adequate and generally above the marketplace. The committee also reviews and supports recommendations from staff on rule changes for both the FARM and the RSPs, ensuring that the FARM does not become inadvertently competitive. This committee also provides market intelligence in case dynamics in the marketplace change and cause the volume of insurance business administered by the Association for the members to change.

The role of the Claims Committee is to support the Association's management and the Provincial Operating Committees for claims-related matters that include but are not limited to the review of large losses as outlined in the Claims Guide deciding on coverage and/or liability in disputed claims, and advising on issues that are industry-related to properly interpret their meaning and impact in relation to the Association procedures.

The role of the Provincial Operating Committees is to review applications for bad debt write-offs due to non-payment from a broker or agent, and to provide a recommendation to the Association to accept or to reject the write-off. This committee also reviews appeals by servicing carriers, brokers, or insureds when the rules cause undue hardship in individual cases only. The Provincial Operating Committees review relevant applications from new brokers for appointment to a servicing carrier.

The role of the Accounting Committee is to review and support the Association management on internal auditing and accounting, as required, including but not limited to developing accounting procedures for servicing carriers, the insurance pools under administration, and the Association. It also reviews the format and content of various reports for members which are produced on a monthly or annual basis.

18. RISKS AND RISK MANAGEMENT (continued)

The role of the Actuarial Committee is to provide technical advice to the Association management and the Actuary on actuarial issues and processes, particularly as they relate to the valuation of policy liabilities, trends, and FARM pricing.

The Association is committed to designing, implementing, and operating a system of internal control procedures that is appropriate to the needs of the services provided and to ensuring member data is securely processed and professionally managed. Management has established internal control policies and procedures according to the key control objectives relevant to the service provided, and these control standards are as set forth under the Canadian Standard on Assurance Engagements 3416 *Reporting on Controls at a Service Organization* ("CSAE 3416").

The Association uses a risk management framework to assist in categorizing, monitoring, and managing the risks to which it is exposed. The Association currently categorizes risks that the FARM and UAFs are exposed to due to their significant business activities as insurance contracts risk, credit risk, interest rate risk, liquidity risk, and other risks.

Commentary regarding the management of the risks noted is undertaken on behalf of the member companies, who assume the risk and in whose name policies are issued. Reference to FARM refers to the member companies of FARM. Reference to UAF refers to the member companies sharing in the statutory obligation of the UAF.

The strategy for managing these risks on behalf of members has not changed from the prior year. The following describes how the Association administers the FARM and UAFs' risks within each of these categories.

(a) Insurance contracts risk

Insurance contracts risk is that of adverse financial results arising from the issuance of insurance policies. This is a key risk associated with operating the FARM arising from underwriting automobile insurance contracts. The concentration of insurance risk is composed entirely of automobile risks located in the nine jurisdictions in which the FARM operates across Canada. The risk management activities can be broadly separated into underwriting, claims management, and valuation of policy liabilities.

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

18. RISKS AND RISK MANAGEMENT (continued)

Underwriting

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

The FARM tries to keep its market position non-competitive and aims to set the rates in each jurisdiction in which it operates at levels sufficient for members to cover their costs as a result of their compulsory membership in the FARM. Management requests periodic reviews of the FARM experience by jurisdiction and product by the Actuarial Department within the Association. The frequency and depth of the reviews is dependent upon considerations such as the relative level of revenue, rate adequacy, underlying trends, and general uncertainty (particularly at times of product reform).

The Actuarial Committee provides input to the actuarial services group in the areas of underlying trends, impacts of product reforms, and actuarial rate indication methodologies. The Rules and Rates Committee, consisting of representatives from members of the Association and the broker community, is charged with interpreting the current rules, recommending changes to the rules, and considering the proposed rate programs or changes thereto. Servicing carriers are responsible to be in compliance with approved FARM rates when underwriting automobile insurance policies on behalf of FARM members.

The Association's Internal Audit Department is responsible for conducting periodic underwriting audits on servicing carriers to ensure compliance with FARM rates and underwriting rules, and for reporting all non-compliance to the Association's Audit and Risk Committee, and all material non-compliance to the Board.

The Government Relations and Communications Department is responsible for leading and executing strategic government relations initiatives that address and advance issues impacting the Association.

Claims management

Risk management activities related to claims management are undertaken to ensure that claims payments in the FARM and UAF 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. The Claims Committee, consisting of representatives from members of the Association, will review large claims and make recommendations on case reserves and strategies to bring claims to a conclusion as well as provide support to the Provincial Operating Committees in deciding on coverage and/or liability in disputed claims.

18. RISKS AND RISK MANAGEMENT (continued)

The Association's Internal Audit Department is responsible for conducting periodic claims audits on servicing carriers to ensure compliance with FARM claims management rules and guidelines, and for reporting all non-compliance to the Association's Audit and Risk Committee, and all material non-compliance to the Board.

Valuation of policy liabilities

Risk management activities related to the valuation of policy liabilities are undertaken to ensure that the data used for the valuation process is appropriate, accurate, and complete for the purposes of the valuation; the valuation is conducted using appropriate actuarial models, methodologies, and assumptions, and follows applicable Standards of Practice of the Canadian Institute of Actuaries; the

Valuations occur at an appropriate frequency; the work of the Actuary is periodically peer reviewed by a qualified third party; and the results are appropriately reflected in the financial statements.

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

The provision for claims liabilities consists of:

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

Other policy liabilities consist of:

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

Additional information on the determination of the other policy liabilities and claims liabilities is provided in Notes 3(e) and (f), respectively.

18. RISKS AND RISK MANAGEMENT (continued)

The Actuary, in conjunction with the Association's Actuarial Department, ensures that the data used in the valuation process is appropriate, accurate, and complete, and that the valuation is conducted using appropriate actuarial models, methodologies, and assumptions, and follows applicable Standards of Practice of the Canadian Institute of Actuaries.

Management ensures that appropriate controls are in place and working effectively to provide reasonable assurance that the results of the valuation are accurately incorporated into the financial statements. These controls are reviewed periodically by the Association's Internal Audit Department and its external service auditors through an annual CSAE 3416 audit process.

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.

The Association's Actuarial Department provides feedback to management and the Internal Audit Department on applicable findings and trends uncovered during their periodic valuation of policy liabilities.

Sensitivity to insurance risk

The risks associated with the FARM are subject to a number of variables that complicate quantitative sensitivity analysis. The principal assumption underlying the claims liabilities estimates is that the members' future claims development will follow a similar pattern to past claims development experience. Claims liabilities estimates are also based on various quantitative and qualitative factors, including:

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

(b) 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 UAFs are exposed to this risk through receivables, through funds held by members, and through Type 1 and Type 2 structured settlement annuities.

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.

18. RISKS AND RISK MANAGEMENT (continued)

Similar to credit risk associated with receivables, credit risk associated with funds held by members is limited ultimately by the fact that obligations are joint and several on all members. 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.

As at October 31, 2020 and 2019, the maximum exposure to credit risk is the value of assets recorded in the statement of financial position. The table below shows the maximum risk positions of assets according to their contractual maturity or expected cash flow dates:

	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total	Carrying value in the statement of financial position
As at October 31, 2020						
Cash and cash equivalents	**$ 87,555**	**$ -**	**$ -**	**$ -**	**$ 87,555**	**$ 87,555**
Premiums and other receivables	**126,705**	**-**	**-**	**-**	**126,705**	**126,705**
Accounts receivable from other pools	**1,060**	**-**	**-**	**-**	**1,060**	**1,060**
Accrued interest income	**23**	**-**	**-**	**-**	**23**	**23**
Amounts due from members	**11,696**	**-**	**-**	**-**	**11,696**	**11,696**
Funds held by members	**530,644**	**-**	**-**	**-**	**530,644**	**530,644**
	$ 757,683	**$ -**	**$ -**	**$ -**	**$ 757,683**	**$ 757,683**
As at October 31, 2019						
Cash and cash equivalents	$ 79,964	$ -	$ -	$ -	$ 79,964	$ 79,964
Premiums and other receivables	111,871	-	-	-	111,871	111,871
Accounts receivable from other pools	1,121	-	-	-	1,121	1,121
Accrued interest income	113	-	-	-	113	113
Amounts due from members	27,127				27,127	27,127
Funds held by members	439,808	-	-	-	439,808	439,808
	$ 660,004	$ -	$ -	$ -	$ 660,004	$ 660,004

The FARM has limited its investments to cash equivalents such as bankers' acceptances. The maximum exposure to credit risk as at the reporting date is the carrying amount of the cash equivalents on the statement of financial position as they are measured at fair value.

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.

18. RISKS AND RISK MANAGEMENT (continued)

(c) 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 has policies in place to measure and manage 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 statement of operations of an immediate parallel increase of **0.25%** in interest rates as at October 31, 2020 (2019: 0.25%), across the yield curve in all markets would be an increase in excess of revenue over expenses of **$0** (2019: $0). Conversely, an immediate parallel decrease of **0.25%** (2019: 0.25%) in interest rates would result in an estimated decrease in excess of revenue over expenses of **$0** (2019: $0).

As at October 31, 2020 and 2019, none of the FARM's investments were exposed to interest rate risk. If the prevailing interest rates had been raised or lowered by **0.25%** (2019: 0.25%), assuming a parallel shift in the yield curve, with all other factors remaining constant, the value of the investments would not have changed as securities held have a maturity date of three months or less. The interest rate sensitivity was determined based on portfolio weighted duration.

(d) Liquidity risk

Liquidity risk is the risk of adverse financial results arising from having to liquidate assets in order to meet cash flow obligations as they become due. The FARM manages this risk by projecting future cash flow needs over an eight-month time horizon and ensuring appropriately liquid funds are available to support those needs, through liquidity risk management, active management of payables and receivables, and, when required, allowing the FARM to demand funds from members as needed.

18. RISKS AND RISK MANAGEMENT (continued)

The exposure of the FARM to liquidity risk as at October 31, 2020 and 2019, is portrayed in the table below; it presents insurance and financial liabilities according to their contractual maturities or expected cash flow dates.

	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total	Carrying value in the statement of financial position
As at October 31, 2020						
Accounts payable and other liabilities	**$ 46,424**	**$ -**	**$ -**	**$ -**	**$ 46,424**	**$ 46,424**
Servicing carrier operating fees payable	**16,084**	**-**	**-**	**-**	**16,084**	**16,084**
Unearned premium liabilities	**222,646**	**-**	**-**	**-**	**222,646**	**222,646**
Provision for claims liabilities	**142,331**	**177,440**	**104,620**	**64,902**	**489,293**	**489,293**
Funds provided by members	**139**	**-**	**-**	**-**	**139**	**139**
	$ 427,624	**$ 177,440**	**$ 104,620**	**$ 64,902**	**$ 774,586**	**$ 774,586**
As at October 31, 2019						
Accounts payable and other liabilities	$ 41,660	$ -	$ -	$ -	$ 41,660	$ 41,660
Servicing carrier operating fees payable	15,737	-	-	-	15,737	15,737
Unearned premium liabilities	194,909	-	-	-	194,909	194,909
Provision for claims liabilities	132,310	148,716	82,270	58,710	422,006	422,006
Funds provided by members	175	-	-	-	175	175
	$ 384,791	$ 148,716	$ 82,270	$ 58,710	$ 674,487	$ 674,487

(e) Other risks

Other risks include those of adverse financial results arising from operational activities. Various underwriting and claims-related amounts are subject to risks of incorrect processing that could cause financial statement misstatements or operational difficulties. These risks are mitigated through systems controls and edits, quality control monitoring, and periodic audits conducted by the Association at servicing carriers and within the Association.

19. GEOGRAPHIC RESULTS OF OPERATIONS BY JURISDICTION

	2020									
	ON	NS	PE	NB	NL	AB	YT	NT	NU	Total
Facility Association Residual Market Segment										
Underwriting										
Premiums earned	$ 145,855	$ 39,007	$ 6,033	$ 29,426	$ 33,969	$ 118,813	$ 2,110	$ 4,463	$ 983	$ 380,659
Underwriting expenses	133,525	31,019	4,871	25,473	29,466	113,889	513	2,211	79	341,046
Net underwriting gain (loss)	$ 12,330	$ 7,988	$ 1,162	$ 3,953	$ 4,503	$ 4,924	$ 1,597	$ 2,252	$ 904	$ 39,613
Administrative expenses	2,152	674	188	486	538	1,652	120	141	106	6,057
Excess (deficiency) of revenue over expenses before interest income of the FARM	$ 10,178	$ 7,314	$ 974	$ 3,467	$ 3,965	$ 3,272	$ 1,477	$ 2,111	$ 798	$ 33,556
Interest income	309	81	17	71	95	236	5	8	2	824
Total carried forward	$ 10,487	$ 7,395	$ 991	$ 3,538	$ 4,060	$ 3,508	$ 1,482	$ 2,119	$ 800	$ 34,380

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).

19. GEOGRAPHIC RESULTS OF OPERATIONS BY JURISDICTION (continued)

	2020									
	ON	NS	PE	NB	NL	AB	YT	NT	NU	Total
Total brought forward	$ 10,487	$ 7,395	$ 991	$ 3,538	$ 4,060	$ 3,508	$ 1,482	$ 2,119	$ 800	$ 34,380
Uninsured Automobile Funds										
Underwriting										
Premiums earned	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Underwriting expenses	-	(232)	-	280	158	-	-	-	-	206
Net underwriting gain (loss)	$ -	$ 232	$ -	$ (280)	$ (158)	$ -	$ -	$ -	$ -	$ (206)
Administrative expenses	-	110	104	105	104	-	-	-	-	423
Excess of revenue over expenses of UAFs	$ -	$ 122	$ (104)	$ (385)	$ (262)	$ -	$ -	$ -	$ -	$ (629)
Total excess (deficiency) of revenue over expenses	$ 10,487	$ 7,517	$ 887	$ 3,153	$ 3,798	$ 3,508	$ 1,482	$ 2,119	$ 800	$ 33,751

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).

19. GEOGRAPHIC RESULTS OF OPERATIONS BY JURISDICTION (continued)

	2019									
	ON	NS	PE	NB	NL	AB	YT	NT	NU	Total
Facility Association Residual Market Segment										
Underwriting										
Premiums earned	$ 110,286	$ 27,810	$ 5,106	$ 25,799	$ 30,980	$ 102,916	$ 2,008	$ 4,385	$ 1,019	$ 310,309
Underwriting expenses	93,405	28,190	5,399	22,470	38,050	101,442	1,880	2,640	506	293,982
Net underwriting gain (loss)	$ 16,881	$ (380)	$ (293)	$ 3,329	$ (7,070)	$ 1,474	$ 128	$ 1,745	$ 513	$ 16,327
Administrative expenses	2,196	590	171	510	608	1,837	82	115	66	6,175
Excess (deficiency) of revenue over expenses before interest income of the FARM	$ 14,685	$ (970)	$ (464)	$ 2,819	$ (7,678)	$ (363)	$ 46	$ 1,630	$ 447	$ 10,152
Interest income	413	100	28	99	142	334	7	12	4	1,139
Total carried forward	$ 15,098	$ (870)	$ (436)	$ 2,918	$ (7,536)	$ (29)	$ 53	$ 1,642	$ 451	$ 11,291

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).

19. GEOGRAPHIC RESULTS OF OPERATIONS BY JURISDICTION (continued)

	2019									
	ON	NS	PE	NB	NL	AB	YT	NT	NU	Total
Total brought forward	$ 15,098	$ (870)	$ (436)	$ 2,918	$ (7,536)	$ (29)	$ 53	$ 1,642	$ 451	$ 11,291
Uninsured Automobile Funds										
Underwriting										
Premiums earned	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Underwriting expenses	-	370	4	(332)	537	-	-	-	-	579
Net underwriting gain (loss)	$ -	$ (370)	$ (4)	$ 332	$ (537)	$ -	$ -	$ -	$ -	$ (579)
Administrative expenses	-	139	135	138	139	-	-	-	-	551
Excess of revenue over expenses of UAFs	$ -	$ (509)	$ (139)	$ 194	$ (676)	$ -	$ -	$ -	$ -	$ (1,130)
Total excess (deficiency) of revenue & assessment over expenses	$ 15,098	$ (1,379)	$ (575)	$ 3,112	$ (8,212)	$ (29)	$ 53	$ 1,642	$ 451	$ 10,161

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).

20. AUTHORIZATION OF THE FINANCIAL STATEMENTS

These financial statements were authorized for issue by the Board on February 19, 2021.