Financial Statements of

FACILITY ASSOCIATION
NEW BRUNSWICK RISK SHARING POOL

For the year ended October 31, 2021

FACILITY ASSOCIATION
NEW BRUNSWICK RISK SHARING POOL
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October 31, 2021

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Independent Auditor's Report

To the Members of
Facility Association New Brunswick Risk Sharing Pool

Opinion

We have audited the financial statements of Facility Association New Brunswick Risk Sharing Pool (the "Pool"), which comprise the statement of financial position as at October 31, 2021, 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 Pool as at October 31, 2021, 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 Pool 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 Pool'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 Pool or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Pool'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 Pool'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 Pool'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 Pool to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
February 15, 2022

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APPOINTED ACTUARY'S REPORT

To the Members of Facility Association New Brunswick Risk Sharing Pool

I have valued the policy liabilities of the Facility Association New Brunswick Risk Sharing Pool for its statement of financial position at 31 October 2021 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
15 February 2022

Cosimo Pantaleo
Fellow, Canadian Institute of Actuaries

FACILITY ASSOCIATION
NEW BRUNSWICK RISK SHARING POOL
Statement of Financial Position
(in thousands of Canadian dollars)

As at	Note		**October 31, 2021**		October 31, 2020
ASSETS					
Cash in bank		**$**	**179**	$	212
Accounts receivable from members	6		**897**		1,266
Accounts receivable from other pools	6, 11		**-**		26
Deferred policy acquisition costs	7		**1,281**		1,883
Funds held by members	9		**4,093**		1,489
Amounts due from members			**36,488**		34,053
		$	**42,938**	$	38,929
LIABILITIES					
Accounts payable to members		**$**	**734**	$	1,193
Accounts payable to the Residual Market and Uninsured Automobile Funds	11		**187**		133
Other accounts payable			**156**		157
Unearned premium liabilities	7		**11,681**		11,013
Provision for claims liabilities	8		**30,180**		26,433
		$	**42,938**	$	38,929

APPROVED BY THE BOARD

Chet Cy
.... Director

Rhonda Lawson
.... Director

February 15, 2022
.... Date

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

FACILITY ASSOCIATION
NEW BRUNSWICK RISK SHARING POOL
Statement of Operations
(in thousands of Canadian dollars)

For the year ended October 31	Note		2021		2020
UNDERWRITING REVENUE					
Premiums written		**$**	**20,946**	$	19,037
(Increase) in unearned premium liabilities			**(668)**		(1,794)
PREMIUMS EARNED			**20,278**		17,243
UNDERWRITING EXPENSES					
Claims and claims expenses incurred	10		**12,869**		12,851
Decrease (Increase) in deferred policy acquisition costs			**602**		(286)
Expense allowance			**6,402**		5,749
TOTAL UNDERWRITING EXPENSES			**19,873**		18,314
UNDERWRITING GAIN (LOSS)			**405**		(1,071)
ADMINISTRATION EXPENSES	11		**1,013**		848
(DEFICIENCY) OF REVENUE OVER EXPENSES		**$**	**(608)**	$	(1,919)

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

FACILITY ASSOCIATION
NEW BRUNSWICK RISK SHARING POOL
Statement of Amounts Due from Members
(in thousands of Canadian dollars)

For the year ended October 31	Note		2021		2020
BALANCE AT BEGINNING OF YEAR		**$**	**(34,053)**	$	(31,553)
(Deficiency) of revenue over expenses for the year			**(608)**		(1,919)
Cumulative (surplus) settled with members	9		**(1,827)**		(581)
BALANCE AT END OF YEAR		**$**	**(36,488)**	$	(34,053)

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

FACILITY ASSOCIATION
NEW BRUNSWICK RISK SHARING POOL
Statement of Cash Flows
(in thousands of Canadian dollars)

For the year ended October 31	Note		**2021**		2020
OPERATING					
(Deficiency) of revenue over expenses		**$**	**(608)**	$	(1,919)
Adjustments for changes in operating assets and liabilities:					
Accounts receivable from members			**369**		(457)
Accounts receivable from other pools			**26**		(23)
Other assets			**-**		1
Deferred policy acquisition costs			**602**		(286)
Funds held by members			**(2,604)**		(908)
Accounts payable to members			**(459)**		(43)
Accounts payable to the Residual Market and Uninsured Automobile Funds			**54**		(92)
Other accounts payable			**(1)**		24
Unearned premium liabilities			**668**		1,794
Provision for claims liabilities			**3,747**		2,032
Cumulative (surplus) settled with members	9		**(1,827)**		(581)
Cash (used in) operating activities		**$**	**(33)**	$	(458)
(DECREASE) IN CASH IN BANK DURING THE YEAR			**(33)**		(458)
CASH IN BANK, BEGINNING OF YEAR			**212**		670
CASH IN BANK, END OF YEAR		**$**	**179**	$	212

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

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

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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 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 and 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 operations of the insurance pools under administration in their own financial statements. Certain revenues and related expenses are not accounted for within the financial statements of these insurance pools under administration; rather, they are incurred by members directly and recorded only in each member's own financial statements. The 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. Accounts receivable from members, funds held by members, amounts due from members, accounts payable to members, and funds provided by members (as applicable) do not bear interest.

In accordance with the Plan, Article XV:

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 RSPs is impacted by the regulation of automobile premium rates through government regulatory authorities in the 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, including the risks ceded to the RSPs. To the extent that individual member premium rate levels are inadequate, there will tend to be increased usage of the RSPs.

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 RSPs 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 t hat 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, the statute “An Act to

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

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, and Nova Scotia, and Newfoundland and Labrador provide a means for individual member to cede risk to the insurance pools under administration for certain of the private passenger use automobile insurance policies they underwrite in the respective jurisdiction.

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 operating principles for transfers set out in the Plan. The member that issues the initial policy (i.e., the primary insurer) remains responsible for servicing the policy, including any settlement of claims that may arise from the policy. The Association funds the operations of the 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 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 and Labrador Risk Sharing Pool ("Newfoundland and Labrador RSP") commenced operations on July 1, 2020. This RSP provides a means for Newfoundland and Labrador members to transfer certain private passenger use automobile insurance policies they underwrite that are eligible. Members share in the experience of the Newfoundland and Labrador RSP by accident year in relation to their share of the Newfoundland and Labrador private passenger market in accordance with the relevant provisions of the Plan.

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") and provincial regulators 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 New Brunswick RSP operations administered by the Association and account for the financial results of the risks ceded to the New Brunswick RSP and the cost of administering this pool, including the participation of members in sharing the associated results. These financial statements do not account for any expenses incurred or revenue earned by individual members in respect to their participation in any aspect of the New Brunswick RSP.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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 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 New Brunswick RSP's insurance products are standard automobile insurance contracts within New Brunswick. All of the automobile insurance contracts issued by members and ceded to the New Brunswick RSP contain significant insurance risk, and there are no financial risks that are required to be presented separately.

(b) Financial instruments

Financial assets

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

- Loans and receivables

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- Cash in bank

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

Financial liabilities

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

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

Offsetting Financial Instruments

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

(c) 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.

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

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

Deferred policy acquisition costs are member expense allowances (which include commissions), related to the costs incurred by members in acquiring the insurance policies that the member subsequently cedes to the New Brunswick RSP (see Note 3[h]). 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 New Brunswick RSP's 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 New Brunswick RSP's premiums written.

A determination is made by the New Brunswick RSP'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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(e) 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 New Brunswick RSP 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 New Brunswick RSP, supplemented as appropriate by the experience of the voluntary market in New Brunswick. 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 actuarial practice accepted 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.

The initial estimation 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 of October and the expected activity underlying the initial estimate of the provision.

(f) Amounts due from members

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

The “Funds held by members” is netted against the “Amounts due from members” given the legal right of offset and the settlement of such balances on a net basis. The amount shown in the Statement of Amounts Due from Members, as “Cumulative surplus settled with members” is the portion of the net operating results that have been settled with members.

(g) Funds held by members

When the total premiums transferred from the members exceed the aggregate of paid losses, expenses and administrative expenses, a net cash inflow is credited to the members and the amount received is

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

accounted for as “Funds held by members”. This represents a partial settlement (cash items only) of net operating income.

The “Funds held by members” is netted against “Amounts due from members” to present the related net amounts in the New Brunswick RSP financial statements.

(h) Expense allowance

In accordance with the Plan, members transferring risks through the New Brunswick RSP to the members are reimbursed, through an expense allowance, for their operating and claims adjusting costs. The expense allowance is charged to operations when the premiums are written. Such expense allowance is subject to deferral as described in Note 3(d). The expense allowance is determined annually by the Board.

(i) IFRS 16 Leases

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

Under a premises sub-lease arrangement that the Association has with the Insurance Bureau of Canada (“IBC”) with respect to office space, the Association occupies a portion of two premises leased by IBC. The Association is required to pay IBC its share of the lease costs incurred by IBC under those leases, in direct proportion to the space the Association occupies. The Association is also required to pay IBC a share of the common area. 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, 2021 is **$614** (2020: $611); **$52** (2020: $53) has been allocated by the Association to the Alberta Non-Grid RSP and recorded as leases in Administrative expenses. As the sub-lease arrangement is between the Association and IBC, and not with the Alberta Non-Grid RSP, management has determined that there is no other impact of IFRS 16 on the Alberta Non-Grid RSP’s financial statements.

(j) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant estimates and assumptions are made in the areas of determining the valuation of policy liabilities (see Notes 5 and 8). Actual results may differ materially from those estimates.

(k) Income taxes

No provision for income taxes is recorded in these financial statements. The results of operations of the insurance pools under management, including administrative expenses incurred by the New Brunswick RSP, are included in the members' income for tax assessment purposes.

(l) 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 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 AccountingStandards 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 periods beginning on or after January 1, 2018, with early adoption permitted (subject to local regulatory requirements). Management 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.

In November 2021, the Association decided to early adopt IFRS 9 together with IFRS 17 effective with its fiscal year commencing November 1, 2022, as permitted by IFRS 9. Management is assessing the impact of IFRS 9 on the New Brunswick RSPs 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.

4. FUTURE ACCOUNTING STANDARDS (continued)

The IASB also changed the expiry date for the temporary exemption in IFRS 4 from applying IFRS 9, so that entities would be required to apply IFRS 9, along with IFRS 17, for annual periods beginning on or after January 1, 2023.

In November 2021, the Association decided to early adopt IFRS 17 together with IFRS 9 effective with its fiscal year commencing November 1, 2022, as permitted by IFRS 17. Management is assessing the impact of IFRS 17 on the New Brunswick RSP financial statements.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the New Brunswick RSP's 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.

Critical judgements in applying accounting policies

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

Valuation of policy liabilities of automobile insurance contracts

The Actuary is appointed by the Board. With respect to the preparation of these financial statements, the Actuary is required to carry out a valuation of the New Brunswick RSP 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 New Brunswick RSP and the nature of the insurance policies issued by the members of the New Brunswick RSP. 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 New Brunswick RSP and considers the work of the internal and external auditors with respect to the New Brunswick RSP's underlying data used in the valuation. IBNR is based on valuation data as at September 30, 2021, and an estimate of expected claims activity for the month of October 2021. The valuation is necessarily based on estimates and, consequently, the final values may vary from those estimates.

(in thousands of Canadian dollars)

6. ACCOUNTS RECEIVABLE

Accounts receivable from members and other assets are non-interest bearing and are normally settled between thirty days and twelve months. Management considers the net carrying amount of accounts receivable, net of 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 11), which is considered to be fully recoverable. As at October 31, 2021, the amount of allowance is **$0** (2020: $0) and the recorded impairment is **$0** (2020: $0).

7. 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

		2021		2020
Unearned premium liabilities, beginning of year	**$**	**11,013**	$	9,219
Changes due to:				
add premiums written		**20,946**		19,037
less premiums earned		**(20,278)**		(17,243)
Unearned premium liabilities, end of year	**$**	**11,681**	$	11,013

(b) Liability adequacy test/premium deficiency reserve

The Actuary uses current estimates of future cash flows under the New Brunswick RSP'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

		2021		2020
Deferred policy acquisition costs, beginning of year	**$**	**1,883**	$	1,597
Changes due to:				
change in unearned premium liabilities		**114**		311
change in future costs and/or deferrable amounts, relative to unearned premium liabilities		**(716)**		(25)
Deferred policy acquisition costs, end of year	**$**	**1,281**	$	1,883

(in thousands of Canadian dollars)

8. PROVISION FOR CLAIMS LIABILITIES

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

		2021		2020
Case reserves	**$**	**15,017**	$	14,922
IBNR		**12,129**		8,842
	$	**27,146**	$	23,764
Actuarial present value adjustments		**3,034**		2,669
Claims liabilities	**$**	**30,180**	$	26,433

As at October 31, 2021, the claims liabilities prior to actuarial present value adjustments include **$20,358** (2020: $17,887), 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** (2020: $0) is estimated by the application of a **0.0%** (2020: 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** (2020: $0) is estimated as the difference in the discount provision if a rate of **0** basis points (2020: 0) lower was used. Finally, the provision for adverse deviations in claims development, **$3,034** (2020: $2,669), 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 8(d)(ii).

(b) Activity in claims liabilities

		2021		2020
Provision for claims liabilities, beginning of year	**$**	**26,433**	$	24,401
Incurred for:				
current year's claims		**14,331**		12,610
prior years' claims		**(1,462)**		241
Payments attributable to:				
current year's claims		**(5,659)**		(4,626)
prior years' claims		**(3,463)**		(6,193)
Provision for claims liabilities, end of year	**$**	**30,180**	$	26,433

8. PROVISION FOR CLAIMS LIABILITIES (continued)

(c) Claims development tables

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

(in thousands of Canadian dollars)

8. PROVISION FOR CLAIMS LIABILITIES (continued)

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011 and prior	Total
Claims liabilities[1] - At end of fiscal accident year[2]												
	$ 7,774	$ 7,158	$ 6,090	$ 5,773	$ 3,889	$ 4,398	$ 4,944	$ 4,523	$ 3,363	$ 3,405	$ 16,470	
Estimates												
1 year later		6,341	7,098	5,850	4,688	3,600	4,358	4,664	3,920	2,885	15,485	
2 years later			7,823	5,402	4,262	4,121	3,511	3,766	3,324	3,178	17,231	
3 years later				5,447	4,607	3,828	3,720	3,642	3,154	3,397	17,526	
4 years later					4,306	3,855	3,447	3,488	3,452	3,751	18,694	
5 years later						3,813	3,219	3,149	4,070	3,762	18,262	
6 years later							3,096	3,585	4,481	3,674	18,351	
7 years later								3,517	4,550	4,292	18,037	
8 years later									4,511	3,979	18,754	
9 years later										3,922	18,713	
10 years later											18,461	
Current estimates	$ 7,774	$ 6,341	$ 7,823	$ 5,447	$ 4,306	$ 3,813	$ 3,096	$ 3,517	$ 4,511	$ 3,922	$ 18,461	
Payments in subsequent periods												
1 year later		$ 1,359	$ 1,650	$ 1,240	$ 752	$ 948	$ 611	$ 719	$ 762	$ 600	$ 4,271	
2 years later			594	447	489	1,179	463	449	354	291	$ 5,042	
3 years later				496	555	96	472	631	356	182	$ 1,992	
4 years later					641	184	190	245	204	822	$ 1,954	
5 years later						77	898	284	351	470	$ 1,537	
6 years later							(6)	539	172	205	$ 676	
7 years later								129	1,361	816	$ 1,245	
8 years later									(3)	500	$ 1,138	
9 years later										6	$ 60	
10 years later											170	
Cumulative payments		$ 1,359	$ 2,244	$ 2,183	$ 2,437	$ 2,484	$ 2,628	$ 2,996	$ 3,557	$ 3,892	$ 18,085	
Deficiency/(redundancy) recognized in 2021		$ (817)	$ 725	$ 45	$ (301)	$ (42)	$ (123)	$ (68)	$ (39)	$ (57)	$ (252)	$ (929)
Reconciliation to the statement of financial position												
Claims liabilities[1]	$ 7,774	$ 4,982	$ 5,579	$ 3,264	$ 1,869	$ 1,329	$ 468	$ 521	$ 954	$ 30	$ 376	$ 27,146
Actuarial present value adjustments												3,034
Claims liabilities												**$ 30,180**

[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

8. PROVISION FOR CLAIMS LIABILITIES (continued)

(d) 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 New Brunswick RSP's own historical experience with industry experience, as needed. The Actuary considers historical and/or anticipated future changes to insurance policy attributes, terms, or conditions (including product changes) and to the general business environment (due to changes in the level of inflation, pending or finalized legal decisions, etc.), and makes adjustments to the historical data to better reflect current and/or projected future experience as needed.

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

To discount the future cash flows to reflect the time value of money, the Actuary considers the future yield expected to be realized on the investments supporting the policy liabilities, and the expected future cash flows. The Actuary then discounts the expected future cash flows, based on an assumed yield curve structure. The discount rate used in the valuation of the New Brunswick RSP was **0.0%** (2020: 0.0%).

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

(in thousands of Canadian dollars)

8. 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 the year ended October 31, 2021				
Actuarial present value adjustments, beginning of year	$ -	$ -	$ **2,669**	$ **2,669**
Changes due to:				
change in claims liabilities (excluding actuarial present value adjustments)	-	-	**398**	**398**
change in selected discount rate	-	-	-	-
change in selected margins	-	-	**(33)**	**(33)**
Actuarial present value adjustments, end of year	$ -	$ -	$ **3,034**	$ **3,034**
For the year ended October 31, 2020				
Actuarial present value adjustments, beginning of year	$ -	$ -	$ 2,456	$ 2,456
Changes due to:				
change in claims liabilities (excluding actuarial present value adjustments)	-	-	255	255
change in selected discount rate	-	-	-	-
change in selected margins	-	-	(42)	(42)
Actuarial present value adjustments, end of year	$ -	$ -	$ 2,669	$ 2,669

(e) Fair values

The fair values of the provision for claims liabilities and of other policy liabilities are not readily determinable given the absence of any regular market for such liabilities. The current value of the provision for claims liabilities reflects management's best estimate of the amounts required to settle claims liabilities.

9. FUNDS HELD BY MEMBERS

The net cash flow through members and the New Brunswick RSP every month results in a total amount either being due to the members sharing in the results of New Brunswick RSP by the members ceding to the New Brunswick RSP, or due to the ceding members from the New Brunswick RSP sharing members. The balance of the accumulated fund settlements reflects partial settlement of the net operating results of the New Brunswick RSP (on a cash basis) with its members as described in Note 3(g). The balance of accumulated fund settlements with members as at October 31, 2021, is composed of the following:

(in thousands of Canadian dollars)

9. FUNDS HELD BY MEMBERS (continued)

Fiscal year	Premiums for risks transferred	Claims and claims expenses paid	Expenses paid	Cumulative surplus settled with members	Funds (provided) / held by members
2021	**$ 20,946**	**$ 9,122**	**$ 7,393**	**$ 1,827**	**$ 2,604**
2020	$ 19,037	$ 10,819	$ 6,729	$ 581	$ 908
2019 and prior	172,797	95,643	64,772	11,801	581
	$ 212,780	**$ 115,584**	**$ 78,894**	**$ 14,209**	**$ 4,093**
Within one year					$ 4,093
More than one year					$ -

10. CLAIMS AND CLAIMS EXPENSES INCURRED

	2021	2020
Claims paid	**$ 8,604**	$ 10,127
Claims-related expenses	**518**	692
Increase in provision for claims liabilities	**3,747**	2,032
	$ 12,869	$ 12,851

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.

11. RELATED-PARTY TRANSACTIONS

(a) Compensation of key management personnel

The Association’s key management compensation was allocated to the New Brunswick RSP as follows:

	2021	2020
Salaries, bonuses, and other short-term employee benefits	**$ 115**	$ 123
Healthcare benefits	**3**	3
Pension benefits	**7**	8
Independent directors' fees	**11**	9
	$ 136	$ 143

(in thousands of Canadian dollars)

11. RELATED-PARTY TRANSACTIONS (continued)

(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 administration expenses are initially paid by the FARM and subsequently reimbursed by the RSPs and the 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 New Brunswick RSP and other insurance pools under administration can create intercompany balances among these insurance pools.

In 2021, the New Brunswick RSP's share of the Association's administration expenses, including lease related expenses was as follows:

	2021	2020
Head office and operations	**$ 495**	$ 400
Leases	**52**	53
Data processing	**184**	189
Professional fees	**282**	206
	$ 1,013	$ 848

The Association participates in the Insurance Bureau of Canada Staff Pension Plan (the "IBC Plan") where the IBC is the Plan Administrator. The IBC Plan design includes both a defined contribution plan and a defined benefit plan. The most recent valuation of the IBC Plan was filed as at December 31, 2019 with the next valuation date required at December 31, 2022. During the year ended October 31, 2021, the Association recognized total costs of **$213** (2020: $170) in respect of the defined contribution plan, of which **$15** (2020: $12) has been allocated to New Brunswick RSP, and total costs of **$107** (2020: $149) in respect of the defined benefit plan, of which **$7** (2020: $10) has been allocated to New Brunswick RSP. These expenses are included in Head office and operations in the above table.

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

	2021	2020
Accounts receivable from the Residual Market and		
Uninsured Automobile Funds, and other pools:		
Residual Market and Uninsured Automobile Funds	**$ -**	$ 26
	$ -	$ 26
Accounts payable to the Residual Market and		
Uninsured Automobile Funds and other pools:		
Residual Market and Uninsured Automobile Funds	**$ 187**	$ 133
	$ 187	$ 133

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

12. 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.

The fair values of funds held by members and of other amounts due to and from 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.

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

13. MANAGEMENT OF CAPITAL

The New Brunswick RSP is not required to maintain its own capital. The New Brunswick RSP allocates its 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.

14. 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 (see chart below). 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

14. RISKS AND RISK MANAGEMENT (continued)

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, 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, which 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 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.

14. RISKS AND RISK MANAGEMENT (continued)

The role of the Accounting Committee is to review and support the Association's 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.

The role of the Actuarial Committee is to provide technical advice to the Association's 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 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 New Brunswick RSP is exposed to due to its significant business activities as insurance contracts risk, credit risk, interest rate risk, liquidity risk, and other risks.

The strategy for managing these risks has not changed from the prior year. The following describes how the Association manages the New Brunswick RSP's 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 New Brunswick RSP arising from allowing the members to transfer the applicable percentage of automobile insurance contracts that satisfies the eligibility requirements. The concentration of insurance risk is composed entirely of private passenger automobile risks located in New Brunswick. The risk management activities can be broadly separated into underwriting, claims management, and valuation of policy liabilities.

Underwriting

The New Brunswick RSP's result for the period is sensitive to insurance risk. Subject to the transfer rules set out in the Plan, the members that issue policies on their own accounts and at their own rate may transfer the whole of the policy or a portion thereof through the RSP to the members. Sensitivity to insurance risk is managed by setting appropriate policy limits within the laws of Canada.

The Association's Compliance Department is responsible for conducting periodic underwriting audits on members to ensure compliance with New Brunswick RSP underwriting 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.

14. RISKS AND RISK MANAGEMENT (continued)

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

The members who cede risk to the New Brunswick RSP are responsible for handling claims transactions, including claim payments; recording provisions for outstanding claims; and collecting subrogation/salvage recoveries on a timely and accurate basis on behalf of the members of the New Brunswick RSP. The Claims Committee, consisting of representatives from members, will review large claims to ensure appropriate documentation regarding case reserves, and eligibility of specific claim coverages or expenses for submission..

The Association's Compliance Department is responsible for conducting periodic claims audits on members to ensure compliance with New Brunswick RSP 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 members who transferred insurance contracts to the New Brunswick RSP;
- 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; 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;

14. RISKS AND RISK MANAGEMENT (continued)

- 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(d) and (e), respectively.

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 Compliance 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 Compliance Department on applicable findings and trends uncovered during their periodic valuation of policy liabilities.

Sensitivity to insurance risk

The risks associated with the New Brunswick RSP 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 New Brunswick RSP is exposed to this risk through accounts receivable from members, amounts due from 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

(in thousands of Canadian dollars)

14. RISKS AND RISK MANAGEMENT (continued)

and several on all members, the Association monitors receivables monthly and follows up as appropriate to limit aged receivables. Further, because all licensed automobile insurance companies in the jurisdictions the Association serves are required to be members of the Association by operation of law, the financial strength of the Association is effectively the financial strength of the automobile insurance industry in the jurisdictions the Association serves. The Association also monitors large balances of any member group for concentration risk.

As at October 31, 2021 and 2020, the maximum exposure to credit risk is the value of assets recorded in the statement of financial position. The following table shows the maximum risk positions of assets according to their contractual maturity or expected cash flow dates:

	Less than 1 year	1 to 5 years	More than 5 years	Total	Carrying value in the statement of financial position
As at October 31, 2021					
Cash in bank	**$ 179**	**$ -**	**$ -**	**$ 179**	**$ 179**
Accounts receivable from members	**897**	**-**	**-**	**897**	**897**
Funds held by members	**4,093**	**-**	**-**	**4,093**	**4,093**
Amounts due from members	**36,488**	**-**	**-**	**36,488**	**36,488**
	$ 41,657	**$ -**	**$ -**	**$ 41,657**	**$ 41,657**
As at October 31, 2020					
Cash in bank	$ 212	$ -	$ -	$ 212	$ 212
Accounts receivable from members	1,266	-	-	1,266	1,266
Accounts receivable from other pools	26	-	-	26	26
Funds held by members	1,489	-	-	1,489	1,489
Amounts due from members	34,053	-	-	34,053	34,053
	$ 37,046	$ -	$ -	$ 37,046	$ 37,046

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

(c) Interest rate risk

Interest rate risk is adverse financial results arising from changes in the value of financial instruments

(in thousands of Canadian dollars)

14. RISKS AND RISK MANAGEMENT (continued)

in response to a change in interest rates. The New Brunswick RSP 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 decrease of **0.25%** in interest rates as at October 31, 2021 (2020: 0.25**%**), across the yield curve in all markets, would be a decrease in excess (deficiency) of revenue over expenses and equity of **$0** (2020: $0). Conversely, an immediate parallel increase of **0.25%** in interest rates would result in an estimated increase in excess (deficiency) of revenue over expenses of **$0** (2020: $0).

(d) Liquidity risk

Liquidity risk is the risk of adverse financial results arising from having to liquidate assets in order to meet all cash flow obligations as they become due.

Accounts payable to members are subject to liquidity risk arising from the potential failure of a member or members to respond to a cash call or assessment by the New Brunswick RSP. Liquidity risk is minimal for the New Brunswick RSP since members are required to settle all balances as they become due on a monthly basis. This exposure is further mitigated through such obligations being joint and several on all members. The exposure of the New Brunswick RSP to liquidity risk as at October 31, 2021 and 2020, is portrayed in the table on the next page; it presents insurance and financial liabilities according to their contractual maturities or expected cash flow dates.

	Less than 1 year	1 to 5 years	More than 5 years	Total	Carrying value in the statement of financial position
As at October 31, 2021					
Accounts payable to members	**$ 734**	**$ -**	**$ -**	**$ 734**	**$ 734**
Accounts payable to the Residual Market and UAFs	**187**	**-**	**-**	**187**	**187**
Other accounts payable	**156**	**-**	**-**	**156**	**156**
Unearned premium liabilities	**11,681**	**-**	**-**	**11,681**	**11,681**
Provision for claims liabilities	**7,546**	**16,548**	**6,086**	**30,180**	**30,180**
	$ 20,304	**$ 16,548**	**$ 6,086**	**$ 42,938**	**$ 42,938**
As at October 31, 2020					
Accounts payable to members	$ 1,193	$ -	$ -	$ 1,193	$ 1,193
Accounts payable to the Residual Market and UAFs	133	-	-	133	133
Other accounts payable	157	-	-	157	157
Unearned premium liabilities	11,013	-	-	11,013	11,013
Provision for claims liabilities	6,538	14,269	5,626	26,433	26,433
	$ 19,034	$ 14,269	$ 5,626	$ 38,929	$ 38,929

14. RISKS AND RISK MANAGEMENT (continued)

(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 within the Association and that the Association conducts of members who have transferred insurance policies or portions thereof through the New Brunswick RSP to the members.

15. AUTHORIZATION OF THE FINANCIAL STATEMENTS

These financial statements were authorized for issue by the Board on February 15, 2022.