

Financial Statements of

**FACILITY ASSOCIATION
RESIDUAL MARKET SEGMENT
and
UNINSURED AUTOMOBILE FUNDS**

For the year ended October 31, 2025

**FACILITY ASSOCIATION
RESIDUAL MARKET SEGMENT and
UNINSURED AUTOMOBILE FUNDS
Table of Contents**

October 31, 2025

	Page
Independent Auditor's Report	1
Appointed Actuary's Report	3
Statement of Financial Position	4
Statement of Operations	5
Statement of Funds Held by Members	6
Statement of Cash Flows	7
Notes to the Financial Statements	8-41

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, 2025, and the statements of operations, funds held by members and cash flows for the year then ended, and notes to the financial statements, including material accounting policy information (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as at October 31, 2025, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB").

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 Accounting Standards as issued by the IASB, 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 12, 2026

Appointed Actuary's Report

To the Members of Facility Association Residual Market and Uninsured Automobile Fund

I have valued the policy liabilities of the Facility Association Residual Market and Uninsured Automobile Fund for its financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 October 2025.

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

 Digitally signed by Nick Charters
Date: 2026.02.12 16:24:16 -05'00'

Signature of Appointed Actuary

Nick Charters, FCIA
Printed Name of Appointed Actuary

February 12, 2026

Date opinion was rendered

Toronto, Ontario

Location Opinion was rendered

**FACILITY ASSOCIATION
RESIDUAL MARKET SEGMENT and
UNINSURED AUTOMOBILE FUNDS**

Statement of Financial Position

(in thousands of Canadian dollars)

As at	Notes	October 31, 2025	October 31, 2024
Assets			
Cash and cash equivalents	2	\$ 410,634	\$ 373,780
Other receivables	5	11,386	10,178
Accounts receivable from related parties	7	1,436	1,870
Accrued interest income		971	1,365
Funds held by members	6	606,815	619,058
Total assets		\$ 1,031,242	\$ 1,006,251
Liabilities			
Accounts payable and other liabilities		\$ 55,632	\$ 69,482
Servicing carrier operating fees payable		17,492	18,353
Insurance contract liabilities			
Liability for remaining coverage	4	181,977	218,514
Liability for incurred claims	4	776,141	699,902
Total liabilities		\$ 1,031,242	\$ 1,006,251

APPROVED BY THE BOARD

ajay tellis

..... Director

Michel Sin

..... Director

February 12, 2026

..... Date

The accompanying 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 years ended October 31	Notes	2025	2024
Insurance revenue		\$ 526,045	\$ 520,679
Incurring claims		392,247	355,891
Amortization of insurance acquisition cash flows		44,721	42,136
Adjustments to liabilities for incurred claims		(10,614)	(52,651)
Administration expense	7	69,689	69,489
Insurance service expenses		496,043	414,865
Insurance service result		30,002	105,814
Net investment income	10	12,173	16,996
Net finance (expenses) income from insurance contracts	10	(34,101)	(68,199)
Net financial result		(21,928)	(51,203)
Excess of revenue over expenses		\$ 8,074	\$ 54,611

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

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

For the year ended October 31	Note	2025	2024
BALANCE AT BEGINNING OF YEAR		\$ 619,058	\$ 642,311
Excess of revenue over expenses		8,074	54,611
Net cash settlements with members		(20,317)	(77,864)
BALANCE AT END OF YEAR		\$ 606,815	\$ 619,058

The accompanying notes are 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 years ended October 31	Notes	2025	2024
Operating			
Excess of revenue over expenses		\$ 8,074	\$ 54,611
Adjustments for changes in operating assets and liabilities			
Other receivables		(1,208)	60,640
Accounts receivable from related parties		434	33
Accrued interest income		394	147
Funds held by members		38,664	23,253
Accounts payable and other liabilities		(13,850)	(87,505)
Servicing carrier operating fees payable		(861)	588
Insurance contract liabilities			
Liability for remaining coverage		(36,537)	5,471
Liability for incurred claims		76,239	44,343
Cash generated from operating activities		71,349	101,581
Financing			
Funds distributed to members		(34,495)	(54,611)
Cash used in financing activities		(34,495)	(54,611)
Increase in cash and cash equivalents during the year		36,854	46,970
Cash and cash equivalents, beginning of year		\$ 373,780	326,810
Cash and cash equivalents, end of year		\$ 410,634	\$ 373,780
Cash and cash equivalents consists of:			
Cash in bank		410,634	373,780
Cash equivalents		-	-
		\$ 410,634	\$ 373,780

The accompanying notes are an integral part of these financial statements.

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS

Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

1. NATURE OF FACILITY ASSOCIATION

Facility Association (the "Association") is a legal structure established on June 28, 1977 and then continued pursuant to subsection 7(1) of the *Compulsory Automobile Insurance Act*, R.S.O. 1990, c.C.25 (the "Act") which provides as follows:

7(1) The unincorporated non-profit association of insurers known as the Facility Association is continued under the name Facility Association in English and under the name Association des assureurs in French.

The Act has either been adopted in each other province and territory in which the Association operates or a very similar statute has been enacted in those other provinces or territories. The Association does not issue contracts of automobile insurance nor does it accept or assume any insurance risk from policyholders. Rather, the Association is a statutory creation that acts as a conduit for insurers to share certain types of automobile insurance (high) risk. It administers and accounts for the operations of certain insurance pools on behalf of member insurance companies (individually a "member" and collectively the "members"). These insurance pools (collectively referred to as "insurance pools under administration") include the Facility Association Residual Market Segment (the "FARM"), and the Uninsured Automobile Funds (the "UAFs") for New Brunswick, Newfoundland and Labrador, Prince Edward Island, and Nova Scotia; and the Risk Sharing Pools (the "RSPs") for Ontario, Alberta (Grid and Non-Grid), New Brunswick, Nova Scotia, and Newfoundland and Labrador. The address of the Association's registered office is 2235 Sheppard Avenue East, Atria II, Suite 600, Toronto, ON, M2J 5B5. As authorized by statute within each of the jurisdictions, every insurer licensed to write automobile liability insurance is a member of the Association by operation of law.

Members assume the risk and share in the experience of the insurance pools under administration in accordance with their participation ratio, reflecting their share of the insurance pools under administration by jurisdiction, business segment, and accident year in accordance with relevant provisions of the Association's Plan of Operation (the "Plan"). For the insurance pools under administration, the results of the operations, including administration costs incurred by the Association, are allocated to members, who account for their share of the operation of the insurance pools under administration in their own financial statements. Certain revenues and related expenses are not accounted for within the financial statements of these insurance pools under administration; rather, they are incurred by members directly and recorded only in each member's own financial statements.

The Association's Board of Directors (the "Board") has the necessary power and authority to conduct the affairs of the Association, with the exception of those powers specifically reserved for or delegated to others by the Articles of Association, in accordance with the Association's Plan. The Association administers the sharing among members of the results of the operations of the insurance pools under administration. Operating surpluses are provided to members, and operating deficits are funded by members in accordance with the Plan. Other receivables, Accounts receivable from related parties and Funds held by members, do not bear interest.

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

- *In the event of failure of any member, through insolvency or otherwise, to pay promptly its portion of any loss or expense after the Board shall have made written demand upon the member to pay such loss or expense, the Board shall report the delinquency to all members.*
- *If the loss or expense remains unpaid beyond a reasonable period, all of the other members, upon notification by the Board, shall promptly pay their respective shares of such loss or expense.*

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

1. NATURE OF FACILITY ASSOCIATION (continued)

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

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

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

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

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

The UAFs commenced operations as follows:

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

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

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS

Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

1. NATURE OF FACILITY ASSOCIATION (continued)

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

The financial statements contained herein are for the results of the FARM and UAFs (hereinafter referred to as the "FARM" or "FARM and UAFs") administered by the Association and account for the financial results of the risks written by the members of FARM and the cost of administering the insurance pools, including the participation of members in sharing the associated results. These financial statements do not account for any expenses incurred or revenue earned by individual members in respect to their participation in any aspect of the FARM.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

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

Basis of presentation

These financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB") and were approved by the Board of Directors and authorized for issue on February 12, 2026.

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

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

Assets and liabilities expected to be recovered or settled within one year include cash and cash equivalents, other receivables, accounts receivable from related parties, accrued interest income, and funds held by members. Insurance contract liabilities include balances that are both current and non-current.

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS

Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Basis of measurement

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

Insurance contracts

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

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

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

Aggregation of insurance contracts

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

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

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

Recognition of insurance contracts

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

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

Insurance acquisition cash flows

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

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

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS

Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

cash flows are allocated. The asset is derecognized, fully or partially, when the insurance acquisition cash flows are included in the measurement of the group of contracts.

Recoverability assessment

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

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

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

Contract boundaries

The measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group. For the FARM the contract boundary is up to 12 months.

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

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

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

Measurement – Premium Allocation Approach (“PAA”)

The *IFRS 17: Insurance Contracts* standard allows the PAA, which is a more simplified measurement model to be applied if the entity has contracts with a coverage period of one year or less or where the liability for remaining coverage for the group under the PAA is not materially different to the one under the general measurement model. The insurance contracts issued by servicing carriers through the FARM meet this PAA criterion.

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

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

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

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

Contract derecognition and modification

The FARM derecognizes a contract when extinguished and for a contract to be considered extinguished the following circumstances need to be present:

- The contract is at the end of the accident year; or
- When premiums are not paid.

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

Presentation

Portfolios of insurance contracts that are assets and those that are liabilities are presented separately in the Statement of Financial Position.

FARM disaggregates amounts recognized in the Statement of Operations into (a) an insurance service result, comprising insurance revenue and insurance service expenses; and (b) insurance finance income or expenses.

Financial instruments

Recognition and initial measurement

FARM and UAFs' financial instruments are classified as amortized cost and presented as such on the Statement of Financial Position. Financial instruments include the cash and cash equivalents, other receivables, accounts receivable from related parties, funds held by members, accounts payable and other liabilities, and servicing carrier operating fees payable.

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

Classification and subsequent measurement - financial assets

Classification

On initial recognition, a financial asset is classified as measured at amortized cost, Fair Value through Other Comprehensive Income ("FVOCI") or Fair Value through Profit or Loss ("FVTPL"). FARM does not have other comprehensive income. As such, no financial instruments are classified as FVOCI.

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS

Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

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

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

Business model assessment

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

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

Assessment of whether contractual cash flows are Solely Payments of Principal and Interest ("SPPI")

For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition. However, the principal may change over time (drawdown on principal due to repayments).

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

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

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

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS

Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

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

FARM and UAFs financial assets are measured at amortized cost. The financial assets consist of cash and cash equivalents, other receivables, accounts receivable from related parties, accrued interest income and funds held by members. These meet the SPPI test and are held to collect contractual cash flows from counterparties. The funds held by members reflect the results of operations shared by members. These amounts are due on demand and, accordingly, management considers that the carrying amounts approximate fair value.

Subsequent measurement and gains and losses

Financial assets are measured at amortized cost using the effective interest method. Interest income and impairment are recognized in the Statement of Operations. Any gain or loss on derecognition is also recognized in the Statement of Operations.

Classification and subsequent measurement - financial liabilities

Classification

FARM and UAFs' financial liabilities are measured at amortized cost.

Subsequent measurement and gains and losses

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

Classification and subsequent measurement - interest on financial instruments

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

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

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS

Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

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

The gross carrying amount of a financial asset is its amortized cost before adjusting for any loss allowance.

Financial assets not credit-impaired on initial recognition

If the financial asset is not credit-impaired, then interest income is calculated by applying the effective interest rate to the gross carrying amount of the asset. When calculating the effective interest rate, the FARM and UAFs estimates future cash flows considering all contractual terms of the asset, but not expected credit losses ("ECL").

Financial assets credit-impaired

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

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

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

Impairment - financial assets

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

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

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

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

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

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS

Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

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

Measurement of ECL

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

Credit-impaired financial assets

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

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the debtor;
- a breach of contract such as a default or past-due event;
- the restructuring of an amount due to the FARM and UAFs on terms that the FARM and UAFs would not otherwise consider;
- the debtor entering bankruptcy or other financial reorganisation becoming probable; or
- the disappearance of an active market for a security because of financial difficulties.

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

Presentation of loss allowances in the Statement of Financial Position

For financial assets measured at amortized cost, the loss allowance for ECL is deducted from the gross carrying amount of the assets.

Write-off

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

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

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS

Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Derecognition and contract modification

Financial assets

FARM and UAFs derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the FARM and UAFs neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

Financial liabilities

The FARM and UAFs derecognizes a financial liability when its contractual obligations expire or are discharged or cancelled.

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

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

Offsetting financial instruments

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

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS

Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

Foreign currency translation

Items included in these financial statements are measured in Canadian dollars, which is the functional and presentation currency of the FARM. Monetary assets and liabilities denominated in foreign currencies, if any, are translated in Canadian dollars using the exchange rate at the period-end reporting date and transactions in foreign currencies, if any, are translated in Canadian dollars at rates of exchange at the time of such transactions. As at October 31, 2025 and 2024 there are no assets and liabilities denominated in foreign currencies.

Funds held by members

Funds held by members represent a portion of the insurance premium amounts that are not yet required by the FARM and UAFs to settle claims and pay operating expenses. These available funds have been transferred to members. Funds held by members are due on demand and are recorded at the amounts receivable at the date of the Statement of Financial Position and do not bear interest. Management considers that the carrying amounts approximate fair value.

Discounting of insurance contract liabilities

Under IFRS 17, estimates of future cash flows are to be discounted to reflect the time value of money and financial risks related to those cash flows. The FARM discounts estimates of future cash flows using risk-free yield curves adjusted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts.

Risk adjustment

The measurement of insurance contract liabilities includes a risk adjustment for non-financial risk which will be applied to the present value of the estimated future cash flows. The risk adjustment is the FARM's compensation for bearing the uncertainty relating to non-financial risk. The non-financial risk pertains to the amount and timing of cash flows as the FARM fulfil insurance contracts. The risk adjustment replaces the provision for adverse deviation. The FARM applies a hybrid approach, which incorporates elements of the margin approach, quantile technique and cost of capital technique, for its non-financial risk.

Loss component (Onerous contracts)

To determine if a group of contracts are onerous, the FARM considers facts and circumstances based on the expected fulfilment cash flows, pricing data, the outcomes of similar contracts, and the operating and regulatory environment. At initial recognition, the FARM assumes that no contracts are onerous, unless facts and circumstances indicate otherwise, as all the insurance contracts have been determined to meet the PAA criteria. If at any time during the coverage period, the facts and circumstances indicate that a group of insurance contracts is onerous, the FARM establishes a loss component as the difference between fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the LRC of the group.

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS

Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Insurance revenue and insurance service expenses

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

Leases

IFRS 16 *Leases* ("IFRS 16") requires lessees to recognize right-of-use assets and lease liabilities on the Statement of Financial Position, with depreciation expense on the right-of-use asset and interest expense on the lease liability recognized in the Statement of Operations.

Under a premises sub-lease arrangement that the Association has with the Insurance Bureau of Canada ("IBC") with respect to office space, the Association occupies a portion of two premises leased by IBC. The Association is required to pay IBC its share of the lease costs incurred by IBC under those leases, in direct proportion to the space the Association occupies. The Association is also required to pay IBC a share of the common area costs. This has been a longstanding arrangement and historically, the Association has run out the full term of the sub-lease when co-occupying premises with IBC, with the current sub-lease terms ending between 2027 and 2029.

Based on the current premises sub-lease arrangement with IBC, the Association's share of the cost to IBC for the total space occupied for the year ended October 31, 2025, is \$319 (2024: \$274); of which \$88 (2024: \$76) has been allocated by the Association to the FARM and UAFs and recorded in Administration expenses. As the sub-lease arrangement is between the Association and IBC, and not with the FARM and UAFs, management has determined that there is no other impact of IFRS 16 on these financial statements.

Income taxes

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

Related-party transactions

Related-party transactions are considered to be in the normal course of business and are initially recognized at the exchange amount as agreed to between the related parties.

Management judgements and estimation uncertainty

The preparation of financial statements in accordance with IFRS Accounting Standards as issued by the IASB and accepted actuarial practices in Canada requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Key sources of estimation uncertainty include the insurance contract liabilities (see Notes 4 and 9). Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS

Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Critical judgement in applying accounting policies

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

Change in accounting estimates

During the current year, FARM updated its estimate regarding the premium payment patterns used for calculating LRC under IFRS 17 based on new data obtained regarding jurisdictional breakdowns in monthly and annual payment plans. This new information provided a more accurate reflection of the business practices, allowing FARM to refine its premium payment assumptions by jurisdiction and vehicle segment. This update is classified as a change in accounting estimate and has been applied prospectively from the date the new information became available.

As a result of this change in accounting estimate, the LRC decreased by \$39,876 in the current fiscal year and expected change for the year ending October 31, 2026 is \$41,473. The reduction in funds held by members corresponds with the decreased LRC. The Association will continue to evaluate the impact of the future expected premium payment patterns to be recognized as income or expense in the future periods.

Valuation of insurance contract liabilities

The Actuary is appointed by the Board. With respect to the preparation of these financial statements, the Actuary is required to carry out a valuation of the FARM's insurance contract liabilities and report thereon to the members. The valuation is carried out in accordance with IFRS 17. The scope of the valuation encompasses only the LRC and LIC. In performing the valuation of the liabilities for these inherently variable future events, the Actuary makes assumptions as to future rates of claim frequency and severity, inflation, expenses, and other matters, taking into consideration the circumstances of the FARM and the nature of the insurance policies issued by the members of the FARM. Procedures are put in place by the Association to ensure that the data used in the valuation performed by the Actuary is sufficient and reliable for the valuation of insurance contract liabilities. The Actuary also makes use of the management information provided by the FARM and considers the work of the internal and external auditors with respect to the FARM's underlying data used in the valuation. The valuation is necessarily based on estimates and, consequently, the final values may vary from those estimates.

3. FUTURE ACCOUNTING STANDARDS

In April 2024, the IASB issued IFRS 18 Presentation and Disclosures in Financial Statements, which will replace IAS 1 Presentation of Financial Statements. IFRS 18 enhances disclosure requirements in the following areas: the Statement of Operations, aggregation and disaggregation of financial information, and management-defined performance measures. IFRS 18 is effective for annual reporting periods beginning on or after January 1, 2027, and will be applied retrospectively. The FARM and UAFs is currently assessing potential impacts.

In May 2024, the IASB published Amendments to the Classification and Measurement of Financial Instruments - Amendments to IFRS 9 and IFRS 7 to address matters identified during the post-implementation review of IFRS 9. The amendments clarify the classification of certain financial assets as well as the derecognition of a financial liability and introduce an accounting policy option for the derecognition of financial liabilities settled through electronic transfer if certain conditions are met. The amendments also add disclosure requirements for certain financial instruments. The amendments are effective for annual reporting periods beginning on or after January 1, 2026, with earlier application

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS

Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

3. FUTURE ACCOUNTING STANDARDS (continued)

permitted, and will apply retrospectively. The FARM and UAFs are currently assessing the impact of these amendments on its financial statements.

At the date of approval of these financial statements, other new, but not yet effective, Standards and amendments to existing Standards have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the FARM and UAFs. Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and interpretations not adopted in the current year are under assessment by Management and have not been disclosed as they are not expected to have a material impact on the FARM and UAFs financial statements.

4. INSURANCE CONTRACTS

Movements in insurance contract assets and insurance contract liabilities

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

The following tables separately analyze movements in the liability for remaining coverage and movements in the liability for incurred claims and reconciles these movements to the line items in the Statement of Operations.

**FACILITY ASSOCIATION
RESIDUAL MARKET SEGMENT and
UNINSURED AUTOMOBILE FUNDS
Notes to the Financial Statements (continued)**

For the year ended October 31, 2025
(in thousands of Canadian dollars)

4. INSURANCE CONTRACTS (continued)

Insurance Contracts under PAA Analysis by remaining coverage and incurred claims:

	2025					
	Liability for remaining coverage		Liability for incurred claims		Other	Total
Excluding loss component	Loss component	Estimates of present value of future cash flows	Risk adjustment for non-financial risk			
Opening insurance contract assets	-	-	-	-	-	-
Opening insurance contract liabilities	\$ 218,514	-	\$ 644,798	\$ 55,104	-	\$ 918,416
Net opening balance as at November 1	218,514	-	644,798	55,104	-	918,416
Changes in the Statement of Operations						
Insurance revenue	(526,045)	-	-	-	-	(526,045)
Incurred claims and other insurance service expenses	-	-	375,023	17,224	-	392,247
Amortisation of insurance acquisition cash flows	44,721	-	-	-	-	44,721
Adjustments to liabilities for incurred claims	-	-	2,852	(13,466)	-	(10,614)
Administration expenses	-	-	-	-	69,689	69,689
Insurance service expenses	44,721	-	377,875	3,758	69,689	496,043
Insurance service result	(481,324)	-	377,875	3,758	69,689	(30,002)
Net finance income from insurance contracts	-	-	31,583	2,518	-	34,101
Net investment income	-	-	-	-	(12,173)	(12,173)
Total changes in the Statement of Operations	(481,324)	-	409,458	6,276	57,516	(8,074)
Cash flows						
Premiums received	444,787	-	-	-	-	444,787
Claims and other insurance service expenses paid	-	-	(339,495)	-	(57,516)	(397,011)
Total cash flows	444,787	-	(339,495)	-	(57,516)	47,776
Net closing balance as at October 31	181,977	-	714,761	61,380	-	958,118
Closing insurance contract assets	-	-	-	-	-	-
Closing insurance contract liabilities	181,977	-	714,761	61,380	-	958,118
Net closing balance as at October 31	181,977	-	714,761	61,380	-	958,118

**FACILITY ASSOCIATION
RESIDUAL MARKET SEGMENT and
UNINSURED AUTOMOBILE FUNDS
Notes to the Financial Statements (continued)**

For the year ended October 31, 2025
(in thousands of Canadian dollars)

4. INSURANCE CONTRACTS (continued)

2024

	Liability for remaining coverage		Liability for incurred claims			Total
	Excluding loss component	Loss component	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Other	
Opening insurance contract assets	-	-	-	-	-	-
Opening insurance contract liabilities	\$ 213,043	-	\$ 598,911	\$ 56,648	-	\$ 868,602
Net opening balance as at November 1	213,043	-	598,911	56,648	-	868,602
Changes in the Statement of Operations						
Insurance revenue	(520,679)	-	-	-	-	(520,679)
Incurred claims and other insurance service expenses	-	-	341,747	14,144	-	355,891
Amortisation of insurance acquisition cash flows	42,136	-	-	-	-	42,136
Adjustments to liabilities for incurred claims	-	-	(31,694)	(20,957)	-	(52,651)
Administration expenses	-	-	-	-	69,489	69,489
Insurance service expenses	42,136	-	310,053	(6,813)	69,489	414,865
Insurance service result	(478,543)	-	310,053	(6,813)	69,489	(105,814)
Net finance income from insurance contracts	-	-	62,930	5,269	-	68,199
Net investment income	-	-	-	-	(16,996)	(16,996)
Total changes in the Statement of Operations	(478,543)	-	372,983	(1,544)	52,493	(54,611)
Cash flows						
Premiums received	484,014	-	-	-	-	484,014
Claims and other insurance service expenses paid	-	-	(327,096)	-	(52,493)	(379,589)
Total cash flows	484,014	-	(327,096)	-	(52,493)	104,425
Net closing balance as at October 31	218,514	-	644,798	55,104	-	918,416
Closing insurance contract assets	-	-	-	-	-	-
Closing insurance contract liabilities	218,514	-	644,798	55,104	-	918,416
Net closing balance as at October 31	218,514	-	644,798	55,104	-	918,416

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS

Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

4. INSURANCE CONTRACTS (continued)

At October 31, 2025, the carrying amounts of insurance contracts expected to be settled more than 12 months after the reporting date is \$545,368 (2024: \$491,930).

Significant judgements and estimates

Fulfilment cash flows

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

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

Estimates of future cash flows

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

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

As the sole purpose of the FARM is to ensure the availability of a residual automobile insurance market for owners and operators of motor vehicles required by law to have insurance who may otherwise have difficulty obtaining such insurance, all of the acquisition expenses incurred by (or attributed to) the FARM are directly attributable to the fulfilment of insurance contracts.

Contract boundaries

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

Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the FARM can compel the policyholder to pay the premium, or in which the FARM has a substantive obligation to provide the policyholder with services. A substantive obligation to provide services ends when:

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

4. INSURANCE CONTRACTS (continued)

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

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

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

Insurance contracts

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

Discount rates

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

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

	2025				2024			
	1 year	5 years	10 years	15 years	1 year	5 years	10 years	15 years
Interest rates								
CAD	3.300%	3.887%	4.669%	5.135%	4.257%	4.045%	4.628%	4.969%

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

4. INSURANCE CONTRACTS (continued)

Risk adjustment for non-financial risk

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

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

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

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

Composition of liability for incurred claims for the twelve-month accident period ended October 31, unless otherwise noted:

	October 31, 2025	October 31, 2024
Case Reserves	\$ 402,757	\$ 349,950
IBNR	330,996	319,239
Claims expense provision	52,944	47,617
Effect of discounting	(71,937)	(72,008)
Present value of future cash flows	714,759	644,798
Risk adjustment	67,428	61,126
Discounting - Risk adjustment	(6,047)	(6,021)
Liability for incurred claims	\$ 776,141	\$ 699,902

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 2016 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.

**FACILITY ASSOCIATION
RESIDUAL MARKET SEGMENT and
UNINSURED AUTOMOBILE FUNDS
Notes to the Financial Statements (continued)**

For the year ended October 31, 2025
(in thousands of Canadian dollars)

4. INSURANCE CONTRACTS (continued)

October 31, 2025	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Estimates of undiscounted ultimate gross cumulative claims and claims expenses											
At the end of accident year	\$ 128,062	\$ 122,287	\$ 138,203	\$ 205,945	\$ 225,584	\$ 270,387	\$ 325,172	\$ 352,933	\$ 371,133	\$ 397,912	
1 year later	135,197	122,165	149,590	219,819	235,636	277,795	347,635	360,390	396,606		
2 years later	132,233	121,075	143,772	222,449	228,869	267,724	334,208	358,855			
3 years later	131,088	117,841	144,486	228,280	228,064	255,430	329,426				
4 years later	131,023	118,275	145,595	232,777	232,002	255,050					
5 years later	131,143	119,871	135,353	233,011	228,227						
6 years later	130,308	119,372	133,698	230,658							
7 years later	130,427	120,316	134,546								
8 years later	130,252	120,605									
9 years later	130,257										
Cumulative gross claims paid	126,137	113,318	124,458	208,685	198,323	205,680	242,892	234,225	218,299	146,220	1,818,237
Gross liabilities - accident years from 2016-2025	4,120	7,287	10,088	21,973	29,904	49,370	86,534	124,630	178,307	251,692	763,905
Gross liabilities - accident years before 2016											22,792
Effect of discounting and risk adjustment											(10,556)
Gross liabilities for incurred claims included in the Statement of Financial Position (see A)											\$ 776,141

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

4. INSURANCE CONTRACTS (continued)

Significant actuarial assumptions

The Actuary makes numerous assumptions to establish a point estimate for the insurance contract liabilities. These assumptions are made following IFRS 17 and accepted actuarial practice based on the Actuary's experience coupled with observed characteristics of the FARM's current and historic claims settlement processes. The actuarial assumptions that have the greatest impact on the estimation of the insurance contract liabilities are:

- The selection of models used to forecast the timing and amount of claim settlements
- The selection of development and payment parameters used to fit the models to past experience
- The selection of ultimate loss ratios
- The selection of discount rate used to compute present value of estimated insurance contract liabilities
- The selection of risk adjustment for non-financial risk
- The magnitude and timing of latent claims arising from environmental and other long-tail exposures

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

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

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

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

To discount the future cash flows to reflect the time value of money, the Actuary computes the yield curve as the risk-free rate plus an illiquidity premium, as described above. The Actuary then discounts the expected future cash flows, based on the calculated curve. The Actuary used the published Canadian Institute of Actuaries (CIA) IFRS 17 Reference Curves, as the source of the yield curve in the discounting calculation. The annual effective discount rate used in the valuation of the FARM in these financial statements varied from 3.44% to 3.69% depending on the province (2024: 4.07% to 4.18%).

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

4. INSURANCE CONTRACTS (continued)

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

Structured settlements

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

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

The maximum exposure for the FARM and UAFs is the discounted value of the payments outstanding on such annuities that are still in force. The FARM and UAFs estimate the original purchase value of annuities in force as at October 31, 2025, to be **\$129,031** (2024: \$131,067). The maximum exposure is for the discounted present value of the payments outstanding on such annuities that are still in force. This exposure is further mitigated by the fact that any obligations resulting from these structured settlements are joint and several on all members.

5. OTHER RECEIVABLES

Other receivables, accounts receivable from related parties, and accrued interest income are non-interest bearing and are normally settled between thirty days and twelve months. Management considers the carrying amount of accounts receivable, net of an expected credit loss allowance, to be a reasonable approximation of the fair value of the assets because of the short-term nature of the assets. A portion of the receivables balance is due from related parties (see Note 7), which is considered to be fully recoverable. As at October 31, 2025, the expected credit loss allowance is **\$637** (2024: \$637).

6. FUNDS HELD BY MEMBERS

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

Net funds transferred during the year ended October 31, 2025, between the FARM and members (excluding transfers related to settlement of operating results) were **\$26,421** (2024: \$0). The funds are allocated to individual members based on their share of liabilities for remaining coverage and the provision for unpaid and unreported claims. Transfer of funds does not change the members' obligations to the FARM.

**FACILITY ASSOCIATION
RESIDUAL MARKET SEGMENT and
UNINSURED AUTOMOBILE FUNDS
Notes to the Financial Statements (continued)**

For the year ended October 31, 2025
(in thousands of Canadian dollars)

7. ADMINISTRATION EXPENSES AND RELATED-PARTY TRANSACTIONS

Compensation of key management personnel

	<u>October 31, 2025</u>	<u>October 31, 2024</u>
Wages and salaries	\$ 1,898	\$ 1,612
Healthcare benefits	28	25
Pension benefits	71	65
Independent directors' fees	104	82
Total operating expenses	\$ 2,101	\$ 1,784

Commitments to the Association's administration expenses

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

For the year ended October 31, 2025, the Association allocated total administration expenses to the FARM and UAFs amounting to **\$14,765** (2024 - \$14,319).

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

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

The Association participates in the Insurance Bureau of Canada Staff Pension Plan (the “IBC Plan”) where the IBC is the Plan Administrator. The IBC Plan design includes both a defined contribution plan and a defined benefit plan. The most recent valuation of the IBC Plan was filed as at September 30, 2025 with the next valuation date required at December 31, 2028. During the year ended October 31, 2025, the Association recognized total costs of **\$612** (2024: \$465) in respect of the defined contribution plan, of which **\$355** (2024: \$256) has been allocated to FARM and UAFs, and total costs of **\$23** (2024: \$44) in respect of the defined benefit plan, of which **\$14** (2024: \$24) has been allocated to FARM and UAFs. These expenses are included in administration expenses.

During 2022, FARM and UAFs provided a float to the Association and other insurance pools under administration for payment of administration expenses. As at October 31, 2025 and 2024, the amounts receivable from the Association and other insurance pools under administration are as follows:

	<u>2025</u>	<u>2024</u>
Accounts receivable(payable) from(to) related parties:		
Association	\$ (547)	\$ (101)
Ontario RSP	578	569
Alberta Grid RSP	367	368
Alberta Non-Grid RSP	366	366
New Brunswick RSP	283	280
Nova Scotia RSP	269	268
Newfoundland and Labrador RSP	120	120
	<u>\$ 1,436</u>	<u>\$ 1,870</u>

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

8. MANAGEMENT OF CAPITAL

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

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

9. FINANCIAL RISK MANAGEMENT

Financial risks

Credit risk

Credit risk is that of adverse financial results arising from the failure of a debtor to make payments when due. The FARM and UAFs is exposed to this risk through accounts receivable from members, funds held by members, and through Type 1 and Type 2 structured settlement annuities.

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

Maximum exposure to credit risk

As at October 31, 2025 and 2024, management has determined that the maximum exposure to credit risk is equal to the carrying value of the amounts presented in the Statement of Financial Position, and have contractual maturities or expected cash flow dates of less than one year.

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.

FACILITY ASSOCIATION

RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS

Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

9. FINANCIAL RISK MANAGEMENT (continued)

Amounts arising from ECL on financial assets

Significant increase in credit risk

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

Modified financial assets

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

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of:

- its remaining lifetime PD as at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

Definition of default

The Association considers a financial asset to be in default when:

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

In assessing whether a debtor is in default, the Association considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same debtor to the Group.
- based on data developed internally and obtained from external sources.

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

Liquidity risk

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

Funds held by members are subject to liquidity risk arising from the potential failure of a member or members to respond to a cash call or assessment by the FARM and UAFs. Liquidity risk is minimal for the FARM and UAFs since members are required to settle all balances as they become due on a monthly basis. This exposure is further mitigated through such obligations being joint and several on all members.

**FACILITY ASSOCIATION
RESIDUAL MARKET SEGMENT and
UNINSURED AUTOMOBILE FUNDS
Notes to the Financial Statements (continued)**

For the year ended October 31, 2025
(in thousands of Canadian dollars)

9. FINANCIAL RISK MANAGEMENT (continued)

The exposure of the FARM and UAFs to liquidity risk as at October 31, 2025 and 2024, is portrayed in the table below; it presents insurance contract liabilities according to their contractual maturities or expected cash flow dates. Liabilities for remaining coverage measured under the PAA have been excluded from this analysis

The maturity profile of financial liabilities as at October 31, 2025 is as follows:

As at October 31, 2025	1 year or less	1 to 5 years	More than 5 years	Total	Carrying value in the Statement of Financial Position
Accounts payable and other liabilities	\$55,632	\$ -	\$ -	\$55,632	\$55,632
Servicing carrier operating fees payable	17,492	-	-	17,492	17,492
Insurance contract liabilities					
Liability for incurred claims	230,951	442,227	102,963	776,141	776,141
Total	\$304,075	\$442,227	\$102,963	\$849,265	\$849,265

The maturity profile of financial liabilities at October 31, 2024 is as follows:

As at October 31, 2024	1 year or less	1 to 5 years	More than 5 years	Total	Carrying value in the Statement of Financial Position
Accounts payable and other liabilities	\$69,482	\$ -	\$ -	\$69,482	\$69,482
Servicing carrier operating fees payable	18,353	-	-	18,353	18,353
Insurance contract liabilities					
Liability for incurred claims	207,972	399,868	92,062	699,902	699,902
Total	\$295,807	\$399,868	\$92,062	\$787,737	\$787,737

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS

Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

9. FINANCIAL RISK MANAGEMENT (continued)

Market risk

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

Interest rate risk

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

The estimated impact on the Statement of Operations of an immediate parallel decrease of 1% in interest rates as at October 31, 2025 (2024: 1%), across the yield curve in all markets would be a decrease in excess of revenue over expenses of \$15,800 (2024: \$13,900). Conversely, an immediate parallel increase of 1% in interest rates would result in an estimated increase in excess of revenue over expenses of \$15,000 (2024: \$13,200).

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. Investment contracts with fixed and guaranteed terms held to maturity are accounted for at amortized cost and their carrying amounts are not sensitive to changes in the level of interest rates.

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

FACILITY ASSOCIATION

RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS

Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

9. FINANCIAL RISK MANAGEMENT (continued)

Insurance risk

Insurance risk is that of adverse financial results arising from the issuance of insurance policies. The most significant risk the FARM faces is the difference between the expected and actual amount and the timing of loss payments. The variability of the ultimate loss amounts is dependent of the variations of pricing, insurance contracts, and frequency and severity of claims payment amounts and patterns in relation to expectations. The concentration of insurance risk is composed entirely of automobile risks in the jurisdictions the FARM operates in. The risk management activities can be broadly separated into underwriting, claims management, and valuation of insurance contract liabilities.

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

Underwriting

The FARMs result for the year is sensitive to pricing risk. Subject to the transfer rules set out in the Plan, the individual members that issue policies on their own accounts and at their own rate may transfer the whole of the policy or a portion thereof through the FARMs to the collective of members. Sensitivity to insurance risk is managed by setting appropriate policy limits within the laws of Canada. The Association conducts periodic underwriting audits on members to ensure compliance with the FARM's underwriting rules and guidelines.

Claims management

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

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

FACILITY ASSOCIATION RESIDUAL MARKET SEGMENT and UNINSURED AUTOMOBILE FUNDS Notes to the Financial Statements (continued)

For the year ended October 31, 2025
(in thousands of Canadian dollars)

9. FINANCIAL RISK MANAGEMENT (continued)

Valuation of insurance contract liabilities

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

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

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

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

Management ensures that appropriate controls are in place and working effectively to provide reasonable assurance that the results of the valuation are accurately incorporated into the financial statements. On a periodic basis, management engages qualified third parties to peer review the valuation process and results to ensure compliance with the Standards of Practice of the Canadian Institute of Actuaries.

Sensitivity to insurance risk

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

- average claims costs including the cost of certain legal and professional claims expenses allowed;
- average claims by accident year;
- trends in claims severity and frequency; and
- other factors, such as inflation, expected or in-force government pricing and coverage reforms, and the level of insurance fraud.

The Excess of revenue over expenses and Funds held by members would have (increased) decreased by **\$38,807** in 2025 (2024: \$34,995) if 5% increase (decrease) in ultimate claims that were reasonably possible at the reporting date had occurred.

**FACILITY ASSOCIATION
RESIDUAL MARKET SEGMENT and
UNINSURED AUTOMOBILE FUNDS
Notes to the Financial Statements (continued)**

For the year ended October 31, 2025
(in thousands of Canadian dollars)

10. NET FINANCIAL RESULT

The following table analyzes the FARM and UAFs' net financial result in the Statement of Operations:

	2025		2024
Investment income			
Interest revenue calculated using the effective interest method	12,173	\$	16,996
Total investment income	12,173		16,996
Net finance income (expenses) from insurance contracts			
Interest accreted	(31,234)		(35,413)
Effect of changes in interest rates and other financial assumptions	(2,867)		(32,786)
Total net finance income (expenses) from insurance contracts	(34,101)		(68,199)

**FACILITY ASSOCIATION
RESIDUAL MARKET SEGMENT and
UNINSURED AUTOMOBILE FUNDS
Notes to the Financial Statements (continued)**

For the years ended October 31, 2025 and 2024
(in thousands of Canadian dollars)

11. GEOGRAPHIC RESULTS OF OPERATIONS BY JURISDICTION

	2025									Total
	ON	NS	PE	NB	NL	AB	YT	NT	NU	
Insurance revenue	\$ 203,594	\$ 59,762	\$ 7,437	\$ 35,440	\$ 42,414	\$ 166,507	\$ 3,392	\$ 5,847	\$ 1,652	\$ 526,045
Insurance services expenses	188,039	69,017	5,377	24,612	46,859	152,837	4,508	4,264	530	496,043
Insurance service result	15,555	(9,255)	2,060	10,828	(4,445)	13,670	(1,116)	1,583	1,122	30,002
Investment income	4,938	1,260	126	704	912	4,079	60	75	19	12,173
Net finance income (expenses) from insurance contracts	(15,175)	(2,767)	(410)	(2,466)	(3,133)	(9,884)	(81)	(139)	(46)	(34,101)
Net financial result	(10,237)	(1,507)	(284)	(1,762)	(2,221)	(5,805)	(21)	(64)	(27)	(21,928)
Excess of revenue over expenses	\$ 5,318	\$ (10,762)	\$ 1,776	\$ 9,066	\$ (6,666)	\$ 7,865	\$ (1,137)	\$ 1,519	\$ 1,095	\$ 8,074

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").

**FACILITY ASSOCIATION
RESIDUAL MARKET SEGMENT and
UNINSURED AUTOMOBILE FUNDS
Notes to the Financial Statements (continued)**

For the years ended October 31, 2025 and 2024
(in thousands of Canadian dollars)

11. GEOGRAPHIC RESULTS OF OPERATIONS BY JURISDICTION (continued)

	2024									Total
	ON	NS	PE	NB	NL	AB	YT	NT	NU	
Insurance revenue	\$ 208,160	\$ 53,678	\$ 7,535	\$ 34,428	\$ 41,488	\$ 165,640	\$ 3,499	\$ 4,820	\$ 1,431	\$ 520,679
Insurance services expenses	154,931	51,126	5,870	21,573	32,317	143,537	1,453	3,028	1,030	414,865
Insurance service result	53,229	2,552	1,665	12,855	9,171	22,103	2,046	1,792	401	105,814
Investment income	7,141	1,727	194	1,071	1,267	5,424	58	86	28	16,996
Net finance income (expenses) from insurance contracts	(27,960)	(6,219)	(736)	(4,772)	(4,696)	(23,329)	(170)	(251)	(66)	(68,199)
Net financial result	(20,819)	(4,492)	(542)	(3,701)	(3,429)	(17,905)	(112)	(165)	(38)	(51,203)
Excess of revenue over expenses	\$ 32,410	\$ (1,940)	\$ 1,123	\$ 9,154	\$ 5,742	\$ 4,198	\$ 1,934	\$ 1,627	\$ 363	\$ 54,611

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").