Law Society of Ontario | Barreau de l'Ontario

Tab 2.0

Audit & Finance Committee

Report to Convocation

April 27, 2023

Committee Members:
Sidney Troister
Atrisha Lewis (Vice Chair)
Lubomir Poliacik (Vice Chair)
Catherine Banning
Cathy Corsetti
Seymour Epstein
Gary Graham
Philip Horgan
Michelle Lomazzo
C. Scott Marshall
Clare Sellers
Megan Shortreed

Authored By:

Finance
Brenda Albuquerque-Boutilier
Executive Director, Finance & CFO
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For Decision:

For Information:

FOR DECISION

Law Society of Ontario
Annual Financial Statements
for the year ended December 31, 2022

Motion:
That Convocation approve the audited annual financial statements for the Law Society of Ontario for the financial year ended December 31, 2022, including the net inter-fund transfers listed in Note 14, which are as follows:

- **$4,040,000 from the Capital Allocation Fund to the Invested in Capital and Intangible Assets Fund representing assets capitalized during the year in compliance with the Society's accounting policies;**
- **$1,200,000 from the Errors and Omissions Insurance Fund ("E&O Fund") to the Lawyer General Fund as provided for in the 2022 budget representing accumulated investment income, surplus to the needs of the E&O Fund;**
- **$728,500 from the E&O Fund to the County Libraries Fund as provided for in the 2022 budget to support the transitional budget of LiRN Inc.;**
- **$500,000 from the E&O Fund to the Capital Allocation Fund in the 2022 budget restricted to fund the Business and Technology Transformation Initiative ("Transformation") approved by Convocation to proceed in April 2022;**
- **$100,000 from the Lawyer General Fund to the Repayable Allowance Fund, as provided in the 2022 budget to fund the Repayable Allowance Program in the lawyer candidate Licensing Process;**
- **$28,000 from the General Funds to the Special Projects Fund to fund the next bencher election; and**
- **$14,000 from the Special Projects Funds to the Lawyer General Fund related to the update of the facilities condition assessment, policy consultation, and program development.**

The financial statements are accompanied by an unmodified opinion from the auditor. Jen Psutka, Partner Assurance, from PricewaterhouseCoopers LLP will be in attendance.

The Audit & Finance Committee unanimously recommends the approval of the audited annual financial statements for the Law Society, including the net inter-fund transfers.

The financial statements present the financial position and operations of the Law Society and include the General Funds (or operating funds) and a number of special purpose or restricted funds. The restricted funds are described in the financial statements and are:

- The Compensation Fund, restricted by the Law Society Act;
- The E&O Fund, the Capital Allocation Fund, the Invested in Capital & Intangible Assets Fund, the County Libraries Fund, the Repayable Allowance Fund, the Special Projects Fund and the Parental Leave Assistance Fund, all restricted by policies of Convocation.

Inter-fund Transfers

The total of net inter-fund transfers in the year are listed in Note 14 to the Annual Financial Statements and are routine in nature. Generally, inter-fund transfers relate to the capitalization of capital and intangible assets at year-end or the transfer of budgeted funds to appropriate Restricted Funds based on the criteria of the Fund. As these Funds are restricted by Convocation, any actual transfers not previously specifically approved by Convocation are approved in conjunction with the approval of the financial statements. In April 2022, Convocation specifically approved the transfer of $8.6 million from the E&O Fund to the Capital Allocation Fund restricted for the Transformation.

Usually, every year there are transfers in to and out of the Special Projects Fund. The purpose of the Special Projects Fund is to ensure that budgeted funds approved by Convocation and intended for a specific initiative in a given budget year or funds raised for a particular future purpose, remain available for the successful completion of the project or initiative in a subsequent year. An example is the funds raised each year to support the bencher election, which only occurs every four years.

Management Discussion & Analysis

The primary Management Discussion and Analysis follows at the next tab and accompanies the Annual Financial Statements.

LAW SOCIETY OF ONTARIO

2022 ANNUAL REPORT

Financial Statements

Contents

LAW SOCIETY OF ONTARIO
2022 ANNUAL FINANCIAL STATEMENTS

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of Financial Performance

The Law Society of Ontario's ("Society") combined financial statements report expenses exceeding revenues by $13.9 million for 2022 (2021 – revenues exceeded expenses by $12.2 million), with an equivalent reduction in overall fund balances. While the Society's 2022 budget planned for an overall reduction of $16.2 million in fund balances and the combined financial results are favourable compared to budget, it has been a challenging year for the lawyer pool of the Compensation Fund resulting in a notable decline in its fund balance.

Three factors beyond the Society's control negatively impacted the financial results for 2022 offset by operational efficiencies implemented by management, continued virtual and hybrid interactions, and other cost savings in 2022.

First, the Society was not immune to the global financial market volatility of 2022 and experienced notable unrealized losses on the portfolio investments of the General, Compensation and Errors & Omissions Insurance ("E&O") Funds totalling $7.5 million (2021 – unrealized gains of $6.2 million). Second, in 2022 the volume and dollar value of claims against the Compensation Fund increased, most notably in the lawyer pool of the Fund, resulting in the provision for unpaid grant expense of $8.4 million exceeding budget by $3.7 million. Third, the licensing process examination content was inappropriately accessed by some candidates compromising the integrity of the planned March 2022 examinations. To mitigate the impact on the other candidates and manage risk to the Society, a pivot back to in-person examination delivery was necessary to ensure the integrity of the licensing process. This shift led to $3.3 million in unbudgeted licensing process costs within the General Funds partially funded by the Society's $1.0 million budget contingency.

The Society's Lawyer and Paralegal General Funds, which account for the Society's program delivery and administrative activities, ended the year with combined expenses in excess of revenues of $2.2 million (2021 – excess of revenues over expenses of $9.0 million). The 2022 budget incorporated funding of $6.4 million from the fund balance of the Lawyer General Fund along with $1.2 million in funding from surplus investment income in the E&O Fund. Similarly, the 2022 budget planned for the utilization of $1.1 million of the fund balance in the Paralegal General Fund to fund operations. The use of fund balances is based on the Society's Fund Balance Management Policy and not-for-profit budgeting best practices.

The Society ended the year with a Lawyer General Fund balance of $37.7 million and a Paralegal General Fund balance of $2.2 million. In preparing the 2023 budget, the fund balance of the Lawyer General Fund was forecast to end the year above the maximum threshold under the Fund Balance Management Policy and through the budget cycle, Convocation committed combined General Fund balances of $9.6 million for 2023 activities and to mitigate annual fee increases.

The Society's restricted funds are reporting combined excess of expenses over revenues of $11.7 million in 2022 (2021 – excess of revenues over expenses of $3.2 million), impacted by notable unrealized losses in the Compensation and E&O Funds' portfolio investments and a continuing increase in Compensation Fund claims activity in the lawyer pool of the Fund.

The lawyer pool of the Compensation Fund is reporting expenses in excess of revenues of $9.4 million (2021 – excess of revenues over expenses of $512,000). The 2022 budget reduced the Compensation Fund component of the annual fee for lawyers from $86 to $1 through the planned use of $3.7 million of the fund balance available in the lawyer pool of the Compensation Fund. The Fund experienced unrealized losses on its portfolio investments of $3.3 million and actual expense related to the provision for unpaid grants in the combined lawyer and paralegal pools of the Fund exceeding budget by $3.7 million. The higher grant provision expense is driven mainly by inquiries and claims made against a few lawyers.

The E&O Fund is reporting excess of expenses over revenues of $1.8 million (2021 – excess revenues over expenses of $2.2 million) primarily from the decrease in fair value of its portfolio investments.

Statement of Revenues and Expenses & Change in Fund Balances

Revenues

Annual Fees

Total annual fee revenues are comparable to last year at $90.9 million (2021 – $90.7 million). The 2022 budget included an annual fee reduction of $60 for lawyers and $9 for paralegals with the impact of reduced fees offset by an increase in the number of licensees practising or working.

Insurance Premiums and Levies

The E&O Fund accounts for insurance-related transactions between Lawyers' Professional Indemnity Company ("LAWPRO"), the Society and insured lawyers. The E&O Fund collects premiums and levies from lawyers and remits these amounts to LAWPRO. Insurance premiums and levies decreased to $111.1 million in 2022 (2021 – $113.7 million). Real estate transaction volumes declined leading to a decrease in transaction levies of $4.1 million, a 12% decrease from 2021. The reduction in transaction levy revenues was offset by an increase in the number of insured lawyers in 2022. The base premium for professional liability insurance coverage for Ontario lawyers was $3,000, unchanged from 2021.

Professional Development and Competence ("PD&C")

PD&C revenues comprise licensing process and continuing professional development fees. Total PD&C revenue decreased this year to $21.7 million (2021 – $22.6 million).

Licensing Process revenue from lawyer candidates ($11.7 million) and paralegal candidates ($2.5 million) decreased by $1.1 million from 2021 as the 2022 budget planned for a $1.4 million reduction in revenue. In February 2021, Convocation approved the shift from in-person to online examination delivery, with the expectation of reduced expenses. As the Licensing Process operates on a cost-recovery model, for the 2022-23 licensing cycle, examination fees for lawyer candidates decreased by $100 for each of the Barrister and Solicitor examinations, and for paralegal candidates by $50. Study material fees were reduced by $50 for both lawyer and paralegal candidates. The reduction in revenue from lower fees was partially offset by an increase in the number of candidates writing examinations in 2022.

Total Continuing Professional Development ("CPD") revenue increased over the prior year to $7.5 million (2021 – $7.3 million) and exceeded budget expectations. CPD programming continued to be delivered primarily in a virtual format in 2022, with the revenue increase attributable to increased registrations. CPD revenue is trending upwards toward pre-pandemic levels. For 2023, in addition to the virtual delivery model, several CPD programs will see a return to in-person and hybrid programming, including the larger Summit programs. The Society will continue to monitor registrant choices related to delivery modality, to inform future CPD program planning.

Investment Income and Change in Fair Value of Investments

Investment returns, in particular unrealized changes in the fair value of the investments, were negatively impacted in 2022 by the volatility in the financial markets. While realized investment income was relatively static at $2.2 million (2021 – $2.1 million), the Society's investment portfolios experienced in year unrealized losses of $7.5 million (2021 –

unrealized gains of $6.2 million). Of the total unrealized losses, $1.9 million pertains to the General Funds, $3.6 million is related to the Compensation Fund, with the remaining $2.0 million specific to the E&O Fund. The Society does not budget for the change in fair value of investments as it is unpredictable. In a year of unrealized losses, there is a negative impact on the financial results for the year and on the fund balances of the three Funds.

Other Revenue

Other revenue of $7.5 million (2021 – $6.7 million) primarily comprises income from *Ontario Reports* royalties, administrative fees, and regulatory compliance ordered cost recoveries. Revenue related to ordered costs varies year to year and in 2022, recoveries in the Compensation Fund were higher than the prior year and budget.

Expenses

Expenses of the Lawyer and Paralegal General Funds focus on operations and were $107.0 million (2021 – $97.9 million). The 2022 budget planned for a return to normal operations from increased licensee and stakeholder interactions to the resumption of in-person activities, while incorporating process and digitization efficiencies, resulting in a budget of $113.2 million for operations. Expenses in the General Funds were less than budget primarily related to lower building operations, meeting, event and travel costs in the first quarter of 2022 because of government restrictions in response to the COVID-19 Omicron variant, the continuation of some meetings and events in a virtual or hybrid modality, lower professional regular counsel fee costs, and a highly competitive labour market for employers impacting recruitment and retention.

In 2022, the Society incurred significant unbudgeted expenses to address the inappropriate access to examination content by some candidates, and to ensure the integrity of the licensing process, with Convocation approving use of the 2022 budgeted contingency to offset some of the expenses.

Professional Regulation, Tribunals and Compliance

Total regulatory expenses increased to $32.3 million (2021 – $31.1 million) but were less than budget. The variance from budget was driven by lower counsel fees as the number of matters with external counsel declined, reduced paper document reproduction costs with an increasing shift to electronic retention, and savings related to adjudicator and employee travel with some continued virtual activities.

Professional Development and Competence (“PD&C”)

Total PD&C expenses have increased to $31.3 million (2021 – $26.4 million) and were also higher than budget. The improper access by some candidates to examination content compromised the integrity of the planned March 2022 examinations. To mitigate the impact on candidates not involved in the improper conduct and to manage reputational risk to the organization, the Law Society returned to in-person examinations effective April 2022. This resulted in unbudgeted costs in the lawyer and paralegal licensing process of $2.7 million and $600,000, respectively. The 2023 budget for the licensing process is based on the continuation of an in-person examination delivery model.

Corporate Services

Corporate services expenses, primarily comprising the Client Service Centre, Information Technology, Facilities, Finance, Office of General Counsel and Human Resources, along with general corporate costs, were $29.9 million (2021 – $28.5 million) and in line with budget. Contributing to the increased costs over the prior year were legal and expert advisory costs to manage Ontario Line developments, legal costs associated with the licensing process examination content breach, and the increasing cost of information technology cloud service subscriptions and licences.

Convocation, Policy and Outreach

Convocation, policy and outreach expenses, primarily related to Policy, External Relations & Communications, and Governance, including bencher-related expenses, increased to $7.7 million (2021 – $6.4 million) but were less than budget. The 2022 budget assumed a return to in-person activities and stakeholder events. With pandemic restrictions in the first quarter of 2022, meetings and events gradually resumed from April onward. The delay, coupled with stakeholder engagement events and meetings of Convocation and Committees also resuming in hybrid format rather than only in-person, have resulted in costs lower than budgeted. With the resumption of in-person meetings, there was an increase in bencher remuneration, expense reimbursement and function costs in comparison to the prior year.

Services to Licensees and Public

Services to licensees and the public increased to $5.9 million (2021 – $5.5 million) but were less than budget. The increase from the prior year was primarily due to the resumption of in-person conferences by the Federation of Ontario Law Associations in the second half of 2022 and a budgeted increase in the support provided by the Society to the Canadian Legal Information Institute (CanLII).

Changes in Fund Balances

General Fund

The Lawyer General Fund experienced excess of expenses over revenues for the year of $1.7 million and net interfund transfers of $1.1 million leading to a decrease in the fund balance to $37.7 million. Convocation's Fund Balance Management Policy ("Policy") establishes minimum and maximum benchmarks of two and three months of operating expenses to be maintained as the Lawyer General Fund balance; a balance between $18.0 million and $26.9 million based on 2023 budgeted expenses. As the fund balance of the Lawyer General Fund was projected to exceed the maximum benchmark under the Policy, the Society, as part of the 2023 budget cycle, committed $9.1 million of the fund balance; $4 million to fund operations, $3.5 million to support the Business and Technology Transformation Initiative (the "Transformation") and a $1.6 million loan to the Capital Allocation Fund, all to mitigate the impact on annual fees.

The Paralegal General Fund ended the year with expenses exceeding revenues by $513,000 and the fund balance decreased to $2.2 million. The Society's 2023 budget planned for the use of $500,000 of this fund balance to mitigate the paralegal annual fee increase.

Restricted Funds

In 2022, the excess of expenses over revenues for the year in the lawyer pool of the Compensation Fund was $9.4 million, decreasing the fund balance to $21.7 million. The decrease in the fund balance of the lawyer pool of the Compensation Fund was driven by three factors — two unforeseen circumstances and one planned through the 2022 budget. First, the volatility of the financial markets in 2022 caused an unbudgeted decline in the fair market value of investments, resulting in unrealized losses of $3.3 million. Second, the provision for unpaid grants expense exceeded the budget by $3.9 million as a result of increased activity and claims related to a small number of lawyers. Lastly, the 2022 budget planned for the use of $3.7 million of the fund balance to allow for the reduction in the Compensation Fund component of the annual fee from $86 to $1 for lawyers.

Under the current Policy, the minimum and maximum fund balance benchmarks for the lawyer pool of the Compensation Fund are $19.6 million and $96.3 million. The 2022 year-end fund balance of $21.7 million is only $2.1 million above the minimum benchmark. Another year of heightened claims activity or continued financial market volatility leading to further unrealized losses may result in the fund balance for the lawyer pool of the Compensation Fund dropping below the minimum benchmark in 2023.

In 2022, the fund balance for the paralegal pool of the Compensation Fund decreased to $746,000 as expenses exceeded revenues for the year by $218,000. The decline was mainly the result of unrealized investment losses of $228,000.

The E&O Fund balance decreased from $57.6 million at the end of 2021 to $44.8 million at the end of 2022. The decrease is attributed to expenses exceeding revenues by $1.8 million, predominantly due to unrealized losses on portfolio investments and Convocation-approved interfund transfers to other Society Funds totalling $11.0 million. Based on the 2022 approved budget, these financial statements reflect the following interfund transfers: accumulated investment income surplus to the Fund of $1.2 million to the Lawyer General Fund to fund operations, $728,500 to the County Libraries Fund to support the 2022 transitional budget of LiRN Inc., and $500,000 to the Capital Allocation Fund for the Transformation. In April 2022, Convocation approved an $8.6 million interfund transfer from the E&O Fund to the Capital Allocation Fund to fund the Transformation.

The Capital Allocation Fund includes a total of $9.1 million that is internally restricted for the Transformation and contributed to the overall increase in the fund balance to $15.2 million. Use of the internally restricted fund balance for the Transformation will commence in 2023.

Statement of Financial Position

Portfolio Investments

Portfolio investments are shown at fair value of $78.2 million (2021 – $84.6 million). The decline is attributable to the decrease in the fair market value of the portfolio investments slightly offset by the reinvestment of investment income. Of the total portfolio investments, $19.3 million pertains to the General Funds, $37.1 million pertains to the Compensation Fund, and $21.8 million pertains to the E&O Fund.

Loan Receivable

In 2018, the Society contributed to a subordinated syndicated loan with all other Canadian law societies to fund CanLII's purchase of all the shares of Lexum Informatique Juridique Inc. ("Lexum"). Lexum is a software company that operates online legal information delivery products primarily for CanLII. The amount of the loan is $1.7 million (2021 – $1.7 million) and matured in 2023. It was reclassified as a current asset at the end of 2022 as repayment is expected within the upcoming year.

Deferred Revenue

Deferred revenue relates primarily to insurance premiums, licensing process fees and other fees collected prior to December 31 relating to the subsequent fiscal year. Deferred revenue decreased to $6.7 million (2021 – $7.0 million). The decrease is primarily due to the reduction in candidate licensing process fees for 2022.

Due to LAWPRO

Under a services agreement, LAWPRO administers the operations of the E&O Fund on behalf of the Society. At the end of 2022, the amount due to LAWPRO increased to $11.5 million (2021 – $6.8 million) primarily due to the timing of the transfer of premiums collected in 2022 from lawyers for 2023 professional liability insurance coverage. LAWPRO prepares their financial statements under International Financial Reporting Standards ("IFRS") and is implementing the new IFRS 17 standard. To facilitate implementation of IFRS 17, the E&O Fund now only transfers premiums collected for professional liability insurance coverage of the following year in the subsequent year. This is a change from the historical practice of transferring premiums when collected rather than based on the coverage period.

Provision for Unpaid Grants

The Compensation Fund liability for unpaid grants increased to $27.8 million (2021 – $20.8 million). The provision for unpaid grants liability in the Compensation Fund represents the estimate for unpaid claims against the Compensation Fund, supplemented by the costs for processing these claims. The increase in this liability in the current year is due to increased claims activity in the lawyer pool of the Compensation Fund.

Conclusion

The Society has managed to navigate a year of unpredictable challenges with volatility in its portfolio investments, increased claims activity in the Compensation Fund and the compromising of examination content by some candidates. By maintaining strong fund balances and prudent management of operations, the Society was able to weather these events and move forward with Convocation-approved initiatives such as commence the Transformation to modernize processes and systems, implement the Regulatory Sandbox, and fund LiRN's transitional budget to expand the suite of electronic legal information resources available through the county libraries across Ontario.

The outlook for the upcoming year is one of uncertainty. The financial markets remain volatile with the most recent global banking crisis, and the Compensation Fund continues to experience higher than average claims activity requiring close oversight in the coming year.

Despite the uncertainty, the Society continues to be in a financially sound position with its Fund Balance Management policies mitigating the impact of unforeseen circumstances such as those experienced this year. With strong fund balances, the Society is positioned for 2023 to fulfill its important regulatory work in the public interest as well as move forward with Convocation policy decisions such as the implementation of the Practice Essentials Course and Experiential Training Enhancements, and to continue with investments in its transformation to evolve operations and regulatory processes.

Independent auditor's report

To the Members of the Law Society of Ontario

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Law Society of Ontario (the Law Society) as at December 31, 2022 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

What we have audited
The Law Society's financial statements comprise:

- the statement of financial position as at December 31, 2022;
- the statement of revenues and expenses and change in fund balances for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Law Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Canadian accounting standards for not-for-profit organizations, 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 Law Society'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 Law Society or to cease operations, or has no realistic alternative but to do so.

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

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

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
April xx, 2023

LAW SOCIETY OF ONTARIO

Statement of Financial Position

Stated in thousands of dollars

As at December 31

	2022	2021
Assets		
Current Assets		
Cash (note 10)	**34,211**	37,317
Short-term investments	**23,083**	15,794
Accounts receivable (notes 4 and 9)	**14,210**	14,388
Prepaid expenses	**2,943**	2,498
Loan receivable (note 7)	**1,701**	-
Total current assets	**76,148**	69,997
Investment in subsidiaries (note 4)	**35,642**	35,642
Portfolio investments (note 6)	**78,153**	84,552
Loan receivable (note 7)	**-**	1,701
Capital assets (note 8)	**7,611**	6,655
Intangible assets (note 8)	**3,003**	2,667
Total Assets	**200,557**	201,214
Liabilities and Fund Balances		
Current Liabilities		
Accounts payable and accrued liabilities (notes 5 and 9)	**11,642**	10,330
Deferred revenue	**6,676**	7,039
Due to LAWPRO (note 4)	**11,460**	6,827
Total current liabilities	**29,778**	24,196
Provision for unpaid grants/claims	**27,778**	20,769
Unclaimed trust funds (note 10)	**7,801**	7,109
Lease obligations	**781**	798
Total Liabilities	**66,138**	52,872
Other trust funds (note 11), Commitments (note 16), and Contingent liabilities (note 17)		
Fund Balances		
General funds		
Lawyers	**37,746**	38,333
Paralegals	**2,162**	2,685
Restricted funds (note 19)		
Compensation - lawyers	**21,705**	31,055
Compensation - paralegals	**746**	964
Errors and omissions insurance	**44,785**	57,577
Capital allocation	**15,191**	7,123
Invested in capital and intangible assets	**10,614**	9,322
County libraries	**177**	117
Other	**1,293**	1,166
Total Fund Balances	**134,419**	148,342
Total Liabilities and Fund Balances	**200,557**	201,214

The accompanying notes are an integral part of these financial statements

LAW SOCIETY OF ONTARIO

Statement of Revenues and Expenses and Change in Fund Balances

Stated in thousands of dollars
For the year ended December 31

	General Fund Lawyer 2022	General Fund Lawyer 2021	General Fund Paralegal 2022	General Fund Paralegal 2021	Restricted Funds (note 19) 2022	Restricted Funds (note 19) 2021	Total 2022	Total 2021
Revenues								
Annual fees	**72,489**	69,755	**6,064**	5,694	**12,364**	15,225	**90,917**	90,674
Insurance premiums and levies	**-**	-	**-**	-	**111,077**	113,716	**111,077**	113,716
Professional development and competence	**18,347**	19,301	**3,357**	3,329	**-**	-	**21,704**	22,630
Investment income	**908**	639	**115**	72	**1,142**	1,383	**2,165**	2,094
Change in fair value of investments	**(1,671)**	1,628	**(248)**	205	**(5,583)**	4,401	**(7,502)**	6,234
Other (note 12)	**4,848**	5,596	**622**	655	**2,023**	462	**7,493**	6,713
Total revenues	**94,921**	96,919	**9,910**	9,955	**121,023**	135,187	**225,854**	242,061
Expenses								
Professional regulation, tribunals and compliance	**30,501**	29,386	**1,762**	1,717	**-**	-	**32,263**	31,103
Professional development and competence	**27,159**	23,263	**4,145**	3,103	**-**	-	**31,304**	26,366
Corporate services	**26,497**	25,291	**3,377**	3,199	**-**	-	**29,874**	28,490
Convocation, policy and outreach (note 13)	**6,952**	5,832	**736**	607	**-**	-	**7,688**	6,439
Services to licensees and public	**5,495**	5,036	**403**	466	**-**	-	**5,898**	5,502
Restricted (note 19)	**-**	-	**-**	-	**132,750**	131,959	**132,750**	131,959
Total expenses	**96,604**	88,808	**10,423**	9,092	**132,750**	131,959	**239,777**	229,859
Excess of (expenses over revenues) / revenues over expenses	**(1,683)**	8,111	**(513)**	863	**(11,727)**	3,228	**(13,923)**	12,202
Fund balances, beginning of year	**38,333**	30,301	**2,685**	1,832	**107,324**	104,007	**148,342**	136,140
Interfund transfers (notes 2 and 14)	**1,096**	(79)	**(10)**	(10)	**(1,086)**	89	**-**	-
Fund balances, end of year	**37,746**	38,333	**2,162**	2,685	**94,511**	107,324	**134,419**	148,342

The accompaying notes are an integral part of these financial statements

LAW SOCIETY OF ONTARIO

Statement of Cash Flows

Stated in thousands of dollars
For the year ended December 31

	2022	2021
Net inflow (outflow) of cash related to the following activities		
Operating		
Excess of (expenses over revenues) / revenues over expenses	**(13,923)**	12,202
Items not affecting cash:		
Amortization of capital assets	**1,307**	1,813
Amortization of intangible assets	**1,406**	1,252
Loss on disposal of capital and intangible assets	**25**	-
Unrealized losses (gains) on investments	**7,502**	(6,234)
Reinvested investment income	**(1,392)**	(1,972)
Lease obligations	**(17)**	42
Net change in non-cash operating items:		
Accounts receivable	**178**	(1,130)
Prepaid expenses	**(445)**	9
Accounts payable and accrued liabilities	**1,312**	1,205
Provision for unpaid grants/claims	**7,009**	3,916
Due (to)/from LAWPRO	**4,633**	(937)
Deferred revenue	**(363)**	1,295
Fund contribution - unclaimed trusts	**692**	1,034
Cash from operating activities	**7,924**	12,495
Investing		
Purchase of portfolio investments	**-**	(5,000)
Proceeds from disposal of portfolio investments	**-**	310
Loan receivable	**-**	(274)
Purchase of short-term investments	**(7,000)**	-
Capital asset and intangible asset additions	**(4,030)**	(1,839)
Cash used in investing activities	**(11,030)**	(6,803)
Net inflow (outflow) of cash, during the year	**(3,106)**	5,692
Cash, beginning of year	**37,317**	31,625
Cash, end of year	**34,211**	37,317

The accompanying notes are an integral part of these financial statements

LAW SOCIETY OF ONTARIO

Notes to Financial Statements, December 31, 2022

Stated in whole dollars except where indicated

1. Background

The Law Society of Ontario ("Society") was founded in 1797 and incorporated in 1822 with the enactment of the *Law Society Act*.

The *Law Society Act*, section 4.1, states that it is a function of the Society to ensure that:

- all persons who practise law in Ontario or provide legal services in Ontario meet standards of learning, professional competence and professional conduct that are appropriate for the legal services they provide; and
- the standards of learning, professional competence and professional conduct for the provision of a particular legal service in a particular area of law apply equally to persons who practise law in Ontario and persons who provide legal services in Ontario.

In carrying out its functions, duties and powers, the Society, pursuant to section 4.2 of the *Law Society Act*, shall have regard to the following principles:

- the Society has a duty to maintain and advance the cause of justice and the rule of law;
- the Society has a duty to act so as to facilitate access to justice for the people of Ontario;
- the Society has a duty to protect the public interest;
- the Society has a duty to act in a timely, open and efficient manner;
- standards of learning, professional competence and professional conduct for licensees and restrictions on who may provide particular legal services should be proportionate to the significance of the regulatory objectives sought to be realized.

The governing body of the Society, which is known as Convocation, carries out this mandate. Convocation comprises benchers and the Treasurer who presides over Convocation.

The primary sources of revenues are licensee annual fees and insurance premiums and levies, set by Convocation, based on the financial requirements of the Society. As at December 31, 2022, lawyers entitled to practice law and paralegals entitled to provide legal services in Ontario numbered approximately 57,600 and 10,600 respectively.

The Society is not subject to federal or provincial income taxes.

2. Nature of Financial Statements

These financial statements present the financial position and operations of the Society and include the General Funds and a number of special purpose funds restricted by the *Law Society Act* or Convocation.

Subsidiaries and Related Entity

The Society has two wholly-owned subsidiaries: Lawyers' Professional Indemnity Company ("LAWPRO"), and LiRN Inc. ("LiRN") and a related entity, The Law Society Foundation. The audited annual financial statements for these three entities are available separately.

General Funds

The General Funds account for the Society's program delivery and administrative activities related to the regulation and licensing of lawyers and paralegals. These Funds report unrestricted resources.

The Society's policy is to maintain the Lawyer General Fund balance at no less than two and no more than three months of Lawyer General Fund budgeted expenses.

If the Lawyer General Fund balance exceeds three months of budgeted Lawyer General Fund expenses, Convocation shall utilize the excess for one or more of the following:

- mitigate the Lawyer General Fund levy for the next fiscal year;
- transfer the excess to another Society Fund if the fund balance is below its stated policy benchmark.

If the Lawyer General Fund balance is less than two months of budgeted Lawyer General Fund expenses, Convocation shall budget for an annual surplus to restore the fund balance to its minimum policy objective. The minimum policy benchmark should be restored within three fiscal years.

If the Lawyer General Fund balance is more than two months of budgeted Lawyer General Fund expenses and less than three months of budgeted Lawyer General Fund expenses, Convocation may appropriate funds from the Lawyer General Fund balance for one or more of the following:

- mitigate the Lawyer General Fund levy for the next fiscal year;
- transfer the excess to another Society Fund if the fund balance is below its stated policy benchmark.

As at December 31, 2022, the Lawyer General Fund balance was $37,746,000 (2021 – $38,333,000).

The Lawyer General Fund balance as of December 31, 2022 exceeds three months of budgeted Lawyer General Fund expenses. The 2023 budget plans for the use of $4,000,000 of the Lawyer General Fund balance to mitigate the Lawyer General Fund component of the annual fee in 2023. A loan of $1,600,000 from the Lawyer General Fund to the Capital Allocation Fund restricted for the purpose of essential Bencher Wing infrastructure repairs and restoration, is incorporated in the 2023 budget. The loan allows for sufficient fund balance to be earmarked for the completion of the Bencher

Wing restoration as one tendered contract to realize savings through contractor efficiencies, rather than completing over two years as separate phases as originally planned.

Coinciding with the approval of the 2023 budget, Convocation also approved an interfund transfer of $3,500,000 from the Lawyer General Fund to the Capital Allocation Fund to fund the Business and Technology Transformation Initiative.

As at December 31, 2022, the Paralegal General Fund balance was $2,162,000 (2021 – $2,685,000).

The 2023 budget plans for the use of $500,000 of the Paralegal General Fund balance to mitigate the Paralegal General Fund component of the annual fee in 2023.

Restricted Funds

Compensation Fund

The Society maintains the Compensation Fund pursuant to section 51 of the *Law Society Act* to relieve or mitigate loss sustained by any person in consequence of dishonesty on the part of a licensee, in connection with the licensee's professional business or in connection with any trust of which the licensee was a trustee.

Pursuant to the *Law Society Act*, the Compensation Fund is supported by licensee annual fees, investment income and recoveries. The Compensation Fund expenses are only for payment of grants, and direct program delivery and administration costs. There are separate fund balances for lawyer licensees and paralegal licensees.

The Society's policy is to maintain the lawyer pool of the Compensation Fund balance at an amount sufficient to provide for a minimum of one 97.5th percentile aggregate claim scenarios (one-in-forty-year event) and a maximum of four 99th percentile aggregate claim scenarios (one-in-one-hundred-year event). The estimated amount of aggregate claims is to be actuarially reviewed at least every three years.

If the lawyer pool of the Compensation Fund balance exceeds four one-in-one-hundred-year events, Convocation shall utilize some or all of the excess for the following:

- mitigation of the lawyer pool of the Compensation Fund levy for the next fiscal year;
- annual mitigation of the lawyer pool of the Compensation Fund levy shall continue such that within the next three fiscal years, the maximum benchmark shall be achieved.

If the lawyer pool of the Compensation Fund balance is less than the minimum of one one-in-forty-year event, Convocation shall budget for an annual surplus to restore the fund balance to its minimum policy objective. The minimum policy benchmark should be restored within three fiscal periods.

If the lawyer pool of the Compensation Fund balance is more than the minimum of one one-in-forty-year event and less than four one-in-one-hundred-year events, Convocation may:

- mitigate the lawyer pool of the Compensation Fund levy for the next fiscal year;
- budget for a surplus sufficient to increase the fund balance to its maximum policy objective of four one-in-one-hundred-year events;
- leave the fund balance at its current balance for the upcoming fiscal year.

As at December 31, 2022, the lawyer pool of the Compensation Fund balance was $21,705,000 (2021 – $31,055,000) and is within the minimum and maximum policy benchmarks of $19,570,000 and $96,296,000, respectively.

The statement of financial position for the Compensation Fund is set out below:

($000s)	**2022**	2021
Cash and short-term investments	**11,930**	12,978
Accounts receivable	**1,331**	-
Portfolio investments	**37,027**	39,932
Total assets	**50,288**	52,910
Accounts payable and accrued liabilities	**59**	122
Provision for unpaid grants – lawyers	**27,424**	20,398
Provision for unpaid grants – paralegals	**354**	371
Total liabilities	**27,837**	20,891
Fund balance – lawyers	**21,705**	31,055
Fund balance – paralegals	**746**	964
Total liabilities and fund balances	**50,288**	52,910

Errors and Omissions Insurance Fund

The Errors and Omissions Insurance Fund (“E&O Fund”) accounts for insurance-related transactions between LAWPRO, the Society and insured lawyers. The E&O Fund collects premiums and levies from lawyers, reported as revenues, and remits these amounts to LAWPRO, reported as expenses. Effective January 1, 2022, a portion of the fund balance serves as a backstop for potential self-insured corporate errors and omissions claims.

Pursuant to section 61 of the *Law Society Act*, the Society arranges mandatory professional liability insurance for practising lawyers with LAWPRO, and through the E&O Fund, levies the insured lawyers. Each year, the premium for the insurance program is established through a process whereby LAWPRO provides an offer for review and acceptance by Convocation. The offer provides details on the components of the insurance program, including anticipated base premiums, claims history levies, transaction-based levies and amounts to be drawn from the E&O Fund balance.

As at December 31, 2022, the E&O Fund balance was $44,785,000 (2021 – $57,577,000). The fund balance comprises:

($000s)	**2022**	2021
Investment in LAWPRO	**35,642**	35,642
Other	**9,143**	21,935
Total fund balance	**44,785**	57,577

Convocation approved transfers totalling $11,029,000 from the E&O Fund to other Funds in 2022. Further details on these transfers are included in Note 14 – Interfund Transfers.

Capital Allocation Fund

The Capital Allocation Fund is maintained to provide a source of funds for the acquisition and maintenance of the Society's capital and intangible assets, which comprise buildings and major equipment, including computers and software. Amounts of assets capitalized, according to the Society's capital asset policy, are transferred to the Invested in Capital and Intangible Assets Fund. Expenditures not capitalized are expended in the Capital Allocation Fund. As at December 31, 2022, the fund balance was $15,191,000 (2021 – $7,123,000). Within the Capital Allocation Fund, $9,100,000 is internally restricted by Convocation for the purpose of the Business and Technology Transformation Initiative.

Invested in Capital and Intangible Assets Fund

The Invested in Capital and Intangible Assets Fund records transactions related to the Society's capital assets and intangible assets, specifically acquisitions, amortization and disposals. As at December 31, 2022, the balance was $10,614,000 (2021 – $9,322,000), representing the net book value of the Society's capital and intangible assets.

County Libraries Fund

The County Libraries Fund records transactions related to the Society's support of county law libraries. As approved by Convocation, the Fund accumulates revenues generated from lawyer annual fees specific for county library purposes, which are used to fund grants to LiRN. The fund balance as at December 31, 2022 was $177,000 (2021 – $117,000).

Other Restricted Funds

The Repayable Allowance Fund provides loans for tuition and living expenses to candidates in the lawyer licensing process. As at December 31, 2022, the fund balance was $134,000 (2021 – $75,000).

The Special Projects Fund is maintained to ensure that financing is available for ongoing special projects. The fund balance as at December 31, 202 was $792,000 (2021 – $778,000).

The Parental Leave Assistance Fund accounts for the delivery of the Parental Leave Assistance Program ("PLAP") and is funded by lawyers' annual fees. PLAP provides financial assistance to lawyers in firms of five lawyers or fewer who, amongst other criteria, have a net annual practice income of less than $50,000 and who do not have access to any other parental leave financial benefits. Under PLAP, the Society provides a fixed sum of $750 a week to eligible applicants for up to 12 weeks to cover expenses associated with maintaining their practice during a maternity, parental or adoption leave. As at December 31, 2022, the fund balance was $367,000 (2021 – $313,000).

3. Significant Accounting Policies

Basis of presentation

The financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations set out in Part III of the Chartered Professional Accountants of Canada Handbook – Accounting ("Part III").

Financial instruments

The Society's financial assets and financial liabilities are measured at fair value on the original date of the transaction and then subsequently measured as follows:

Asset / Liability	**Measurement**
Cash	Fair value
Short-term investments	Fair value
Accounts receivable	Amortized cost
Portfolio investments	Fair value
Loan receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Unclaimed trust funds	Amortized cost

Investments in subsidiaries are reported at cost.

The fair value of portfolio investments is determined by reference to transactional net asset values for the fixed income and Canadian and global equity pooled funds. Transaction costs are expensed as incurred. The carrying values of accounts receivable, loan receivable, accounts payable and accrued liabilities and unclaimed trust funds approximate fair value due to their nature or capacity for prompt liquidation.

Interest rate risk

The risk that the fair value of financial instruments will fluctuate due to changes in market interest rates is managed through compliance with the Society's investment policy. The normal duration range for the bond portfolio administered under the policy is between 1 and 10 years. The Society has no material interest-bearing liabilities.

Fluctuations in interest rates do not have a significant effect on cash and short-term investments of the Society.

Market risk

The risk that the fair value of financial instruments will fluctuate due to changes in market prices is managed through compliance with the Society's investment policy, which requires a diversified portfolio of government bonds, corporate bonds and Canadian and global equities meeting specified quality requirements.

Currency risk

The Society is exposed to currency risk with respect to its portfolio investments denominated in foreign currencies, including the underlying investments of its pooled funds denominated in foreign currencies, because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar.

At year-end, the maximum exposure of the Society to foreign currency risk in portfolio investments was $18,866,000 (2021 – $21,025,000).

Credit risk

Credit risk is the possibility that other parties may default on their financial obligations. At year-end, the maximum exposure of the Society to credit risk in cash, loan receivable, short and long-term fixed income investments was $108,415,000 (2021 – $107,576,000). In compliance with the Society's investment policy, fixed income investments are in the financial obligations of governments, major financial institutions, and commercial paper with investment grade ratings.

At year-end, the maximum exposure of the Society to credit risk in accounts receivable was $14,210,000 (2021 – $14,388,000). This credit risk is minimized by the credit quality and a diverse debtor base. The Society maintains an allowance for potential credit losses.

Liquidity risk

Liquidity risk is the risk that the Society will not be able to fund its obligations as they come due, including being unable to liquidate assets in a timely manner at a reasonable price. The Society monitors forecasts of cash flows from operations and investments and holds investments that can readily be converted into cash. Investment income is not a primary source of revenue for the Society and all underlying long-term securities are publicly listed.

The Society has not entered into any derivative transactions. In addition, the Society's contractual arrangements do not have any embedded features.

Cash and short-term investments

Cash (bank balances) and short-term investments (less than one year) are amounts on deposit and invested in short-term investment vehicles according to the Society's investment policy.

Portfolio investments

Portfolio investments are recorded at fair value. The Society manages financial risk associated with portfolio investments in accordance with its investment policy. The primary objective of the investment policy is to preserve and enhance the real capital base. The secondary objective is to generate investment returns to assist the Society in funding its programs. Convocation monitors compliance with the investment policy and regularly reviews the policy.

Capital assets

Capital assets are presented at cost net of accumulated amortization. Amortization is charged to expenses on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	30 years
Building and leasehold improvements	Lesser of 10 years or term of lease
Furniture, equipment and computer hardware	3 to 5 years

Intangible assets

Intangible assets comprising computer applications and software are presented at cost net of accumulated amortization. Amortization is charged to expenses on a straight-line basis over three years.

Revenue recognition

Annual licensee fees, insurance premiums and levies are set annually by Convocation and are recognized in the year to which they relate if the amount can be reasonably estimated, and collection is reasonably assured. Accordingly, fees for the next fiscal year received prior to December 31 have been deferred and are recognized as revenue in the next year.

Insurance premiums related to the unexpired term of coverage at the statement of financial position date are reported as deferred revenue.

Professional development and competence revenues are recognized in the year to which they relate if the amount can be reasonably estimated, and collection is reasonably assured. Fees for the next fiscal year received prior to December 31 have been deferred and are recognized as revenue in the next year.

Other revenues and realized investment gains/losses are recognized when receivable if the amount can be reasonably estimated. Unrealized investment gains/losses are recognized with changes in the fair value of financial instruments.

Fees, insurance premiums and other revenues receivable are recorded as accounts receivable on the statement of financial position, net of any provision for doubtful amounts.

Provision for unpaid grants

Pursuant to section 51(5) of the *Law Society Act*, the payment of grants from the Compensation Fund is at the discretion of Convocation. Grants paid from the lawyer pool of the Compensation Fund are subject to a limit per claimant of $150,000 for claims incurred before September 22, 2016 and $500,000 thereafter. Grants paid from the paralegal pool of the Compensation Fund are subject to a $10,000 limit per claimant. The Compensation Fund expense represents a provision for unpaid grants and administrative expenses.

Provisions for unpaid grants are recorded as liabilities on the statement of financial position. The measurement of the ultimate settlement costs of claims made to date that underlies the provision for unpaid grants involves estimates and measurement uncertainty. Ultimate costs incurred could vary from current estimates. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the methods of estimation that have been used will produce reasonable results given the current information. These provisions represent an estimate of the present value of grants to be paid for claims and the associated administrative costs net of recoveries.

Grant liabilities are carried on a discounted basis using the yield of the underlying assets backing the grant liabilities with a provision for adverse deviation. The discount rate is 4.39% (2021 – 1.31%).

Collections

The Society owns a collection of legal research and reference material as well as a collection of portraits and sculptures. The cost of additions to the collections is expensed as incurred. No value is recorded in these financial statements for donated items. There have not been any significant changes to the collections in the current year.

Volunteer services

Convocation, consisting of the Treasurer and benchers, governs the Society. Benchers may be elected by lawyers, paralegals, appointed by the provincial government, or achieve ex-officio or emeritus status based on past service.

Elected and ex-officio benchers are remunerated for adjudication and authorization activities. They are only remunerated for eligible governance work after voluntarily contributing time on 26 unique calendar days. The work of the Society is also dependent on other voluntary services by lawyers and paralegals. No value has been included in these financial statements for volunteer services.

Measurement uncertainty

The preparation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The valuation of certain liabilities and unpaid grants anticipates the combined outcomes of events that are yet to occur. There is uncertainty inherent in any such estimation and therefore a limitation upon the accuracy of these valuations. Future loss emergence may deviate from these estimates.

4. Investment in Subsidiaries

Investment in the Society's subsidiaries is recorded at cost:

	2022	2021
LAWPRO	**35,642,000**	35,642,000
LiRN	**100**	100
Total investment in subsidiaries	**35,642,100**	35,642,100

LAWPRO

The Society provides mandatory professional liability insurance to lawyers through LAWPRO, a provincially licensed insurer and wholly-owned subsidiary of the Society.
The professional liability insurance program generally requires practising lawyers to pay premiums and levies to the E&O Fund that contribute toward the premium paid by the Society to fund the anticipated costs of professional liability claims made in each annual policy period.

Paralegals obtain this form of coverage through independent insurance companies. In addition to providing mandatory professional liability insurance to lawyers, LAWPRO also sells optional excess professional liability and title insurance.

The investment in LAWPRO comprises:

($000s)	**2022**	2021
30,000 common shares of par value of $100 each	**3,000**	3,000
20,000 6% non-cumulative, redeemable, non-voting preferred shares of par value of $100 each	**2,000**	2,000
Investment in LAWPRO shares	**5,000**	5,000
Contributed capital	**30,642**	30,642
Total investment	**35,642**	35,642

Summarized below is the financial information of LAWPRO. LAWPRO prepares their financial statements under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. There are significant differences between IFRS and accounting standards for not-for-profit organizations set out in Part III of the Chartered Professional Accountants of Canada Handbook – Accounting, including the accounting for leases and for unrealized gains and losses and other items that are reflected through the statement of comprehensive income of LAWPRO.

Summarized statement of financial position of LAWPRO:

($000s)	**2022**	2021
Total assets	**772,671**	819,329
Total liabilities	**511,240**	533,548
Total shareholders equity	**261,431**	285,781
Total liabilities and shareholders equity	**772,671**	819,329

Summarized statement of profit (loss) of LAWPRO for the year ended December 31:

($000s)	**2022**	2021
Revenue	**106,500**	132,165
Expenses	**116,700**	129,651
Profit (loss) before taxes	**(10,200)**	2,514
Income tax expense (recovery)	**(2,972)**	333
Profit (loss)	**(7,228)**	2,181
Other comprehensive income (loss) net of tax	**(17,122)**	14, 030
Comprehensive income (loss)	**(24,350)**	16,211

Summarized statement of cash flows of LAWPRO for the year ended December 31:

($000s)	**2022**	2021
Net cash inflow from operating activities	**4,634**	13,500
Net cash inflow from investing activities	**7,055**	3, 629
Net cash outflow from financing activities	**(421)**	(404)
Cash and cash equivalents, beginning of year	**24,473**	7,748
Cash and cash equivalents, end of year	**35,741**	24,473

LAWPRO administers the operations of the E&O Fund on behalf of the Society at no charge under an administrative services agreement. LAWPRO billed the Society $111,077,000 (2021 – $113,716,000) for premiums during the year. LAWPRO contributed $575,000 to the Society towards directors' fees for benchers appointed to the LAWPRO Board and a wellness program available to licensees (2021 – $560,000). These transactions are entered in the ordinary course of business and are measured at fair value. Included in the Society's financial statements are amounts due to LAWPRO of $11,460,000 (2021 – $6,827,000). The amounts due to LAWPRO are non-interest bearing and have no fixed terms of repayment.

LiRN

LiRN, a wholly-owned, not-for-profit subsidiary of the Society, was established to develop policies, procedures, guidelines, and standards for the delivery of county law library services and legal information across Ontario and to administer funding on behalf of the Society. LiRN was incorporated under the *Business Corporations Act (Ontario)* in 2001 and at the beginning of 2020, Articles of Amendment were filed to rename LibraryCo. Inc. as LiRN Inc.

The Society holds all of the 100 common shares. Of the 100 special shares, 25 are held by the Toronto Lawyers Association ("TLA") and 75 are held by the Federation of Ontario Law Associations ("FOLA"). The independent skills-based board of directors of LiRN is appointed based on the recommendations of a Nominating Committee comprised of three members from the Society, two members from FOLA and one member from TLA.

The Society levies and collects funds for county and district law library purposes and transfers these funds to LiRN. Convocation internally restricts these funds for use by county and district law libraries to carry out their annual operations and any special projects approved by Convocation.

Summarized statement of financial position of LiRN:

($000s)	**2022**	2021
Total assets	**1,041**	788
Total liabilities	**179**	92
Total share capital and fund balances	**862**	696
Total liabilities, share capital and fund balances	**1,041**	788

Summarized statement of revenues and expenses for LiRN for the year ended December 31:

($000s)	**2022**	2021
Total revenues	**9,290**	7,221
Total expenses	**9,123**	7,559
Excess of revenues over expenses / (Excess of expenses over revenue)	**167**	(338)

Summarized statement of cash flows of LiRN for the year ended December 31:

($000s)	**2022**	2021
Net cash (outflow) inflow from operating activities	**239**	(306)
Cash, beginning of year	**728**	1,034
Cash, end of year	**967**	728

The Society provided LiRN with a grant of $9,270,000 (2021 – $7,217,000) during the year. The Society provides some administrative services to LiRN as well as certain other services and publications. The total amount billed by the Society for 2022 was $26,000 (2021 – $52,000). These transactions are entered in the ordinary course of business and are measured at fair value. Included in accounts receivables are amounts due from LiRN of $1,000 (2021 – $8,000).

5. Related Entity

The Law Society Foundation ("LSF") is regarded as a related entity, although the Society does not have an equity interest in the LSF.

The LSF, a registered charity, was incorporated by Letters Patent in 1962. The objectives of the LSF are to foster, encourage and promote legal education in Ontario, provide financial assistance to licensing process candidates in Ontario, restore and preserve land and buildings of historical significance to Canada's legal heritage, receive gifts of muniments and legal memorabilia of interest and significance to Canada's legal heritage, maintain a collection of gifts of books and other written material for use by educational institutions in Canada and receive donations and maintain funds for the relief of poverty by providing meals to persons in need.

The Society provides facilities and certain administration services at no cost to the LSF. Trustees of the LSF are elected by the members of the LSF. Included in the Society's accounts are amounts due to the LSF of $4,000 (2021 – $nil).

6. Portfolio Investments

($000s)	**2022**	2021
Debt securities	**49,420**	52,764
Canadian equities	**9,867**	10,763
Global equities	**18,866**	21,025
Total portfolio investments	**78,153**	84,552

The debt securities have effective interest rates and maturity dates as follows:

	2022	2021
Effective interest rates (%)	**3.2 – 11.5**	0.2 – 4.3
Maturity dates (years)	**1 – 10**	1 – 7

7. Loan Receivable

Canadian Legal Information Institute ("CanLII") is a not-for-profit organization established by the Federation of Law Societies to provide access to judicial decisions and legislative documents on the internet. Lexum Informatique Juridique Inc. ("Lexum") is a software company that operates online legal information delivery products, primarily for CanLII. CanLII purchased all the shares of Lexum in 2018. The Society contributed $878,000 to a subordinated syndicated loan with all the other Canadian law societies as part of the funding of this purchase in 2018 and three installments of balance of sale payments totalling $823,000 from 2019 to 2021. This loan has an annual interest rate of 4.74%, compounded semi-annually. The loan matured on February 23, 2023 and is classified as a current asset as full repayment is expected in 2023. Interest will continue to accrue at the same annual rate until the loan is repaid.

8. Capital Assets and Intangible Assets

Capital Assets ($000s)	**2022**			2021
	Cost	**Accumulated amortization**	**Net**	Net
Land and buildings	**25,395**	**25,395**	**-**	-
Building and leasehold improvements	**30,725**	**23,764**	**6,961**	6,230
Furniture, equipment and computer hardware	**2,922**	**2,272**	**650**	425
Total capital assets	**59,042**	**51,431**	**7,611**	6,655

	2022			2021
	Cost	**Accumulated amortization**	**Net**	Net
Computer applications and software	**12,028**	**9,025**	**3,003**	2,667
Total intangible assets	**12,028**	**9,025**	**3,003**	2,667

In 2022, the Society received a Notice of Possession under the *Expropriations Act* (R.R.O. 1990, Reg. 363) advising that title to a portion of its land, located at the northeast corner of Queen Street West and University Avenue in Toronto, had vested in Metrolinx for the purpose of constructing the Ontario Line subway. Metrolinx took possession of the designated portion of land on November 30, 2022. Compensation to the Society from Metrolinx for the expropriated land remains to be determined and cannot be estimated at this time.

9. Accounts Payable and Accrued Liabilities and Accounts Receivable

Included in accounts receivable, accounts payable and accrued liabilities is $935,305 due from government remittances, primarily sales taxes (2021 – $500,228).

The accounts receivable balance comprises:

($000s)	**2022**	2021
Accounts receivable	**46,719**	41,602
Allowance for doubtful accounts	**32,509**	27,214
Accounts receivable – net	**14,210**	14,388

The allowance for doubtful accounts mainly relates to annual fees, regulatory compliance ordered costs and licensing process fees.

10. Unclaimed Trust Funds

Section 59.6 of the *Law Society Act* permits a licensee who has held money in trust for, or on account of, a person for a period of at least two years, to apply in accordance with the by-laws for permission to pay the money to the Society. Money paid to the Society is held in trust in perpetuity for the purpose of satisfying the claims of the persons who are entitled to the capital amount. Subject to certain provisions in the *Law Society Act* enabling the Society to recover its expenses associated with maintaining these funds, net interest income from the money held in trust shall be paid to the Law Foundation of Ontario. Unclaimed money held in trust amounts to $7,801,000 (2021 – $7,109,000).

11. Other Trust Funds

The Society administers client funds for licensees under voluntary or court-ordered trusteeships. These funds and matching liabilities are not reflected on the statement of financial position. Money paid to the Society is held in trust until it is repaid to the clients or transferred to the Unclaimed Trust Funds. As at December 31, 2022, total funds held in trust amount to $3,639,000 (2021 – $3,525,000).

12. Other Revenues

Other Revenues primarily comprise income from *Ontario Reports* royalties, administrative fees, and regulatory compliance ordered cost recoveries.

13. Other Expenses

Included in Convocation, policy and outreach expenses are payments for the remuneration of elected, ex-officio and lay benchers during the year of $606,000 (2021 – $601,000). The total expense reimbursements of the elected, ex-officio and lay benchers during the year was $130,000 (2021 – $4,000). The Treasurer’s honorarium expense for the year was $224,000 (2021 – $210,000).

14. Interfund Transfers

During the year, the following net interfund transfers took place, which have been approved by Convocation:

- $9,100,000 from the E&O Fund to the Capital Allocation Fund restricted to fund the Business and Technology Transformation Initiative approved by Convocation in April 2022;

- $4,040,000 from the Capital Allocation Fund to the Invested in Capital and Intangible Assets Fund representing assets capitalized during the year in compliance with the Society's accounting policies;

- $1,200,000 from the E&O Fund to the Lawyer General Fund as provided for in the 2022 budget representing accumulated investment income, surplus to the needs of the E&O Fund;

- $728,500 from the E&O Fund to the County Libraries Fund as provided for in the 2022 budget to support the transitional budget of LiRN Inc.

- $100,000 from the Lawyer General Fund to the Repayable Allowance Fund, as provided in the 2022 budget to fund the Repayable Allowance Program in the Licensing Process.

- $28,000 from the General Funds to the Special Projects Fund to fund the next bencher election;

- $14,000 from the Special Projects Fund to the Lawyer General Fund related to the update of the facilities condition assessment, policy consultation and program development.

15. Pension Plan

The Society maintains a defined contribution plan for all eligible employees of the Society. Each member of the plan, other than designated employees, elects to contribute matching employee and employer contributions from 1% to 6% of annual earnings up to the maximum deduction allowed by the Canada Revenue Agency. Designated employees, who hold executive positions, have contributions made to the plan by the Society equivalent to 12% of annual earnings up to the maximum deduction allowed by the Canada Revenue Agency. The Society's pension expense in 2022 amounted to $2,989,540 (2021 – $2,952,752).

16. Commitments

The Society is committed to monthly lease payments for basic and additional rent for property under leases having various terms up to February 2028. Aggregate minimum annual payments to the expiry of the leases are approximately as follows:

2023	$2,580,000
2024	$2,697,000
2025	$2,813,000
2026	$2,906,000
2027	$2,906,000
Thereafter	$484,000
Total	**$14,386,000**

In 2021, the Society received a request from the Law Commission of Ontario ("LCO") for continued funding in support of its mandate. The LCO's request is for annual contributions from the Society over a four-year period beginning in 2022. Convocation approved the Society's contribution of $160,000 for 2023 through its budget process.

17. Contingent Liabilities

A number of claims or potential claims are pending against the Society. It is not possible for the Society to predict with any certainty the outcomes of such claims or potential claims. Management is of the opinion, based on the information presently available, that it is unlikely any liability, to the extent not covered by insurance or inclusion in the financial statements, would be material to the Society's financial position.

18. Comparative Figures

Certain of the prior year balances have been reclassified to conform to the current year's presentation.

19. Restricted Funds

A schedule of Restricted Funds is set out below.
Stated in thousands of dollars

	2022									2021
	Compensation Fund		Errors and omissions insurance	Capital allocation	Invested in capital and intangible assets	County libraries	Other restricted	Total		Total
	Lawyer	Paralegal								
Fund balances, beginning of year	**31,055**	**964**	**57,577**	**7,123**	**9,322**	**117**	**1,166**	**107,324**		104,007
Revenues										
Annual fees	**85**	**7**	**-**	**3,520**	**-**	**8,602**	**150**	**12,364**		15,225
Insurance premiums and levies	**-**	**-**	**111,077**	**-**	**-**	**-**	**-**	**111,077**		113,716
Investment income	**852**	**45**	**245**	**-**	**-**	**-**	**-**	**1,142**		1,383
Change in fair value of investments	**(3,347)**	**(228)**	**(2,008)**	**-**	**-**	**-**	**-**	**(5,583)**		4,401
Other	**2,023**	**-**	**-**	**-**	**-**	**-**	**-**	**2,023**		462
Total revenues	**(387)**	**(176)**	**109,314**	**3,520**	**-**	**8,602**	**150**	**121,023**		135,187
Total expenses	**8,963**	**42**	**111,077**	**522**	**2,738**	**9,271**	**137**	**132,750**		131,959
Excess of (expenses over revenues) / revenues over expenses	**(9,350)**	**(218)**	**(1,763)**	**2,998**	**(2,738)**	**(669)**	**13**	**(11,727)**		3,228
Interfund transfers (note 14)	**-**	**-**	**(11,029)**	**5,070**	**4,030**	**729**	**114**	**(1,086)**		89
Fund balances, end of year	**21,705**	**746**	**44,785**	**15,191**	**10,614**	**177**	**1,293**	**94,511**		107,324

Law Society of Ontario | Barreau de l'Ontario

LAW SOCIETY OF ONTARIO

Lawyers and Paralegals General Fund

Schedule of Revenues and Expenses

Stated in thousands of dollars
For the year ended December 31

	2022 Actual	**2022 Budget**	**Variance**	2021 Actual
REVENUES				
Annual fees	78,553	77,772	781	75,449
Professional development and competence	21,704	19,148	2,556	22,630
Investment income	1,023	1,290	(267)	711
Change in fair value of investments	(1,919)	-	(1,919)	1,833
Other	5,470	4,801	669	6,251
Total revenues	104,831	103,011	1,820	106,874
EXPENSES				
Professional regulation, tribunals and compliance	32,263	34,787	2,524	31,103
Professional development and competence	31,304	30,453	(851)	26,366
Corporate services	29,874	29,975	101	28,490
Convocation, policy and outreach	7,688	10,036	2,348	6,439
Services to licensees and public	5,898	6,343	445	5,502
Total expenses	107,027	111,594	4,567	97,900
Excess of (expenses over revenues) / revenues over expenses	**(2,196)**	**(8,583)**	**6,387**	8,974

Law Society of Ontario | Barreau de l'Ontario

LAW SOCIETY OF ONTARIO
General Fund - Lawyers
Schedule of Revenues and Expenses
Stated in thousands of dollars
For the year ended December 31

	2022 Actual	**2022 Budget**	**Variance**	2021 Actual
REVENUES				
Annual fees	72,489	71,981	508	69,755
Professional development and competence	18,347	16,316	2,031	19,301
Investment income	908	1,145	(237)	639
Change in fair value of investments	(1,671)	-	(1,671)	1,628
Other	4,848	4,245	603	5,596
Total revenues	94,921	93,687	1,234	96,919
EXPENSES				
Professional regulation, tribunals and compliance	30,501	32,860	2,359	29,386
Professional development and competence	27,159	26,976	(183)	23,263
Corporate services	26,497	26,504	7	25,291
Convocation, policy and outreach	6,952	8,967	2,015	5,832
Services to licensees and public	5,495	5,813	318	5,036
Total expenses	96,604	101,120	4,516	88,808
Excess of (expenses over revenues) / revenues over expenses	**(1,683)**	**(7,433)**	**5,750**	8,111

Law Society of Ontario | Barreau de l'Ontario

LAW SOCIETY OF ONTARIO
General Fund - Paralegals
Schedule of Revenues and Expenses
Stated in thousands of dollars
For the year ended December 31

	2022 Actual	**2022 Budget**	**Variance**	2021 Actual
REVENUES				
Annual fees	6,064	5,791	273	5,694
Professional development and competence	3,357	2,832	525	3,329
Investment income	115	145	(30)	72
Change in fair value of investments	(248)	-	(248)	205
Other	622	556	66	655
Total revenues	9,910	9,324	586	9,955
EXPENSES				
Professional regulation, tribunals and compliance	1,762	1,927	165	1,717
Professional development and competence	4,145	3,477	(668)	3,103
Corporate services	3,377	3,471	94	3,199
Convocation, policy and outreach	736	1,069	333	607
Services to licensees and public	403	530	127	466
Total expenses	10,423	10,474	51	9,092
Excess of (expenses over revenues) / revenues over expenses	**(513)**	**(1,150)**	**637**	863

-

LAW SOCIETY OF ONTARIO

Lawyers and Paralegals Compensation Fund

Schedule of Revenues and Expenses

Stated in thousands of dollars
For the year ended December 31

-

	2022 Actual	2022 Budget	Variance	2021 Actual
REVENUES				
Annual fees	92	54	38	3,929
Investment income	897	1,200	(303)	939
Change in fair value of investments	(3,575)	-	(3,575)	2,654
Recoveries	2,023	351	1,672	462
Total revenues	(563)	1,605	(2,168)	7,984
EXPENSES				
Provision for unpaid grants	8,356	4,656	(3,700)	6,818
Administrative	649	745	96	649
Total expenses	9,005	5,401	(3,604)	7,467
Excess of (expenses over revenues) / revenues over expenses	**(9,568)**	**(3,796)**	**(5,772)**	517

Law Society of Ontario | Barreau de l'Ontario

LAW SOCIETY OF ONTARIO
Compensation Fund - Lawyers
Schedule of Revenues and Expenses
Stated in thousands of dollars
For the year ended December 31

	2022 Actual	2022 Budget	Variance	2021 Actual
REVENUES				
Annual fees	85	47	38	3,923
Investment income	852	1,140	(288)	892
Change in fair value of investments	(3,347)	-	(3,347)	2,521
Recoveries	2,023	333	1,690	440
Total revenues	(387)	1,520	(1,907)	7,776
EXPENSES				
Provision for unpaid grants	8,346	4,490	(3,856)	6,647
Administrative	617	708	91	617
Total expenses	8,963	5,198	(3,765)	7,264
Excess of (expenses over revenues) / revenues over expenses	**(9,350)**	**(3,678)**	**(5,672)**	512

Law Society of Ontario | Barreau de l'Ontario

LAW SOCIETY OF ONTARIO
Compensation Fund - Paralegals
Schedule of Revenues and Expenses
Stated in thousands of dollars
For the year ended December 31

	2022 Actual	**2022 Budget**	**Variance**	2021 Actual
REVENUES				
Annual fees	7	7	-	6
Investment income	45	60	(15)	47
Change in fair value of investments	(228)	-	(228)	133
Recoveries	-	18	(18)	22
Total revenues	(176)	85	(261)	208
EXPENSES				
Provision for unpaid grants	10	166	156	171
Administrative	32	37	5	32
Total expenses	42	203	161	203
Excess of (expenses over revenues) / revenues over expenses	**(218)**	**(118)**	**(100)**	5

LAW SOCIETY OF ONTARIO
Errors and Omissions Insurance Fund
Schedule of Revenues and Expenses and Change in Fund Balance
Stated in thousands of dollars
For the year ended December 31

	2022 Actual	2021 Actual
REVENUES		
Insurance premiums and levies	**111,077**	113,716
Investment income	**245**	444
Change in fair value of investments	**(2,008)**	1,747
Other income	**-**	-
Total revenues	**109,314**	115,907
EXPENSES		
Administrative	**(8)**	(2)
Expenses	**8**	2
Insurance	**111,077**	113,716
Total expenses	**111,077**	113,716
Excess of revenues over expenses (expenses over revenues)	**(1,763)**	2,191
Interfund transfers	**(11,029)**	-
Change in fund balance	**(12,792)**	2,191
Fund balance, beginning of year	**57,577**	55,386
Fund balance, end of year	**44,785**	57,577

FOR INFORMATION

Lawyers’ Professional Indemnity Company Audited Financial Statements for the year ended December 31, 2022

The Committee recommends the audited financial statements for the Lawyers' Professional Indemnity Company (“LAWPRO”) for the year ended December 31, 2022 be received by Convocation for information.

The Law Society provides mandatory professional liability insurance to lawyers through LAWPRO, a provincially licensed insurer and wholly-owned subsidiary of the Law Society.

The professional liability insurance program generally requires practising lawyers to pay premiums and levies to the Errors & Omissions Fund that contribute toward the premium paid by the Law Society to fund the anticipated costs of professional liability claims made in each annual policy period.

In addition to providing mandatory lawyers professional liability insurance, LAWPRO also sells optional excess lawyers professional liability insurance and title insurance.

The audited financial statements have been approved by LAWPRO’s Board and were received for information by the Audit & Finance Committee at its April meeting. The financial statements are at **Tab 2.2.1**.

Financial Statements
(In Canadian dollars)

Lawyers' Professional Indemnity Company

Years ended December 31, 2022 and 2021

Management Discussion and Analysis

The following Management Discussion and Analysis provides a review of the activities, results of operations and financial condition of Lawyers' Professional Indemnity Company ("LAWPRO" or the "Company") for the year ended December 31, 2022, in comparison with the year ended December 31, 2021. These comments should be read in conjunction with the corresponding audited financial statements, including the accompanying notes.

Financial highlights

Statement of profit or loss

During 2022 the Company generated a loss of $7.2 million, a decrease of $9.4 million over 2021, and experienced a comprehensive loss of $24.4 million, a decrease of $40.6 million from 2021.

Premiums
Gross written premiums decreased by $2.5 million to $126.4 million, mainly due to reduced real estate transaction levies. Premiums earned, net of reinsurance ceded, decreased by $3.0 million to $118.6 million in 2022. Gross written premiums from the mandatory Ontario errors and omissions ("E&O") insurance program were $2.7 million lower than 2021 results. The optional excess E&O insurance program grew by $0.5 million in the year, while TitlePLUS premiums decreased by $0.3 million from 2021 results.

Net claims incurred
Incurred claims in 2022, net of reinsurance recoveries, was $16.6 million lower than in 2021. Due to a significant increase in market interest rates in 2022, discounted actuarial reserves were decreased by $41.7 million compared to a decrease of $8.2 million in 2021. Undiscounted reserves were increased by $2.9 million for prior fund years (compared to favorable development of $8.3 million in 2021 which decreased reserves).

Reinsurance
Similar to recent years, the Company purchased two layers of excess-of-loss clash reinsurance coverage, which limits its exposure to one or more large aggregations of multiple claims arising from the same proximate cause. Furthermore, the Company maintained its 10% retention in the optional excess E&O program.[1] The high level of reinsurance significantly mitigates exposure to the Company from claims in this program.

General expenses
LAWPRO's general expenses in 2022 were $3.7 million higher than 2021, and $5.3 million lower than its annual budget, primarily due to salaries and benefits, professional fees, and information systems related expenses. The increase from 2021 was due to unusually low expenses due to the pandemic and additional costs related to the implementation of IFRS 17, whereas the lower expenses to budget were mainly timing related.

[1] Prior to 2011 the program was fully reinsured.

Commissions earned

The Company earned reinsurance commissions of $1.7 million on premium ceded in respect of its 2022 optional excess E&O insurance program, compared to a similar result of $1.5 million in 2021.

Investment income

Investments generated a $13.8 million loss in 2022, a $22.8 million decrease from 2021 income of $9.0 million. Investment income from interest and dividend receipts increased by $3.2 million to $17.3 million, primarily due to the rising interest rates. The Company experienced a $23.5 million change in unrealized losses on its fixed income security portfolio compared to $13.7 million change in unrealized losses in 2021. In addition, there was $25.4 million change in unrealized losses in the Company's surplus portfolio, compared to a $17.3 million unrealized gain in 2021. The Company had net realized losses on the total investment portfolio of $6.1 million in 2022 compared to a realized gain of $10.0 million in 2021. The losses in 2022 were mainly due to the movement in the Bank of Canada key rate from 0.25% at the start of the year to 4.25% at year end and poor performance of equity markets.

Statement of comprehensive income

Other comprehensive loss

During 2022, LAWPRO experienced other comprehensive loss of $17.1 million, primarily due to a significant increase in net unrealized losses on its surplus investment fixed income products. These results compare to other comprehensive income of $14.0 million experienced during 2021.

Statement of financial position

The Company ended 2022 with shareholder's equity of $261.4 million, down $24.4 million from last year. $18.7 million of the decrease was in other comprehensive income and $5.7 million in retained earnings. The latter was comprised of $7.2 million in net loss offset by and $1.6 million in remeasurement gain on the supplemental designated executive plan transferred from other comprehensive income.

Investments

As of December 31, 2022, the market value of the Company's investment portfolio was less than its cost base by $13.3 million, compared to 2021 where the market value exceeded cost by $35.6 million. Investment assets, inclusive of cash and cash equivalents and investment income due and accrued, decreased by $53.5 million to $684.5 million as of December 31, 2022. This reflects the overall poor performance of the fixed income portfolios.

The investment portfolio is managed in accordance with the investment policy approved by the Company's Board of Directors in diversified, high-quality assets. A portion of the investment portfolio, which is composed of primarily fixed income securities, is invested in a manner that is expected to substantially match in maturity to the payment of claims liabilities in future years. The portion of the Company's investment portfolio which is considered surplus to the requirements of settling claims liabilities is managed separately and includes fixed income securities and equity investments in publicly traded companies, the values of which are more subject to market volatility.

Claims liabilities

The claims liabilities represent the amount required to satisfy all the Company's obligations to claimants prior to reinsurance recoveries. This balance decreased by $27.6 million in 2022. As Reinsurance recoverables decreased by $18.4 million, the decrease in the net provision is $9.2 million. This decrease is attributable to the increased discount rate which reflects the significant increase in interest rates from year end 2021 to 2022.

Report on LAWPRO operations

LAWPRO is an insurance company with three product lines: a mandatory E&O insurance program, as required by the Law Society for all lawyers in private practice in Ontario; an optional excess E&O insurance program that enables Ontario law firms to increase their insurance coverage limit to a maximum of $9 million per claim/$9 million in the aggregate above the $1 million per claim/$2 million aggregate levels provided by the mandatory E&O program; and an optional TitlePLUS title insurance product that real estate practitioners across Canada can make available to their clients. Through its practicePRO initiative, LAWPRO educates lawyers on where and why malpractice claims occur and provides tools and resources to reduce their claims exposure.

Independent auditor's report

To the Shareholder of Lawyers' Professional Indemnity Company

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Lawyers' Professional Indemnity Company (the Company) as at December 31, 2022 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at December 31, 2022;
- the statement of profit or loss for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 generally accepted auditing standards 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 generally accepted auditing standards, 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 Company'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 Company'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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
February 24, 2023

Lawyers' Professional Indemnity Company
Statement of Financial Position
(In thousands of Canadian dollars)

As at December 31

	Note	2022	2021
Assets			
Cash and cash equivalents		$ 35,741	$ 24,473
Investments	5	645,130	710,522
Investment income due and accrued		3,583	2,924
Due from reinsurers		1,339	123
Due from insureds		2,150	2,221
Due from the Law Society of Ontario	13	11,541	6,908
Reinsurers' share of provisions for:			
Claims liabilities	10	31,173	49,583
Other receivables		5,497	476
Other assets		6,051	3,744
Property and equipment	7	9,902	10,637
Intangible asset	8	2,577	1,906
Income taxes recoverable		6,754	415
Deferred income tax asset	15	11,233	5,397
Total assets		**$ 772,671**	**$ 819,329**
Liabilities			
Claims liabilities	9,10	490,008	517,596
Unearned premiums	11	1,316	1,267
Due to reinsurers		893	944
Due to insureds		38	29
Expenses due and accrued		9,026	3,267
Lease liabilities	9	9,437	9,859
Other taxes due and accrued		522	586
		$ 511,240	**$ 533,548**
Equity			
Capital stock	17	5,000	5,000
Contributed surplus	17	30,645	30,645
Retained earnings		221,794	227,465
Accumulated other comprehensive income		3,992	22,671
		$ 261,431	**$ 285,781**
Total liabilities and equity		**$ 772,671**	**$ 819,329**

Accompanying notes are an integral part of the financial statements.

On behalf of the Board

Andrew J. Spurgeon

Daniel E. Pinnington

Lawyers’ Professional Indemnity Company

Statement of Profit or Loss
(In thousands of Canadian dollars)

Years ended December 31

	Note	2022	2021
Income			
Gross written premiums		$ 126,388	$ 128,915
Premiums ceded to reinsurers	12	(7,746)	(7,143)
Net written premiums		118,642	121,772
(Increase) decrease in unearned premiums	11	(49)	(137)
Net premiums earned		**$ 118,593**	**$ 121,635**
Net investment income	5	(13,750)	8,996
Ceded commissions		1,657	1,534
		$ 106,500	**$ 132,165**
Expenses			
Gross claims incurred	10	$ 67,752	$ 100,925
Reinsurers' share of gross claims incurred	10	17,144	575
Net claims incurred		84,896	101,500
Operating expenses	16	27,632	23,886
Finance costs		380	397
Premium taxes		3,792	3,868
		116,700	**129,651**
Profit (loss) before income taxes		**$ (10,200)**	**$ 2,514**
Income tax expense (recovery)	15		
Current		$ 3,426	$ 247
Deferred		(6,398)	86
		(2,972)	**333**
Profit (loss)		**$ (7,228)**	**$ 2,181**

Accompanying notes are an integral part of the financial statements.

Lawyers’ Professional Indemnity Company
Statement of Comprehensive Income
(In thousands of Canadian dollars)

Years ended December 31

	Note	2022	2021
Profit (loss)		**$ (7,228)**	**$ 2,181**
Other comprehensive income (loss), net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit obligation, net of income tax expense (recovery) of $562 [2021: $475]	14	1,557	1,317
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale assets			
Net changes unrealized gains (losses), net of income tax expense (recovery) of ($7,101) [2021: $6,666]		(19,692)	18,488
Reclassification adjustment for (gains) losses recognized in profit or loss, net of income tax (expense) recovery of $365 [2021: ($2,082)]		1,013	(5,775)
Other comprehensive income (loss)		**(17,122)**	**14,030**
Total Comprehensive income (loss)		**$ (24,350)**	**$ 16,211**

Accompanying notes are an integral part of the financial statements.

Lawyers' Professional Indemnity Company

Statement of Changes in Equity
(In thousands of Canadian dollars)

Years ended December 31

	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Equity
Balance at December 31, 2020	**$ 5,000**	**$ 30,645**	**$ 223,967**	**$ 9,958**	**$ 269,570**
Total comprehensive income (loss) for the year	-	-	2,181	14,030	16,211
Transfer of defined benefit remeasurements from OCI to retained earnings	-	-	1,317	(1,317)	-
Balance at December 31, 2021	**$ 5,000**	**$ 30,645**	**$ 227,465**	**$ 22,671**	**$ 285,781**
Total comprehensive income (loss) for the year	-	-	(7,228)	(17,122)	(24,350)
Transfer of defined benefit remeasurements from OCI to retained earnings	-	-	1,557	(1,557)	-
Balance at December 31, 2022	**$ 5,000**	**$ 30,645**	**$ 221,794**	**$ 3,992**	**$ 261,431**

The aggregate of retained earnings and accumulated other comprehensive income as at December 31, 2022 is $225,786 (December 31, 2021: $250,136).

Accompanying notes are an integral part of the financial statements.

Lawyers’ Professional Indemnity Company
Statement of Cash Flows
(In thousands of Canadian dollars)

Years ended December 31

Operating Activities				
Profit (loss)	**$**	**(7,228)**	**$**	**2,181**
Items not affecting cash:				
Deferred income taxes		(6,398)		86
Amortization of property and equipment		1,217		1,121
Amortization of intangible asset		580		207
Realized (gains) losses on disposition or impairment		6,148		(10,019)
Amortization of premiums and discounts on bonds		1,514		2,271
Changes in unrealized (gains) losses		23,527		13,736
		19,360		9,583
Changes in non-cash working capital balances:				
Investment income due and accrued		(659)		53
Due from reinsurers		(1,267)		12
Due from insureds		80		1,350
Due from the Law Society of Ontario		(4,633)		1,028
Reinsurers' share of claims liabilities		18,410		606
Other receivables		(5,021)		320
Other assets		(188)		(485)
Income taxes due and accrued (recoverable)		396		(61)
Claims liabilities		(27,588)		5,441
Unearned premiums		49		137
Expenses due and accrued		5,759		(4,599)
Other taxes due and accrued		(64)		115
Net cash inflow from operating activities		4,634		13,500
Investing Activities				
Purchases of property and equipment		(482)		(68)
Purchases of intangible asset		(1,251)		(1,107)
Purchases of investments		(365,632)		(412,570)
Proceeds from sales and maturities of investments		374,420		417,374
Net cash outflow from investing activities		7,055		3,629
Financing Activities				
Payment of lease liabilities		(421)		(404)
Total cash inflow (outflow) from financing activities		(421)		(404)
Net change in cash and cash equivalents during the year		11,268		16,725
Cash and cash equivalents, beginning of year		24,473		7,748
Cash and cash equivalents, end of year	**$**	**35,741**	**$**	**24,473**
Cash and cash equivalents at end of year consists of:				
Cash		2,895		6,835
Cash equivalents		32,846		17,638
	$	**35,741**	**$**	**24,473**
Supplemental disclosure of cash flow information:				
Net income taxes paid (operating activity)		3,031		307
Interest received (investing activity)		16,041		14,282
Interest paid (financing activity)		382		398
Dividends received (investing activity)		2,056		2,123

Accompanying notes are an integral part of the financial statements.

1. NATURE OF OPERATIONS

Lawyers' Professional Indemnity Company (the "Company") is an insurance company, incorporated on March 14, 1990, under the *Corporations Act* (Ontario) and licensed to provide lawyers professional liability insurance in Ontario and title insurance in all provinces and territories in Canada. The Company is a wholly owned subsidiary of the Law Society of Ontario (the "Law Society"), which is the governing body for lawyers and paralegals in Ontario. The Company's registered office is located at 250 Yonge Street, Toronto, Ontario, Canada.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared under the *Insurance Act* (Ontario) and related regulations which require that, except as otherwise specified by the Company's primary insurance regulator, the Financial Services Regulatory Authority of Ontario ("FSRA"), the financial statements of the Company are to be prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements have been prepared in accordance with accounting standards issued and effective on or before December 31, 2022. None of the accounting requirements of FSRA represent exceptions to IFRS. These financial statements were authorized for issuance by the Company's Board of Directors on February 24, 2023.

The significant accounting policies used in the preparation of these financial statements are summarized below. These accounting policies conform, in all material respects, to IFRS.

Basis of measurement

The financial statements have been prepared under the historical cost basis that are measured at the end of each reporting period, except for certain financial instruments and the claims liabilities, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability that market participants would likely take into account when pricing the asset or liability at the measurement date. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The valuation process includes utilizing market driven fair value measurements from active markets where available, considering other observable and unobservable inputs and employing valuation techniques which make use of current market data. Considerable judgement may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented in these financial statements are not necessarily indicative of the amounts that would be realized in a current market exchange.

The Company utilizes a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value, which prioritizes these inputs into three broad levels. The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. The three levels of the fair value hierarchy are:

Level 1 - Quoted market prices in active markets
Inputs to Level 1, the highest level of the hierarchy, reflect fair values that are quoted prices (unadjusted) in active markets for identical assets and liabilities. An active market is considered to be one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 assets and liabilities include debt and equity securities, quoted unit trusts and derivative contracts that are traded in an active exchange market, as well as certain government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 – Modelled with significant observable market inputs
Inputs to Level 2 fair values are inputs, other than quoted prices within Level 1 prices that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 inputs include: quoted prices for similar (i.e. not identical) assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly; inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment spreads, loss severities, credit risks, and default rates); and inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market corroborated inputs). Valuations incorporate credit risk by adjusting the spread above the yield curve for government treasury securities for the appropriate amount of credit risk for each issuer, based on observed market transactions. To the extent observed market spreads are either not used in valuing a security, or do not fully reflect liquidity risk, the valuation methodology reflects a liquidity premium. Examples of these are securities measured using discounted cash flow models based on market observable swap yields, and listed debt or equity securities in a market that is inactive. This category generally includes government and agency mortgage-backed debt securities and corporate debt securities.

Level 3 - Modelled with significant unobservable market inputs
Inputs to Level 3 are unobservable, supported by little or no market activity, and are significant to the fair value of the assets or liabilities. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect the assumptions the business unit considers that market participants would use in pricing the asset or liability. Where estimates are used, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible. Level 3 assets and liabilities generally include certain private equity investments, certain asset-backed securities, highly structured, complex or long-dated derivative contracts, and certain collateralized debt obligations where independent pricing information was not able to be obtained for a significant portion of the underlying assets.

Use of estimates and judgments made by management

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the reporting period in which they are determined. Key estimates are discussed in the following accounting policies and applicable notes.

Key areas where management has made difficult, complex or subjective judgments in the process of applying the Company's accounting policies, often as a result of matters that are inherently uncertain, include:

Impairment	Note 5c
Unpaid claims incurred	Note 10
Income taxes	Note 15

Financial instruments – recognition and measurement

Financial assets are classified as fair value through profit or loss ("FVTPL"), available-for-sale ("AFS"), held to maturity or loans and receivables. Financial liabilities are classified as FVTPL or as other financial liabilities. These classifications are determined based on the characteristics of the financial assets and liabilities, the company's choice and/or the company's intent and ability. As permitted under the IFRS standards, a company has the ability to designate any financial instrument irrevocably, on initial recognition or adoption of the standards, as FVTPL provided certain criteria are met.

The Company's financial assets and liabilities are measured on the statement of financial position at fair value on initial recognition and are subsequently measured at fair value or amortized cost depending on their classification as indicated below.

Transaction costs for FVTPL investments are expensed in the current period, and for all other categories of investments are capitalized and, when applicable, amortized over the expected life of the investment. The Company accounts for the purchase and sale of securities using trade date accounting. Realized gains or losses on disposition are determined on an average cost basis.

The effective interest method is used to calculate amortization/accretion of premiums or discounts on fixed income securities over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the fixed income security, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets at fair value through profit or loss

Financial assets at FVTPL are measured at fair value in the statement of financial position with realized gains and losses and net changes in unrealized gains and losses recorded in net investment income along with dividends and interest earned.

The Company maintains an investment portfolio, referred to as the asset-liability matched ("ALM") portfolio, which is designated as FVTPL. This portfolio is invested with the primary objective of matching the cash inflows from fixed income investment securities with the expected timing and magnitude of future payments of net claims liabilities. The ALM portfolio represents a significant component of the Company's risk management strategy for meeting its claims obligations. The designation of the financial assets in the ALM investment portfolio as FVTPL is intended to significantly reduce the measurement or recognition inconsistency that would otherwise arise from measuring assets, liabilities, and gains and losses under different accounting methods. Interest rate movements cause changes in the values of the investment portfolio and of discounted estimated future claims liabilities. As the changes in values of the matched portfolio and of the discounted estimated future claims liabilities flow through profit or loss, the result is an offset of a significant portion of these changes.

Cash and cash equivalents are also classified as FVTPL. Cash and cash equivalents consist of cash on deposit and short-term investments that mature in three months or less from the date of acquisition. The net gain or loss recognized incorporates any interest earned on the financial asset.

AFS financial assets

Financial assets classified as AFS are measured at fair value in the statement of financial position. Net interest income, including amortization of premiums and the accretion of discounts, are recorded in net investment income in the statement of profit or loss. Dividend income on common and preferred shares is included in investment income on the ex-dividend date. Changes in fair value of AFS fixed income securities resulting from changes to foreign exchange rates are recognized in net investment income as incurred. Changes in the fair value of AFS fixed income securities related to the underlying investment in its issued currency, as well as all elements of fair value changes of AFS equity securities, are recorded to unrealized gains and losses in accumulated other comprehensive income ("AOCI") until disposition or impairment is recognized, at which time the cumulative gain or loss is reclassified to net investment income in profit or loss.

Financial assets in the Company's surplus portfolio (consisting of all investments outside the ALM portfolio), including fixed income securities and equities, are designated as AFS.

Loan and receivables and other liabilities

The Company has not designated any financial assets as held to maturity. Due from reinsurers, insureds and Law Society of Ontario and Other receivables and Due to reinsurers and insureds are carried at amortized cost using the effective interest rate method. Given the short-term nature of these financial assets and liabilities, amortized cost approximates fair value.

Leases

The Company is a lessee under various operating leases relating to premises and equipment. For all leases, except for leases which are short term or of low value, a right-of-use asset and a lease liability are recognized on the statement of financial position. Right-of-use assets are initially measured at cost, which comprises the amount of the initial measurement of the lease liability. Right-of-use assets are subsequently measured at amortized cost. Right-of-use assets are depreciated on a straight-line basis over the lease term. Lease liabilities are measured at the present value of future payments, using the Company's incremental borrowing rates. An interest charge is applied based on the discount rate used in the calculation of the initial lease liability, and increases the value of the lease liability. Amounts paid under the terms of the lease are deducted from the value of the lease liability, representing the reduction in the Company's payment obligations.

Property and equipment

Property and equipment are recorded in the statement of financial position at cost less accumulated amortization. Amortization is charged to operating expense on a straight-line basis over the estimated useful lives of the assets as follows:

Furniture and fixtures	5 years
Computer equipment	3 years
Computer software	1 to 3 years
Leasehold improvements	Term of lease
Right-of-use assets	Term of lease

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized immediately in profit or loss.

Intangible Assets

Intangible assets with finite useful lives that are acquired separately or internally developed are carried at cost, less any applicable accumulated amortization and accumulated impairment losses. Once an acquired intangible asset is available for use, amortization is recognized on a straight-line basis over its estimated useful life. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from its use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying cost of the asset, are recognized in profit and loss when the asset is derecognized.

Impairment

<u>Financial Assets</u>
AFS financial assets are tested for impairment on a quarterly basis. Objective evidence of impairment for fixed income securities includes financial difficulty of the issuer, bankruptcy or defaults and delinquency in payments of interest or principal. Objective evidence of impairment for equities includes a significant or prolonged decline in fair value of the equity below cost or changes with adverse effects that have taken place in the technological, market, economic or legal environment in which the issuer operates that indicates the cost of the security may not be recovered. In general, an equity security is considered impaired if the decline in fair value relative to cost has been either at least 25% for a continuous nine-month period or more than 40% at the end of the reporting period, or been in an unrealized loss position for a continuous period of 18 to 24 months.

Where there is objective evidence that an AFS asset is impaired, the loss accumulated in AOCI is reclassified to net investment income. Once an impairment loss is recorded to profit or loss, the loss can only be reversed into income for fixed income securities to the extent a subsequent increase in fair value can be objectively correlated to an event occurring after the loss was recognized. Following impairment loss recognition, further decreases in fair value are recorded as an impairment loss to profit or loss, while a subsequent recovery in fair value for equity securities, and fixed income securities that do not qualify for loss reversal treatment, are recorded to other comprehensive income ("OCI"). Interest continues to be accrued, but at the effective rate of interest based on the fair value at impairment, and dividends of equity securities are recognized in income when the Company's right to receive payment has been established.

<u>Non-Financial Assets</u>
At the end of each reporting period, the Company reviews the carrying amount of its property and equipment, intangible assets and other non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss. If an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of impairment loss is recognized immediately in profit or loss.

Foreign currency translation

The Canadian dollar is the functional and presentation currency of the Company. Transactions in foreign currencies are translated into Canadian dollars at rates of exchange at the time of such transactions. Monetary assets and liabilities are translated at current rates of exchange, with all translation differences recognized in investment income in the current period. If a gain or loss on a non-monetary asset and liability is recognized in OCI, any exchange component of that gain or loss is also recognized in OCI, and conversely, if a gain or loss on a non-monetary asset and liability is recognized in profit or loss, any exchange component of that gain or loss is also recognized in profit or loss.

Premium-related balances

The Company issues two types of professional liability policies: a primary lawyer's errors and omissions policy and an excess policy increasing the insurance coverage limit to a maximum of $9 million per claim/$9 million in the aggregate above the $1 million per claim/$2 million aggregate levels provided by the primary policy; and a title insurance policy. Insurance policies written under the professional liability insurance program are effective on a calendar year basis. Professional liability insurance premium income is earned on a *pro rata* basis over the term of coverage of the underlying insurance policies, which is generally one year, except for policies for retired lawyers, which have terms of up to five years. Title insurance premiums are earned at the inception date of the policies.

Unearned premiums reported on the statement of financial position represent the portion of premiums written that relate to the unexpired risk portion of the policy at the end of the reporting period.

Premiums receivable are recorded in the statement of financial position as amounts due from insureds, net of any required provision for doubtful amounts.

The Company defers policy acquisition expenses, primarily premium taxes on its written professional liability insurance premiums, to the extent these costs are considered recoverable. These costs are expensed on the same basis that the related premiums are earned. Deferred policy acquisition expenses are not material at year-end, and therefore the Company's policy is to not recognize an asset on the statement of financial position.

Claims liabilities

The Claims liabilities includes an estimate of the cost of projected final settlements of insurance claims incurred on or before the date of the statement of financial position, consisting of case estimates prepared by claims adjusters and a provision for incurred but not reported claims ("IBNR") calculated based on accepted actuarial practice in Canada as required by the Canadian Institute of Actuaries ("CIA"). These estimates include the full amount of all expected expenses, including related investigation, settlement and adjustment expenses, net of any anticipated salvage and subrogation recoveries. The professional liability insurance policy requires insureds to pay deductibles to the maximum extent of $25,000 on each individual claim, subject to an additional $10,000 for certain claims involving an administrative dismissal. Expected deductible recoveries on paid and unpaid claims are recognized net of any required provision for uncollectible accounts at the same time as the related claims liability.

The Claims liabilities takes into consideration the time value of money using discount rates based on the estimated market value based yield to maturity of the underlying assets backing these liabilities, with reductions for estimated investment-related expense and credit risk. A provision for adverse deviations ("PfAD") is then added to the discounted liabilities, to allow for possible deterioration of experience in claims development, recoverability of reinsurance balances and investment risk, in order to generate the actuarial present value.

These estimates of claims liabilities are subject to uncertainty and are selected from a wide range of possible outcomes. All provisions are periodically reviewed and evaluated in light of emerging claims experience and changing circumstances. The resulting changes in estimates of the ultimate liability are reported as gross claims incurred in the reporting period in which they are determined.

Reinsurance

In the normal course of business, the Company enters into per claim and excess of loss reinsurance contracts with other insurers in order to limit its net exposure to significant losses. Amounts relating to reinsurance in respect of the premiums and claims-related balances in the statements of financial position and profit or loss are recorded separately. Premiums ceded to reinsurers are presented before deduction of broker commission and any premium-based taxes or duty. Amounts recoverable from reinsurers are estimated and recognized in a manner consistent with the Company's method of determining the underlying claims liabilities covered by the reinsurance contract. Amounts recoverable from reinsurers are assessed for indicators of impairment at the end of each reporting period. An impairment loss is recognized and the amount recoverable from reinsurers is reduced by the amount by which the carrying value exceeds the expected recoverable amount under the impairment analysis.

Ceding commissions, which relate to amounts received from the Company's reinsurers on the placement of its reinsurance contracts, is earned into income on a *pro rata* basis over the contract period.

Income taxes

Income tax expense is recognized in profit or loss and the statement of profit or loss and other comprehensive income. Current tax is based on taxable income which differs from profit or loss as reported in the statement of profit or loss and statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Current tax includes any adjustments in respect of prior years.

Deferred tax assets are generally recognized for all deductible temporary income tax differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets also include tax losses not deductible in the current year. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets and liabilities determined based on the enacted or substantively enacted tax laws and rates that are anticipated to apply in the period of realization. The measurement of deferred tax assets and liabilities utilizes the liability method, reflecting the tax consequences that would follow from the way the Company expects to recover or settle the carrying amount of the related assets and liabilities. The carrying amount of the deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Income tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and there is a legally enforceable right to offset current tax assets with current tax liabilities.

Employee benefits

The Company maintains a defined contribution pension plan ("DCPP") for its employees. It also maintains a supplemental designated executive plan ("SDEP"), for certain designated employees, which provides benefits in excess of the benefits provided by the Company's DCPP. For the SDEP, the benefit obligation is determined using the projected unit credit method. Actuarial valuations are carried out at the end of each annual reporting period using management's assumptions on items such as discount rates, expected asset performance, salary growth and retirement ages of employees. The discount rate is determined based on the market yields of high quality, mid-duration corporate fixed income securities.

DCPP expenses are recognized in the reporting period in which services are rendered. Regarding the SDEP, remeasurements comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding net interest cost), is reflected immediately in the statement of profit or loss and other comprehensive income with a charge or credit recognized in OCI in the period in which they occur. Remeasurements recognized in OCI are transferred immediately to retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows: service cost (including current service, past service cost, as well as gains or losses on curtailments and settlements), net interest expense or income, and remeasurements. The Company presents the first two components of defined benefit cost as part of operating expenses in the statement of profit or loss.

The retirement benefit obligation recognized in the statement of financial position represents the actual deficit or surplus in the Company's SDEP. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

3. APPLICATION OF NEW AND REVISED IFRSs RELEVANT TO THE COMPANY

In the current year, the Company has applied the following revised IFRSs issued by the IASB that are mandatorily effective for an accounting period that begins on or after January 1, 2022.

a) Amendments to Conceptual Framework for Financial Reporting

Amended to (i) replace references to the 2001 Conceptual Framework for Financial Reporting to the 2018 Conceptual Framework for Financial Reporting in order to determine what constitutes an asset or liability in a business combination, (ii) add a new exception for certain liabilities and contingent liabilities to refer to IAS 37 or IFRIC 21 rather than the 2018 Conceptual Framework, and (iii) clarify that an acquirer should not recognize contingent assets at the acquisition date.

The adoption of these amendments did not have an impact on the Company's financial statements.

b) Amendment to Onerous Contracts – Cost of Fulfilling a Contract

Amended to clarify (i) the meaning of "costs to fulfil a contract", and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

The adoption of this amendment did not have an impact on the Company's financial statements.

c) Amendment to Proceeds before Intended Use

Amended to (i) prohibit an entity from deducting from the cost of an item of Property, Plant & Equipment ("PP&E") any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly), (ii) clarify that an entity is "testing whether the asset is functioning properly" when it assesses the technical and physical performance of the asset and (iii) require certain related disclosures.

The adoption of this amendment did not have an impact on the Company's financial statements.

4. NEW AND REVISED IFRSs ISSUED BUT NOT YET EFFECTIVE

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

a) IFRS 9 "*Financial Instruments*"

IFRS 9, issued in November 2009 as part of a three-phase project to replace IAS 39 "*Financial Instruments: Recognition and Measurement*", introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include impairment requirements for financial assets as well as limited amendments to the classification and measurements by introducing fair value through other comprehensive income ("FVOCI") measurement category for certain simple debt instruments.

Pursuant to IFRS 9, all recognized financial assets that are within the scope of IAS 39 are required to be subsequently measured at amortized cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVOCI. All other debt securities, as well as equity securities, are measured at fair value through profit and loss ("FVTPL"). Entities may make an irrevocable election to present subsequent changes in the fair value of an equity security in OCI, with only dividend income generally recognized in profit or loss. In addition, under the fair value option, entities may elect for amortized cost or FVOCI debt securities to be designated as FVTPL.

With regards to the measurement of financial liabilities designated as FVTPL, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is to be recognized in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is recognized in profit or loss.

With regards to debt securities measured at amortized cost or FVOCI, IFRS 9 requires an expected credit loss model for determining impairment, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before impairment losses are recognized. Under IFRS 9, impairment is not considered for equity securities.

The Company has concluded that its activities are predominantly connected with insurance, as the amount of its insurance liabilities are significant compared with its total amount of liabilities and the percentage of its liabilities connected with insurance relative to its total amount of liabilities is greater than 90 per cent.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Retrospective application is required with certain exceptions. An entity whose activities are predominantly connected with insurance is eligible to apply a temporary exemption to adopt IFRS 9 in conjunction with its adoption of IFRS 17. The Company has chosen to apply the temporary exemption to defer the application of IFRS 9 until the effective date of IFRS 17. The Company will restate comparative information for IFRS 9 and will recognize any resulting net difference in equity on the January 1, 2022 opening balance sheet.

Based on the company's overall investment objective of preserving capital and maximizing the return, the company's entire investment portfolio is under FVTPL model. On transition, this will result in all unrealized gains and losses in Accumulated Other Comprehensive Income, to be recognized through Retained Earnings.

b) IFRS 17 "*Insurance Contracts*"

In March 2020 meeting the IASB decided to defer the effective date of IFRS 17 to January 1, 2023.

IFRS 17 provides a General Measurement Model ("GMM") for the recognition of long-duration contracts, as well as a simplified model which is Premium Allocation Approach ("PAA") for short-duration contracts. The standard requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires a company to recognize profits as it delivers insurance services.

The main features of IFRS17 for property and casualty insurance contracts are as follows:

- The concept of portfolio, which is a group of contracts covering similar risks and managed together as a single pool. As such, contracts will be grouped for allocation of deferred acquisition costs, the calculation of risk adjustment, the determination of onerous contracts and the application of the discount rate;
- Insurance liabilities will be discounted at a rate that reflects the characteristics of the liabilities (as opposed to a rate based on asset returns) and the duration of each portfolio. Entities will record the effect of changes in discount rates either in profit or loss or OCI, according to their accounting policy choice;
- Changes in statement of financial position presentation where unearned premiums will correspond to premiums received in advance, while accounts receivable will be constituted of amounts not received when revenue is recognized. In profit or loss, direct premiums written will no longer be presented (only earned premiums). Also, insurance results will be presented without the impact of discounting. Amounts relating to financing and changes in discount rates will be shown separately;

- Extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts.

The standard applies to annual periods beginning on or after January 1, 2023. IFRS 17 will be applied retrospectively as of January 1, 2022 to each group of Insurance contracts, as a result comparative information will be restated, however, if full retrospective application is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. The Company plans to adopt the new standard on the required effective date together with IFRS 9. On transition, for title insurance the Company will apply a fair value approach for years prior to 2021 and full retrospective approach for 2021 and 2022. For all other lines, which are measured under the PAA approach, the company will transition applying the full retrospective approach.

Implementation update

During 2022, the Company has finalized the determination of its accounting policies and continues its efforts towards documenting detailed requirements and designing new business processes and controls. The Company has nearly finalized the development, testing, and implementation of the new technology solutions that will enable it to meet the requirements of the standards. The IFRS 17 opening balance sheet for the company will be finalized in the first half of 2023. The Company will continue its change management processes with a priority being placed on the training of various stakeholders throughout the organization.

In July 2022, the Office of the Superintendent of Financial Institutions issued the final Minimum capital test guidelines relating to IFRS 17 and FSRA has adopted the same guidelines effective January 1, 2023.

Financial impact

The Company is currently evaluating the impact that IFRS 17 will have on its financial statements. The Company's business is predominantly short tail and the current accounting practices of claims liabilities are fairly aligned with IFRS 17. The Company will use PAA for its Mandatory E&O, Excess E&O and Reinsurance portfolios. GMM will be used for TitlePLUS. The recognition of the company's GMM portfolio is expected to create a long tail liability on the Statement of Financial Position. In the Company's portfolio of contracts under PAA and GMM, some onerous contracts have been identified. The Company is expecting an increase to Retained Earnings on transition and a neutral to slightly negative impact on its regulatory capital. This preliminary estimate was determined based on current working assumptions; it was not determined using the technological solutions that continue to be implemented as the Company transitions to IFRS 17.

Key Accounting policy choices & judgements

The Company's main accounting policies under IFRS 17 compared to IFRS 4 are summarized below:

<u>Scope and separating components</u>

Under IFRS 17, the Company is required to determine if contracts are in scope of the insurance contract standard and separate its components if required.

The Company issues insurance contracts (direct business) and holds reinsurance contracts (ceded business). The Company will continue to assess its insurance and reinsurance contracts to determine whether they contain non-insurance components that require accounting treatment in a different IFRS standard. The Company's insurance policies do not include any components that require separation.

Level of aggregation of insurance contracts

Under IFRS 17, insurance and reinsurance contracts need to be aggregated into portfolios and groups for measurement purposes.

The Company divides its direct and ceded business into portfolios. The IFRS 17 portfolios align to the Company's lines of business. Portfolios are then divided into groups of contracts based on expected profitability and cannot include contracts issued more than one year apart. The Company will measure the insurance contract liability using annual cohorts.

Measurement models

Under IFRS 17, insurance contracts are measured under the new GMM or the simplified PAA. Entities are eligible to use the PAA, where the coverage period is one year or less or would not result in a materially different liability if measured under the GMM. The accounting under the PAA is similar to the current approach under IFRS 4.

The Company will use PAA for its Mandatory E&O, Excess E&O and Reinsurance portfolios. GMM will be used for TitlePLUS.

Onerous contracts

Under IFRS 17, the groups of onerous contracts need to be identified at a more granular level as compared to IFRS 4.

The Company has identified both onerous and non-onerous contracts and will recognize a loss component accordingly. There are no portfolios identified as profitable with no significant possibility of becoming onerous.

Discount rate

IFRS 17 introduces new requirements that change the way the discount rate is determined as compared to the requirements under IFRS 4.

The Company has chosen to use a bottom-up approach to estimate the discount rate whereby a liquid risk-free yield curve is adjusted to reflect the liquidity characteristics of the insurance contract liabilities. The discount rate curve chosen by the company at the date of initial recognition is the locked-in curve for a group of insurance contracts and will be applied at the group level.

Risk adjustment

IFRS 17 requires a risk adjustment in the measurement of insurance liabilities to reflect the risk associated with the uncertainty about the amount and timing of the cash flows that arises from non-financial risks.

The Company has chosen risk adjustment factors based on confidence levels for the group of contracts measured under PAA method and is using the Margin Method for the group of contracts measured under GMM. These risk adjustment factors will be applied to the present value of future loss cashflows.

Insurance revenue

Under IFRS 17, premium written will no longer be used as a basis for calculating revenue and will not be presented on the Statement of Profit or Loss. Insurance revenue reflects the consideration to which the insurer is entitled in exchange for the services provided on an earned basis. Insurance revenue will exclude any investment components.

Insurance revenue under the PAA is the amount of premiums received allocated to the period. The allocation of premiums received to each period of coverage is based on the passage of time as this does not differ significantly from the timing of expected incurred losses during the coverage period.

Under the GMM, insurance revenue comprises amounts relating to changes in the liability for remaining coverage ("LRC") as follows:

- Insurance service expenses incurred during the period;
- Change in risk adjustment for non-financial risk for service provided in the period;
- Contractual Service Margin recognized in profit or loss because of the transfer of services in the period; and
- An allocation of acquisition cash flows

Insurance service expenses

Insurance service expenses represent the costs an insurer will incur to fulfill the obligations of its insurance contracts. These will, at a minimum, comprise the following:

- Incurred claims and other incurred insurance service expenses that are directly attributable to a group of contracts under both PAA & GMM models;
- Amortization of insurance acquisition cash flows directly attributable to portfolio of contracts under GMM model;
- Changes that relate to past service (i.e., relating to Liability for Incurred Claims ("LIC") under both PAA & GMM models;
- Losses on onerous contracts and reversals under both PAA & GMM models.

Insurance service expenses related to group of contracts exclude any investment components. Similar to the requirement for revenue, these amounts will need to be identified and excluded from the related claims expense.

The Company will present Insurance service expenses in one line. For contracts measured under the PAA model, the Company will expense acquisition costs as incurred. For contracts measured under the GMM model, directly attributable expenses are included in the estimates of future cash flows used for measurement of both the liability for remaining coverage and the liability for incurred claims.

Presentation and disclosures

Under IFRS 17, the new requirements streamline the existing practice for the presentation of insurance line items on an insurer's Statement of Financial Position into groups of insurance and reinsurance contract assets and liabilities; replacing the current presentation format where other insurance related items are presented on separate lines, for example Due from insureds.

The Statement of Profit or Loss will comprise two separate distinct sections under IFRS 17: Insurance service result, and Investment result.

Amounts stated in Canadian dollars (amounts in tables in thousands)

Insurance service result will represent an entity's performance from issuing and fulfilling insurance and reinsurance contracts. The insurance service result includes insurance revenue and insurance service expenses. Insurance service results will also include the effects of reinsurance held, however unlike today, this is not shown as a reduction in gross revenue.

Investment result will be presented after the insurance service result on the income statement, the investment result will include a separate line item for presenting insurance finance income or expenses, as well as the investment income from invested assets.

c) Amendments to IAS 1 *'Presentation of financial statements'* – Classification of liabilities as current or non-current Effective date EU adoption status

On 23 January 2020, the IASB issued a narrow-scope amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. The amendment changes the guidance for the classification of liabilities as current or non-current. It could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. The amendments apply retrospectively to annual periods beginning on or after January 1, 2023. The Company is currently assessing the impact of these amendments.

5. INVESTMENTS

a) Summary

The tables below provide details of the cost or amortized cost as well as the fair value of the Company's investments, classified by accounting category and investment type:

	December 31, 2022			December 31, 2021		
	Fair value	Cost or amortized cost	Net Unrealized Gain (Loss)	Fair value	Cost or amortized cost	Net Unrealized Gain (Loss)
Available-for-sale						
Fixed income securities	$ 164,734	$ 176,931	$ (12,197)	$ 172,475	$ 174,894	$ (2,419)
Common equities (pool funds)	112,602	94,467	$ 18,135	140,415	106,644	33,771
	277,336	271,398	5,938	312,890	281,538	31,352
Designated as FVTPL						
Fixed income securities	367,367	386,417	(19,050)	397,032	392,727	4,305
Preferred equities	427	615	(188)	600	615	(15)
	367,794	387,032	(19,238)	397,632	393,342	4,290
Total	**$ 645,130**	**$ 658,430**	**$ (13,300)**	**$ 710,522**	**$ 674,880**	**$ 35,642**
Reconciled in aggregate to asset classes as follows:						
Fixed income securities	532,101	563,348	(31,247)	569,507	567,621	1,886
Equities	113,029	95,082	17,947	141,015	107,259	33,756
Total	**$ 645,130**	**$ 658,430**	**$ (13,300)**	**$ 710,522**	**$ 674,880**	**$ 35,642**

As at December 31, 2022, the Company had gross unrealized losses of $12,350,343 in the AFS portfolio (2021: $2,593,727) and did not hold any impaired securities (2021: nil).

Amounts stated in Canadian dollars (amounts in tables in thousands)

b) Maturity profile of fixed income securities

The maturity profile of fixed income securities by type of issuer is as follows:

December 31, 2022	Within 1 year	1 to 5 years	Over 5 years	Total
Available-for-sale				
Issued or guaranteed by:				
Canadian federal government	$ -	$ 15,827	$ 25,395	$ 41,222
Canadian provincial and municipal governments	-	10,495	31,485	41,980
Mortgage backed securities	-	-	473	473
Corporate debt	-	47,846	33,213	81,059
	-	74,168	90,566	164,734
Designated as FVTPL				
Issued or guaranteed by:				
Canadian federal government	6,867	15,305	-	22,172
Canadian provincial and municipal governments	14,353	45,119	65,970	125,442
Mortgage backed securities	-	5,501	-	5,501
Corporate debt	32,187	122,566	59,499	214,252
	53,407	188,491	125,469	367,367
Fixed income securities	**$ 53,407**	**$ 262,659**	**$ 216,035**	**$ 532,101**
Percent of total	10%	49%	41%	100%

December 31, 2021	Within 1 year	1 to 5 years	Over 5 years	Total
Available-for-sale				
Issued or guaranteed by:				
Canadian federal government	$ -	$ 19,100	$ 15,917	$ 35,017
Canadian provincial and municipal governments	-	18,427	37,424	55,851
Mortgage-backed securities	-	-	686	686
Corporate bonds	2,074	38,906	39,941	80,921
	2,074	76,433	93,968	172,475
Designated as FVTPL				
Issued or guaranteed by:				
Canadian federal government	43,824	45,472	-	89,296
Canadian provincial and municipal governments	13,819	68,071	60,570	142,460
Mortgage-backed securities	1,056	938	8,353	10,347
Corporate debt	26,704	79,905	48,320	154,929
	85,403	194,386	117,243	397,032
Fixed income securities	**$ 87,477**	**$ 270,819**	**$ 211,211**	**$ 569,507**
Percent of total	15%	48%	37%	100%

The weighted average duration of fixed income securities as at December 31, 2022 is 4.10 years (December 31, 2021: 3.92 years). The effective yield on fixed income securities as at December 31, 2022 is 3.24% (December 31, 2021: 2.62%).

Amounts stated in Canadian dollars (amounts in tables in thousands)

c) Impairment Analysis

Management performs a quarterly analysis of the Company’s AFS investments to determine whether there is objective evidence that the estimated cash flows of the investments have been affected. The analysis includes the following procedures as deemed appropriate by management:

- identifying all security holdings in unrealized loss positions that have existed for a length of time that management believes may impact the recoverability of the investment;
- identifying all security holdings in unrealized loss positions that have an unrealized loss magnitude that management believes may impact the recoverability of the investment;
- reviewing the trading range of certain investments over the preceding calendar period;
- assessing whether any credit losses are expected for those investments. This assessment includes consideration of, among other things, all available information and factors having a bearing upon collectability such as changes to credit rating by rating agencies, financial condition of the issuer, expected cash flows and value of any underlying collateral;
- assessing whether declines in fair value for any fixed income securities represent objective evidence of impairment based on their investment grade credit ratings from third party security rating agencies;
- assessing whether declines in fair value for any fixed income securities with non-investment grade credit rating represent objective evidence of impairment based on the history of its debt service record; and
- obtaining a valuation analysis from third party investment managers regarding the intrinsic value of these holdings based on their knowledge, experience and other market based valuation techniques.

The Company did not recognize any impairment in 2022 or 2021.

d) Net investment income

Net investment income arising from investments designated as FVTPL and classified as AFS are recorded in profit or loss for the year ended December 31 is as follows:

	2022			2021		
	Designated as FVTPL	Available-for-sale	Total	Designated as FVTPL	Available-for-sale	Total
Interest and dividends	$ 11,170	$ 6,086	$ 17,256	$ 9,652	$ 4,442	$ 14,094
Net realized gains (losses)	(4,768)	(1,378)	(6,146)	2,150	7,857	10,007
Change in net unrealized gains (losses)	(23,527)	8	(23,519)	(13,735)	(1)	(13,736)
	(17,125)	4,716	(12,409)	(1,933)	12,298	10,365
Less: Investment expenses	(335)	(1,006)	(1,341)	(352)	(1,017)	(1,369)
Net investment income	**$ (17,460)**	**$ 3,710**	**$ (13,750)**	**$ (2,285)**	**$ 11,281**	**$ 8,996**

6. FAIR VALUE MEASUREMENTS OF FINANCIAL ASSETS

The following tables present the Company’s financial assets measured at fair value.

Amounts stated in Canadian dollars (amounts in tables in thousands)

As at December 31, 2022	**Carrying amount**			**Fair value**			
	Designated at fair value	Available-for-sale	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value							
Cash and cash equivalents	$ 35,741	$ -	$ 35,741	$ 35,741	$ -	$ -	$ 35,741
Fixed income securities	367,367	164,734	532,101	226,032	306,069	-	532,101
Common equities (pool funds)	-	112,602	112,602	112,602	-	-	112,602
Preferred equities	427	-	427	-	427	-	427
	$ 403,535	**$ 277,336**	**$ 680,871**	**$ 374,375**	**$ 306,496**	**$ -**	**$ 680,871**

As at December 31, 2021	**Carrying amount**			**Fair value**			
	Designated at fair value	Available-for-sale	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value							
Cash and cash equivalents	$ 24,473	$ -	$ 24,473	$ 24,473	$ -	$ -	$ 24,473
Fixed income securities	397,032	172,475	569,507	312,916	256,591	-	569,507
Common equities (pool funds)	-	140,415	140,415	140,415	-	-	140,415
Preferred equities	600	-	600	-	600	-	600
	$ 422,105	**$ 312,890**	**$ 734,995**	**$ 477,804**	**$ 257,191**	**$ -**	**$ 734,995**

There were no transfers between any levels during the year ended December 31, 2022 (2021: none).

7. PROPERTY AND EQUIPMENT

During the years ending December 31, details of the movement in the carrying values by class of property and equipment are as follows:

	Furniture and fixtures	**Computer equipment**	**Computer software**	**Leasehold improvements**	**Right-of-use assets**	**Total**
January 1, 2021	$ 349	$ 655	$ 224	$ 555	$ 9,907	$ 11,690
Additions	11	61	(4)	-	-	68
Amortization	(160)	(210)	(98)	(75)	(578)	(1,121)
December 31, 2021	$ 200	$ 506	$ 122	$ 480	$ 9,329	$ 10,637
Additions	51	284	147	-	-	482
Amortization	(162)	(291)	(110)	(75)	(579)	(1,217)
December 31, 2022	**$ 89**	**$ 499**	**$ 159**	**$ 405**	**$ 8,750**	**$ 9,902**

Amounts stated in Canadian dollars (amounts in tables in thousands)

Details of the cost and accumulated amortization of property and equipment are as follows:

	December 31, 2022			December 31, 2021		
	Cost	Accumulated amortization	Carrying value	Cost	Accumulated amortization	Carrying value
Furniture and fixtures	$ 2,267	$ (2,178)	$ 89	$ 2,216	$ (2,016)	$ 200
Computer equipment	3,899	(3,400)	499	3,615	(3,109)	506
Computer software	1,438	(1,279)	159	1,291	(1,169)	122
Leasehold improvements	4,403	(3,998)	405	4,403	(3,923)	480
Right-of-use assets	11,065	(2,315)	8,750	11,065	(1,736)	9,329
Total	**$ 23,072**	**$ (13,170)**	**$ 9,902**	**$ 22,590**	**$ (11,953)**	**$ 10,637**

The right-of-use assets above is the office premises and equipment leases, which were recognized on January 1, 2019 as per IFRS 16.

The Company has a lease agreement for premises at 250 Yonge Street, commencing June 1, 2018 and expiring on May 31, 2028. The Company has an option to extend the lease period for two additional terms of five years each under the current general terms and conditions. The above capitalized amount takes into account 10 years of extension.

8. INTANGIBLE ASSET

The Company's intangible asset consists of a license and internally developed platform for the TitlePLUS product. The license associated software became available for use during 2015, and as a result, has been amortized over its expected useful life of 68 months, which ended December 31, 2020. The Company also started capitalization of development costs related to the platform on January 1, 2019, with amortization beginning on June 1, 2020. During the years ending December 31, details of the movement in the carrying values are as follows:

	2022	2021
Cost		
Balance, beginning of year	$ 3,356	$ 2,249
Software in development not yet in use	1,251	1,107
Balance, end of year	4,607	3,356
Accumulated amortization and impairment		
Balance, beginning of year	(1,450)	(1,243)
Amortization expense	(580)	(207)
Balance, end of year	(2,030)	(1,450)
Carrying amount	**$ 2,577**	**$ 1,906**

Amounts stated in Canadian dollars (amounts in tables in thousands)

9. CLAIM LIABILITIES AND LEASE LIABILITIES

Provisions and other liabilities are comprised of the following:

		2022		2021
Claims Liabilities				
Expected to be settled in less than one year	$	103,501	$	107,454
Expected to be settled in more than one year		386,507		410,142
Total		**490,008**		**517,596**
Lease Liabilities				
Expected to be settled in less than one year		450		421
Expected to be settled in more than one year		8,987		9,437
Total	**$**	**9,437**	**$**	**9,858**

10. CLAIMS LIABILITIES

a) Nature of claims liabilities

The determination of the claims liabilities is a complex process based on known facts, interpretations and judgment and is influenced by a variety of factors. These factors include the Company's own experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of claims liabilities, product mix and concentration, claims severity and claim frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's claim departments' personnel and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, investment rates of return, court decisions and economic conditions. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the settlement of the claim, the more potential for variation in the ultimate settlement amount. Accordingly, short-tailed claims, such as property claims, tend to be more reasonably predictable than long-tailed claims, such as professional liability and title claims.

The process of establishing the provision relies on the judgment and opinions of a number of individuals, on historical precedents and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The provision reflects expectations of the ultimate cost of resolution and administration of claims based on an assessment of facts and circumstances then known, together with a review of historical settlement patterns, estimates of trends in claims severity and frequency, legal theories of liability and other factors.

Consequently, the measurement of the ultimate settlement costs of claims to date that underlies the claims liabilities, and any related recoveries for reinsurance and deductibles, involves estimates and measurement uncertainty. The amounts are based on estimates of future trends in claim severity and other factors which could vary as claims are settled. Variability can be caused by several factors including the emergence of additional information on claims, changes in judicial interpretation, significant changes in severity or frequency of claims from historical trends, and inclusion of exposures not contemplated at the time of policy inception. Ultimate costs incurred could vary from current estimates. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the methods of estimation that have been used will produce reasonable results given the current information.

b) Methodologies and assumptions

The best estimates of claims payments and adjustment expenses are determined based on one or more of the following actuarial methods: the chain ladder method, the paid frequency and severity method, the expected loss ratio method, and the Borheutter Ferguson method. Considerations in the choice of methods to estimate ultimate claims include, among other factors, the line of business, the number of years of experience and the relative maturity of the experience, and as such, reflect methods for lines of business with long settlement patterns and which are subject to the occurrence of large claims.

Each method involves tracking claims data either by "accident year", which is the year in which such claims are made for the Company's professional liability policies, or by "policy year", the year in which such policies were written for its title policies. Claims paid and reported, gross and net of reinsurance recoveries and net of salvage and subrogation, are tracked by lines of business, accident/policy years and development periods in a format known as claims development triangles.

A description of each of these methods is as follows:

i. Chain ladder method
The distinguishing characteristic of this form of development method is that ultimate claims for each policy year are projected from recorded values assuming the future claim development is similar to the prior years' development.

ii. Paid Frequency and Severity ("PFS") method
The PFS method assumes that, for each identified homogenous claims type group, claims count reported to date will develop to ultimate in a similar manner to historical patterns, and settle at predictable average severity amounts. This method involves applying the developed estimated ultimate claims count to selected estimated ultimate average claim severities.

iii. Expected Loss Ratio ("ELR") method
Using the expected loss ratio method, ultimate claims projections are based upon *a priori* measures of the anticipated claims. An expected loss ratio is applied to the measure of exposure to determine estimated ultimate claims for each year. This method is commonly used in lines of business with a limited experience history.

iv. Bornheutter-Ferguson ("BF") method
The BF method applied to reported loss data relies on the assumption that remaining unreported losses are a function of total expected losses rather than a function of currently reported losses. The BF method is most useful when the actual reported losses do not provide a good indicator of future losses (e.g. for immature and/or unstable accident years).

Claims data includes external claims adjustment expenses (External claims costs), and for a portion of the portfolio includes internal claims adjustment expenses (Internal claims costs). A provision for internal claims costs has been derived by a revised approach that is based on the number of expected future claims transactions by lines of business. In 2021, the method was based on the Mango-Allen claim staffing technique. The difference between the two approaches is immaterial.

Amounts stated in Canadian dollars (amounts in tables in thousands)

The claims liabilities are discounted using an interest rate based on the estimated market value based yield to maturity, inherent credit risk and related investment expense of the Company's fixed income securities supporting the claims liabilities as at December 31, 2022, which was 4.55% (December 31, 2021: 1.77%). Reinsurance recoverable estimates and claims recoverable from other insurers are discounted in a manner consistent with the method used to establish the related liability. The provision for adverse development has been selected based on the risk associated with development and within the prescribed CIA guidelines.

As the claims liabilities are recorded on a discounted basis and reflect the time value of money, its carrying value is expected to provide a reasonable basis for the determination of fair value. However, determination of fair value also requires the practical context of a buyer and seller, both of whom are willing and able to enter into an arm's length transaction. In the absence of such a practical context, the fair value is not readily determinable.
The following table shows claims liabilities on an undiscounted basis and a discounted basis:

	December 31, 2022		December 31, 2021	
	Undiscounted	Discounted	Undiscounted	Discounted
Claims Liabilities	$ 500,332	$ 490,008	$ 480,785	$ 517,596
Recoverable from reinsurers	(32,050)	(31,173)	(46,737)	(49,583)
Net	**$ 468,282**	**$ 458,835**	**$ 434,048**	**$ 468,013**

Details of the claims liabilities, by line of business, are summarized as follows:

	December 31, 2022			December 31, 2021		
	Gross	Ceded	Net	Gross	Ceded	Net
Professional liability	$ 471,038	$ (31,133)	$ 439,905	$ 499,188	$ (49,557)	$ 449,631
Title	18,970	(40)	18,930	18,408	(26)	18,382
Total	**$ 490,008**	**$ (31,173)**	**$ 458,835**	**$ 517,596**	**$ (49,583)**	**$ 468,013**

The claims liabilities by case reserves and IBNR are as follows:

	December 31, 2022			December 31, 2021		
	Gross	Ceded	Net	Gross	Ceded	Net
Case reserves	$ 326,957	$ (2,965)	$ 323,992	$ 356,125	$ (5,032)	$ 351,093
IBNR	163,051	(28,208)	134,843	161,471	(44,551)	116,920
Total	**$ 490,008**	**$ (31,173)**	**$ 458,835**	**$ 517,596**	**$ (49,583)**	**$ 468,013**

An evaluation of the adequacy of claims liabilities is completed at the end of each financial quarter. This evaluation includes a re-estimation of the claims liabilities compared to the liability that was originally established. As adjustments to estimated claims liabilities become necessary, they are reflected in current operations.

Amounts stated in Canadian dollars (amounts in tables in thousands)

c) Changes in methodologies or basis of selection of assumptions

The methods used to compute the claim liabilities are largely unchanged from those used in the previous actuarial valuation, except for Excess E&O, which was historically based on the ELR method, revised to the BF method for 2022 (impact was to reduce liabilities by $1,829,867). The assumptions employed in the actuarial valuation process were struck in a similar manner to those used in the previous valuation and were selected after giving consideration to the experience that emerged to the end of 2022.

Details of the claims incurred for the year ended December 31 are as follows:

	2022			2021		
	Gross	Ceded	Net	Gross	Ceded	Net
Claims & external claims costs paid	$ 83,756	$ 1,267	$ 82,489	$ 84,267	$ 8	$ 84,259
Change in case reserves	2,270	(1,695)	3,965	9,175	914	8,261
Change in IBNR	15,763	(12,992)	28,755	1,993	(606)	2,599
Discount expense	(47,136)	(3,724)	(43,412)	(8,074)	(891)	(7,183)
Internal claims costs paid	11,585	-	11,585	11,217	-	11,217
Change in provision for internal claims costs	1,514	-	1,514	2,347	-	2,347
	$ 67,752	**$ (17,144)**	**$ 84,896**	**$ 100,925**	**$ (575)**	**$ 101,500**

Changes in the claims liabilities recorded in the statement of financial position during the year is comprised of the following:

	2022	2021
Claims Liabilities – January 1 – net	$ 468,013	$ 461,966
Change in net Claims Liabilities:		
Prior years' incurred claims	2,255	(8,643)
Current year's incurred claims	126,053	117,326
Net claims liabilities paid in relation to:		
Prior years	(77,268)	(79,809)
Current year	(16,806)	(15,644)
Impact of discounting	(43,412)	(7,183)
Provision for Claims Liabilities – December 31 – net	458,835	468,013
Reinsurers' share of Claims Liabilities	31,173	49,583
Provision for Claims Liabilities– December 31 – gross	**$ 490,008**	**$ 517,596**

d) Loss development tables

The tables on the following pages show the development of claims, excluding ULAE, by policy year over a period of time. The first table reflects development for gross claims, which excludes any reductions for reinsurance recoverables. The second table reflects development for net claims, which is gross claims less reinsurance recoverables. The top triangle in each table shows how the estimates of total claims for each policy year develop over time as more information becomes known regarding individual claims and overall claims frequency and severity. Claims are presented on an undiscounted basis in the top triangle. The bottom triangle in each table presents the cumulative amounts paid for claims and external loss adjustment expenses for each policy year at the end of each successive year. At the bottom of each table, the provision for ULAE as well as the effect of discounting and the PfAD, as at December 31, 2022, is presented based on the net amounts of the two triangles.

Amounts stated in Canadian dollars (amounts in table in thousands)

Before the effect of reinsurance, the loss development table is as follows:

Lawpro as at December 31, 2022 - Gross Basis

		Policy Year										
	All Prior Years	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Estimate of Ultimate Claims												
At end of Policy year		102,937	103,962	106,879	113,990	112,943	109,102	112,533	96,552	107,803	115,890	
One Year Later		95,423	92,844	96,377	107,475	100,803	93,763	105,152	92,501	105,973		
Two Years Later		91,649	87,845	91,393	99,401	97,582	95,653	106,825	92,254			
Three Years Later		89,307	88,634	95,395	97,735	96,340	94,937	102,506				
Four Years Later		88,060	84,889	92,689	95,765	93,853	95,726					
Five Years Later		85,900	81,410	90,670	95,742	93,832						
Six Years Later		83,205	81,121	90,276	95,064							
Seven Years Later		82,179	80,577	88,518								
Eight Years Later		81,271	79,132									
Nine Years Later		79,037										
Cumulative Claims Paid												
At end of Policy year		(4,167)	(5,516)	(5,896)	(7,299)	(6,969)	(8,043)	(8,233)	(7,632)	(9,712)	(10,885)	
One Year Later		(18,406)	(18,123)	(19,993)	(21,104)	(22,535)	(21,020)	(25,783)	(21,182)	(22,773)		
Two Years Later		(30,668)	(30,339)	(30,943)	(35,102)	(33,687)	(32,348)	(41,616)	(31,751)			
Three Years Later		(41,705)	(40,880)	(42,433)	(45,204)	(41,954)	(43,269)	(53,060)				
Four Years Later		(50,229)	(45,911)	(54,319)	(55,156)	(51,263)	(51,596)					
Five Years Later		(56,457)	(51,069)	(59,854)	(61,265)	(58,983)						
Six Years Later		(62,188)	(55,520)	(65,522)	(66,154)							
Seven Years Later		(65,879)	(59,455)	(69,743)								
Eight Years Later		(69,466)	(64,354)									
Nine Years Later		(71,738)										
Estimate of Ultimate Claims		79,037	79,132	88,518	95,064	93,832	95,726	102,506	92,254	105,973	115,890	
Cumulative Claims Paid		(71,738)	(64,354)	(69,743)	(66,154)	(58,983)	(51,596)	(53,060)	(31,751)	(22,773)	(10,885)	
Undiscounted Claims Liabilities	29,703	7,299	14,778	18,775	28,910	34,849	44,130	49,446	60,503	83,200	105,005	**476,598**
Provision for ULAE	1,092	389	521	615	882	1,352	1,629	2,296	2,837	4,265	7,856	**23,734**
Discounting (including PfAD)	16	(252)	(317)	(304)	58	(75)	(415)	(1,091)	(1,949)	(3,387)	(2,608)	**(10,324)**
Present Value recognized in the Statement of Financial Position	30,811	7,436	14,982	19,086	29,850	36,126	45,344	50,651	61,391	84,078	110,253	**490,008**

Amounts stated in Canadian dollars (amounts in table in thousands)

After the effect of reinsurance, the loss development table is as follows:

Lawpro as at December 31, 2022 - Net Basis

		Policy Year										
	All Prior Years	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Estimate of Ultimate Claims												
At end of Policy year		98,696	99,579	102,534	109,643	108,683	104,752	108,190	92,253	103,449	112,275	
One Year Later		91,183	88,460	92,032	103,128	96,542	89,413	100,810	88,202	102,839		
Two Years Later		87,409	83,462	87,047	95,054	93,322	91,303	102,482	89,372			
Three Years Later		85,066	84,251	91,049	93,388	92,079	90,587	99,617				
Four Years Later		83,819	80,506	88,344	91,419	89,592	93,222					
Five Years Later		81,660	77,027	86,324	91,395	89,782						
Six Years Later		78,964	76,737	85,931	90,980							
Seven Years Later		77,938	76,194	86,635								
Eight Years Later		77,030	76,990									
Nine Years Later		77,594										
Cumulative Claims Paid												
At end of Policy year		(4,167)	(5,516)	(5,896)	(7,299)	(6,969)	(8,043)	(8,233)	(7,632)	(9,712)	(10,885)	
One Year Later		(18,406)	(18,123)	(19,993)	(21,104)	(22,535)	(21,020)	(25,783)	(21,182)	(22,765)		
Two Years Later		(30,668)	(30,339)	(30,943)	(35,002)	(33,687)	(32,348)	(41,447)	(31,751)			
Three Years Later		(41,705)	(40,880)	(42,433)	(45,105)	(41,954)	(43,269)	(52,877)				
Four Years Later		(50,229)	(45,911)	(54,319)	(53,954)	(51,263)	(51,596)					
Five Years Later		(56,449)	(51,069)	(59,854)	(60,139)	(58,983)						
Six Years Later		(62,180)	(55,520)	(65,522)	(65,056)							
Seven Years Later		(65,871)	(59,455)	(69,743)								
Eight Years Later		(69,458)	(63,952)									
Nine Years Later		(71,731)										
Estimate of Ultimate Claims		77,594	76,990	86,635	90,980	89,782	93,222	99,617	89,372	102,839	112,275	
Cumulative Claims Paid		(71,731)	(63,952)	(69,743)	(65,056)	(58,983)	(51,596)	(52,877)	(31,751)	(22,765)	(10,885)	
Undiscounted Claims Liabilities	24,581	5,863	13,038	16,892	25,924	30,799	41,626	46,740	57,621	80,074	101,390	**444,548**
Provision for ULAE	1,092	389	521	615	882	1,352	1,629	2,296	2,837	4,265	7,856	**23,734**
Discounting (including PfAD)	87	(188)	(259)	(252)	88	(19)	(362)	(1,004)	(1,827)	(3,228)	(2,483)	**(9,447)**
Present Value recognized in the Statement of Financial Position	25,760	6,064	13,300	17,255	26,894	32,132	42,893	48,032	58,631	81,111	106,763	**458,835**

Amounts stated in Canadian dollars (amounts in tables in thousands)

11. UNEARNED PREMIUMS

The following changes have occurred in the provision for unearned premiums during the years ended December 31:

		2022		2021
Balance, as at January 1	$	1,267	$	1,130
Net premiums written during the year		118,642		121,772
Less: Net premiums earned during the year		(118,593)		(121,635)
Increase (decrease) in unearned premiums		49		137
Balance, as at December 31	**$**	**1,316**	**$**	**1,267**

The estimates for unearned premium liabilities have been actuarially tested to ensure that they are sufficient to pay for future claims and expenses in servicing the unexpired policies as of the valuation dates.

12. REINSURANCE

The Company's reinsurance program consists of a 90% quota share cession on its excess professional liability policies (2021: 90%), and a $10 million in excess of $5 million per occurrence clash reinsurance arrangement which provides protection for single events that bring about multiple professional liability and/or title claims with an additional $20 million in excess of $15 million per occurrence. Reinsurance does not relieve the Company of its primary liability as the originating insurer. In the event that a reinsurer is unable to meet obligations assumed under reinsurance agreements, the Company is liable for such amounts. Reinsurance treaties typically renew annually and the terms and conditions are reviewed by senior management and reported to the Company's Board of Directors. Reinsurance agreements are negotiated with reinsurance companies that have an independent credit rating of "A-" or better and that the Company considers creditworthy. Based on current information on the financial health of the reinsurers, no provision for doubtful debts has been made in the financial statements in respect of reinsurers.

13. RELATED PARTY TRANSACTIONS

Pursuant to a service agreement effective January 1, 1995, and as amended effective September 30, 2009, the Company administers the Errors and Omissions Insurance Fund (the "Fund") of the Law Society and provides all services directly related to the operations and general administration of the Fund in consideration for the Law Society insuring its mandatory professional liability insurance program with the Company.

The insurance policy under the mandatory professional liability insurance program of the Law Society is written by the Company and is effective on a calendar year basis. The insurance policy is renewed effective January 1 each year subject to the Law Society's acceptance of the terms of renewal submitted by the Company. The annual policy limits for each of the years effective January 1, 1995 to December 31, 2022 are $1 million per claim and $2 million in aggregate per member. Under the insurance policy that was in force between July 1, 1990 and December 31, 1994, the Company was responsible for claims in excess of the Law Society and member deductibles. The claims liabilities is net of amounts relating to policies for years prior to 1995 that are payable by the Law Society.

Amounts stated in Canadian dollars (amounts in tables in thousands)

For the year ended December 31, 2022, $111,076,937 of the gross premiums written related to mandatory insurance coverage provided to the Law Society and its members (2021: $113,715,505). As at December 31, 2022, the Company had a balance due from the Law Society of $11,540,253 (December 31, 2021: $6,907,841 due from Law Society). The balance due from Law Society is due on demand and bears no interest.

The Law Society offers a wellness program to their members, the Company shares a portion of this cost in order to make the program available to their insureds. The amounts expensed are included in operating expenses under professional fees (see note 16).

The total compensation to Officers and Directors of the Company, being those having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, is as follows:

		2022		**2021**
Short-term compensation and benefits	$	3,913	$	3,823
Post employment benefits		560		594
	$	**4,473**	**$**	**4,417**

14. EMPLOYEE BENEFITS

The Company has a DCPP which is available to all its employees upon meeting the eligibility requirements. Each employee is required to contribute 4.5% of yearly maximum pensionable earnings, and 6% in excess thereof, of an employee's annual base earnings. Under the plan, the Company matches all employee contributions. In 2022, the Company made payments of $837,398 (2021: $834,235) and recorded pension expense of $858,427 (2021: $903,743).

The Company also has an SDEP which provides pension benefits on a final salary or fixed schedule basis, depending on certain criteria. Measurements and funding requirements of this plan are based on valuations prepared by an external actuary. For reporting purposes the plan is measured using the projected unit credit method, which involves calculating the actuarial present value of the past service liability to members including an allowance for their projected future earnings. Funding requirements for the plan are determined using the solvency method, which utilizes the estimated cost of securing each member's benefits with an insurance company or alternative buy-out provider as at the valuation date. The valuation methods are based on a number of assumptions, which vary according to economic conditions, including prevailing market interest rates, and changes in these assumptions can significantly affect the measurement of the pension obligations.

Funding for the SDEP commenced in 2005, with no contributions made in 2022 (2021: $916,910) and recorded pension expenses of $342,052 in 2022 (2021: $437,294). Funding requirements are reviewed annually with an actuarial valuation for funding purposes effective as at December 31. As the Company's SDEP qualifies as a "retirement compensation arrangement" pursuant to the *Income Tax Act*, half of any required annual contribution to the plan is remitted to the Canada Revenue Agency, held in a refundable tax account and refunded in prescribed amounts as actual benefit payments are made to the participants. The most recent actuarial valuation for funding purposes was performed effective December 31, 2022. Management's preliminary estimate is that there are no required contributions to the plan during the year ending December 31, 2023.

The assets of both pension plans are held separately from those of the Company in funds under the control of trustees.

The SDEP exposes the Company to risks such as: investment risk, interest rate risk, longevity risk and salary risk.

Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality mid-duration corporate bond yields; if the return on plan assets is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity and fixed income securities. Due to the long-term nature of the plan liabilities, the Company considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities to leverage the return generated by the fund.
Interest rate risk	A decrease in the market interest rate will increase the plan obligation; however, this will be partially offset by an increase in the return of the plan's fixed income securities.
Longevity risk	The present value of the defined benefit plan obligation is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's obligation.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's obligation.

Amounts stated in Canadian dollars (amounts in tables in thousands)

The following represents the assets and liabilities associated with pension benefits measured using values as at December 31:

SDEP obligation

		2022		2021
Accrued benefit obligation				
Balance, as at January 1	$	10,058	$	10,565
Current service cost		424		461
Interest cost		307		264
Remeasurement (gains) losses:				
Acturarial (gains) losses - demographic assumptions		96		-
Actuarial (gains) losses - financial assumptions		(2,084)		(733)
Actuarial (gains) losses - experience adjustments		(717)		(19)
Benefits paid		(455)		(480)
Balance, as at December 31	**$**	**7,629**	**$**	**10,058**

SDEP assets

		2022		2021
Plan assets				
Fair value, as at January 1	$	13,215	$	11,449
Interest income on plan assets		389		289
Remeasurement gains (losses):				
Return on plan assets greater (less) than interest income		(586)		1,040
Benefits paid		(455)		(480)
Employer contribution		-		917
Fair value, as at December 31	**$**	**12,563**	**$**	**13,215**

The SDEP assets arise primarily from employer contributions that are originally allocated equally between deposits with the Government of Canada and investments in the units of a balanced pooled fund. The fair values of the above equity and fixed income securities are derived based on quoted market prices in active markets. The plan assets contain the following financial instrument allocation:

	December 31, 2022	December 31, 2021
Equity securities	26.4%	36.4%
Fixed income securities	13.2%	18.2%
Real Estate	13.2%	0.0%
Cash and cash equivalents	0.4%	0.5%
Refundable-tax account	46.8%	44.9%
	100.0%	**100.0%**

Amounts stated in Canadian dollars (amounts in tables in thousands)

Reconciliation of funded status surplus of the benefit plans to the amounts recorded in other assets in the financial statements is as follows:

		December 31, 2022		December 31, 2021
Fair value of plan assets	$	12,563	$	13,215
Accrued benefit obligation		(7,629)		(10,058)
Accrued benefit asset	**$**	**4,934**	**$**	**3,157**

The accrued benefit asset is included in other assets in the statement of financial position.

SDEP expense
Ended December 31:

		2022		2021
Service cost:				
Current service cost	$	424	$	461
Net interest (income) expense		(82)		(24)
Components of defined benefit costs recognized in profit or loss		342		437
Remeasurement on the net defined benefit liability:				
Actuarial (gain) loss due to liability experience		(718)		(19)
Actuarial (gain) loss due to liability assumption changes		(1,987)		(733)
Actuarial (gain) loss arising during year		(2,705)		(752)
Return on plan assets (greater) less than discount rate		586		(1,040)
Components of defined benefit costs recognized in OCI	$	(2,119)	$	(1,792)

The significant assumptions used by the Company for year-end measurement purposes are as follows:

	2022	2021
Discount rate	5.05%	3.00%
Rate of compensation increase	3.50% starting in 2023	3.50% starting in 2022
Mortality	CPM 2014 Priv mortality table with generational mortality improvements following Scale MI-2017; pension size adjustment factors of 0.83 for males and 0.88 for females	CPM 2014 Priv mortality table with generational mortality improvements following Scale MI-2017; pension size adjustment factors of 0.83 for males and 0.88 for females

The sensitivity of the key assumption, namely discount rate, assuming all other assumptions remain constant, is as follows: as at December 31, 2022, if the discount rate was 1.0% higher / (lower) the defined benefit obligation would increase by $916,851 (decrease by $767,081). Note that the sensitivity analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumption would occur in isolation of one or other changes as some of the assumptions may be correlated.

Amounts stated in Canadian dollars (amounts in tables in thousands)

The expected maturity profile of the SDEP obligation as at December 31, 2022 is as follows:

	2023	2024	2025	2026	2027	Thereafter
Expected benefit payments	437	435	434	432	431	3,086

The SDEP obligation as at December 31, 2022 by participant category is as follows:

Active participants	1,639
Pensioners	5,990
	7,629

15. INCOME TAXES

a) Income tax expense recognized in profit or loss

The total income tax expense recognized in profit or loss is comprised as follows:

		2022		2021
Current income tax				
Expensed (recovered) during the year	$	3,759	$	232
Prior year adjustments		(333)		15
Total current income tax expense (recovery)		3,426		247
Deferred income tax				
Origination and reversal of temporary differences		(6,398)		86
Total deferred income tax expense (recovery)		(6,398)		86
Total income tax	**$**	**(2,972)**	**$**	**333**

Deferred income tax expense (recovery) recognized in profit or loss represents movements on the following items:

		2022		2021
Unused tax losses	$	(6,916)	$	-
Pensions		(124)		154
Investments		(39)		(39)
Claims liabilities and unearned premiums		122		(108)
Property and equipment and other		559		79
Total deferred income tax expense (recovery)	**$**	**(6,398)**	**$**	**86**

Amounts stated in Canadian dollars (amounts in tables in thousands)

b) Income tax expense recognized in other comprehensive income

The total income tax expense recognized in OCI is comprised as follows:

		2022		2021
Current income tax				
Unrealized investment gains (losses) on available-for-sale portfolio	$	(6,736)	$	4,584
Total current income tax expense		**(6,736)**		**4,584**
Pensions		562		475
Total deferred income tax expense		**562**		**475**
Total income tax expense in OCI	**$**	**(6,174)**	**$**	**5,059**

c) Income tax reconciliation

The following is a reconciliation of income taxes, calculated at the statutory income tax rate, to the income tax provision included in profit or loss.

		2022		2021
Profit or loss before income taxes	$	(10,200)	$	2,514
Statutory income tax rate		26.50%		26.50%
Provision for (recovery of) income taxes at statutory rates		(2,703)		666
Increase (decrease) resulting from:				
Investments		(264)		(310)
Other non-deductible items		(16)		(27)
Non-deductible meals and entertainment		11		4
Provision for (recovery of) income taxes	**$**	**(2,972)**	**$**	**333**

The statutory rate applicable to the Company at December 31, 2022, is the same as at December 31, 2021.

During the year, the Company made income tax payments of $3,493,360 (2021: $601,984) and received income tax refunds of $462,211 (2021: $295,116) from the various taxing authorities.

d) Net deferred income tax asset

The Company's net deferred income tax asset is the result of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The sources of these temporary differences and the tax effects are as follows:

Amounts stated in Canadian dollars (amounts in tables in thousands)

	December 31 2022	December 31 2021
Deferred tax assets		
Unused tax losses	$ 6,916	$ -
Claims liabilities and unearned premiums	6,080	6,229
Property and equipment & other	308	164
	13,304	6,393
Deferred income tax liabilities		
Investments	(119)	(159)
Property and equipment & pension	(1,952)	(837)
	(2,071)	(996)
Total net deferred tax assets	**$ 11,233**	**$ 5,397**
Deferred tax assets		
Within one year	1,357	1,425
Greater than one year	11,947	4,968
	13,304	6,393
Deferred income tax liabilities		
Within one year	(40)	(39)
Greater than one year	(2,031)	(957)
	(2,071)	(996)
Total net deferred tax assets	**$ 11,233**	**$ 5,397**

The Company believes that, based on available information, it is probable that the deferred income tax assets will be realized through a combination of future reversals of temporary differences and taxable income.

16. OPERATING EXPENSES

The following table summarizes the Company's operating expenses by nature:

	2022	2021
Salaries and benefits	$ 14,533	$ 13,742
Professional fees	4,894	2,908
Information systems	2,522	2,486
Amortization of property and equipment	1,382	826
Office and administrative expenses	1,185	339
Financial Processing Fees	1,166	1,235
Directors Renumeration	950	1,021
Occupancy Lease	690	1,099
Communication	310	230
Total	**$ 27,632**	**$ 23,886**

Included in salaries and benefits are amounts for future employee benefits under a DCPP of $837,398 (2021: $834,235) and a supplementary defined benefit plan of $342,052 (2021: $437,294).

17. CAPITAL STOCK AND CONTRIBUTED SURPLUS

Capital stock of the Company represents:

30,000 Common Shares of par value of $100 each – authorized, issued and paid.

20,000 6% non-cumulative, redeemable, non-voting Preferred Shares of par value of $100 each – authorized, issued and paid.

The Preferred Shares meet the definition of equity in accordance with the criteria outlined in IAS 32 "*Financial Instruments: Presentation*".

Contributed surplus represents additional capitalization funding provided by the Law Society.

18. STATUTORY INSURANCE INFORMATION

The Company does not hold any security for amounts recoverable from unregistered reinsurers of $127,224 (2021: $135,512).

19. CAPITAL MANAGEMENT

Capital is comprised of the Company's equity. As at December 31, 2022 the Company's equity was $261,430,556 (December 31, 2021: $285,780,626). The Company's objectives when managing capital are to maintain financial strength and protect its claims paying abilities, to maintain creditworthiness and to provide a reasonable return to the shareholder over the long term. In conjunction with the Company's Board of Directors and its Audit Committee, senior management develops the capital strategy and oversees the capital management processes of the Company. Capital is managed using both regulatory capital measures and internal metrics.

FSRA, the Company's primary insurance regulator, along with other provincial insurance regulators, regulate the capital required in the Company using two key measures, i.e., Minimum Capital Test ("MCT") and the Financial Condition Testing ("FCT"). FSRA mandates the MCT guideline which sets out 100% as the minimum and 150% as the supervisory target for property and casualty insurance companies. To ensure that it attains its objectives, the Company has established an internal target of 170% (2021: 170%) in excess of which, under normal circumstances, the Company will maintain its capital. During the year ended December 31, 2022, the Company complied with the various provincial regulators' guidelines and as at December 31, 2022, the Company has a MCT ratio of 227% (December 31, 2021: 241%). Annually, the Company's Appointed Actuary prepares a FCT on the MCT to ensure that the Company has adequate capital to withstand significant adverse event scenarios. These scenarios are reviewed each year to ensure appropriate risks are included in the testing process. The Appointed Actuary must present both an annual report and the FCT report to management and the Audit Committee. The FCT report prepared during the year indicated that the Company's capital position is satisfactory. In addition, the target, actual and forecasted capital position of the Company is subject to ongoing monitoring by management using stress and scenario analysis to ensure its adequacy.

20. RISK MANAGEMENT

By virtue of the nature of the insurance company business, financial instruments comprise the majority of the Company's statement of financial position as at both December 31, 2022 and 2021. The most significant identified risks to the Company which arise from holding financial instruments and insurance contract liabilities include insurance risk, credit risk, liquidity risk and market risk. The market risk exposure of the Company is primarily related to changes in interest rates and adverse movement in equity prices.

The Company employs an enterprise-wide risk management framework which establishes practices for risk management and includes policies and processes to identify, assess, manage and monitor risks and risk tolerance limits. It provides governance and supervision of risk management activities across the Company's business units, promoting the discipline and consistency applied to the practice of risk management.

The Company's risk framework is designed to minimize risks that could materially adversely affect the value or stature of the Company, to contribute to stable and sustainable returns, to identify risks that the Company can manage in order to increase earnings, and to provide transparency of the Company's risks through internal and external reporting. The Company's risk philosophy involves undertaking risks for appropriate return and accepting those risks that meet its objectives. The Company's risk management program is aligned with its long term vision and its culture supports an effective risk management program. The key components of the risk culture include acting with fairness, appreciating the impact of risk on all major stakeholders, embedding risk management into day to day business activities, fostering full and transparent communications, cooperation, and aligning of objectives and incentives. The Company's risk management activities are monitored by its Risk Committee and Board of Directors.

The risk exposure measures expressed below primarily include the sensitivity of the Company's profit or loss, and OCI as applicable, to the movement of various economic factors. These risk exposures include the sensitivity due to specific changes in market prices and interest rate levels projected using internal models as at a specific date, and are measured relative to a starting level reflecting the Company's assets and liabilities at that date and the actuarial factors, investment returns and investment activity the Company assumes in the future. The risk exposures measure the impact of changing one factor at a time and assume that all other factors remain unchanged. Actual results can differ materially from these estimates for a variety of reasons including the interaction among these factors when more than one changes, changes in actuarial and investment return and future investment activity assumptions, actual experience differing from the assumptions, changes in business mix, effective tax rates, and other market factors and general limitations of the Company's internal models.

a) Insurance risk

Insurance risk is the risk of loss due to actual experience differing from the experience assumed when a product was designed and priced with respect to claims, policyholder behaviour and expenses. The Company has identified pricing risk, concentration of risk and reserving risk as its most significant sources of insurance risks. The Company's underwriting objective is to develop business within its target market on a prudent and diversified basis and to achieve profitable operating results.

Pricing risk
Pricing risk arises when actual claims experience differs from the assumptions included in pricing calculations. Historically, the underwriting results of the property and casualty industry have fluctuated significantly due to the cyclicality of the insurance market. The market cycle is affected by the frequency and severity of claims, levels of capacity and demand, general economic conditions and price competition.

The Company focuses on profitable underwriting using a combination of experienced underwriting staff, pricing models and price adequacy monitoring tools. The Company prices its products taking into account numerous factors including claims frequency and severity trends, product line expense ratios, special risk factors associated with the product line, and the investment income earned on premiums held until the payment of claims and expenses. The Company's pricing is designed to ensure an appropriate return while also providing long-term rate stability. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

Concentration of risk
A concentration of risk represents the exposure to increased losses associated with an inadequately diversified portfolio of policy coverage. The Company has a reinsurance program to limit its exposure to catastrophic losses from any one event or set of events. The Company has approximately 99% of its business in Ontario (2021: 99%) and 93% in professional liability (2021: 93%), and consequently is exposed to trends, inflation, judicial changes and regulatory changes affecting these segments.

Reserving risk
Reserving risk arises because actual claims experience can differ adversely from the assumptions included in setting reserves, in large part due to the length of time between the occurrence of a loss, the reporting of the loss to the insurer and the ultimate resolution of the claim. Claims provisions reflect expectations of the ultimate cost of resolution and administration of claims based on an assessment of facts and circumstances then known, a review of historical settlement patterns, estimates of trends in claims severity and frequency, legal theories of liability and other factors. Reserve changes associated with claims of prior periods are recognized in the current period, which could have a significant impact on current year profit or loss. In order to mitigate this risk the Company utilizes information systems in order to maintain claims data integrity, and the claims provision valuations are prepared by an internal actuary on a quarterly basis, and are reviewed separately by, and must be acceptable to, management of the Company every quarter and the external Appointed Actuary at mid-year and year-end.

Sensitivity analyses
Risks associated with property and casualty insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company considers that the claims liabilities recognized in the statement of financial position is adequate. However, actual experience will differ from the expected outcome. Among the Company's lines of business, the professional liability line of business has the largest claims liabilities. Given this line of business and the actuarial methods utilized to estimate the related claims liabilities, the reported claims count development factors and average claim severity selections are the most critical of the assumptions used. The following table provides the estimated increase (decrease) of the net claims liabilities and the after-tax net effect on equity if the reported claims count development factors were increased such that the estimate of unreported claims was 20% higher or the average claim severity selections were 1% higher. Other changes in assumptions are considered to be less material.

Amounts stated in Canadian dollars (amounts in tables in thousands)

	December 31, 2022		December 31, 2021	
	Net claims liabilities	Equity	Net claims liabilities	Equity
Unreported claims +20%	$ 5,356	$ (3,937)	$ 4,792	$ (3,522)
Average claim severities +1%	$ 3,693	$ (2,714)	$ 3,841	$ (2,823)

b) Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a borrower or counterparty to fulfil its payment obligation to the Company. Credit risks arise from cash and cash equivalents, investments in fixed income securities and preferred shares, and balances due from insureds and reinsurers.

Management monitors credit risk and any mitigating controls. The Company has established a credit review process where the credit quality of all exposures is continually monitored so that appropriate prompt action can be taken when there is a change which may have material impact.

Governance processes around investments include oversight by the Board of Directors' Investment Committee. The oversight includes reviews of the Company's third-party investment managers, investment performance and adherence to the Company's investment policy. The Company's investment policy statement is reviewed at least on an annual basis and addresses various matters including investment objectives, risks and management. Guidelines and limits have been established in respect of asset classes, issuers of securities and the nature of securities to address matters such as quality and concentration of risks.

With respect to credit risk arising from balances due from reinsurers, the Company's exposure is measured to reflect both current exposure and potential future exposure to ceded liabilities. Reinsurance and insurance counterparties must also meet minimum risk rating criteria. The Company's Board of Directors has approved a reinsurance policy, which is monitored by the Company's Audit Committee.

The following table provides a credit risk profile of the Company's applicable investment assets and amounts recoverable from reinsurers.

	December 31, 2022						
	AAA	AA	A	BBB	BB and lower	Not rated	Carrying value
Cash and cash equivalents	$ 32,846		$ 2,808	$ -	$ -	$ 87	$ 35,741
Fixed income securities	69,701	116,908	255,329	89,172	991	-	532,101
Investment income due and accrued	271	408	1,982	776	5	141	3,583
Due from reinsurers	-	-	1,339	-	-	-	1,339
Due from insureds	-	-	-	-	-	2,150	2,150
Due from the Law Society of Ontario	-	-	-	-	-	11,541	11,541
Reinsurers' share of							
Claims liabilities	-	-	31,173	-	-	-	31,173
Other receivables	-	-	-	-	-	5,497	5,497
Total	**$ 102,818**	**$ 117,316**	**$ 292,631**	**$ 89,948**	**$ 996**	**$ 19,416**	**$ 623,125**

Amounts stated in Canadian dollars (amounts in tables in thousands)

	December 31, 2021						
	AAA	AA	A	BBB	BB and lower	Not rated	Carrying value
Cash and cash equivalents	$ 17,638		$ 6,202	$ -	$ -	$ 633	$ 24,473
Fixed income securities	140,543	136,544	208,092	81,679	2,426	223	569,507
Investment income due and accrued	300	374	1,440	631	19	160	2,924
Due from reinsurers	-	-	123	-	-	-	123
Due from insureds	-	-	-	-	-	2,221	2,221
Due from the Law Society of Ontario	-	-	-	-	-	6,908	6,908
Reinsurers' share of							-
Claims liabilities	-	-	49,583	-	-	-	49,583
Other receivables	-	-	-	-	-	476	476
Total	**$ 158,481**	**$ 136,918**	**$ 265,440**	**$ 82,310**	**$ 2,445**	**$ 10,621**	**$ 656,215**

Fixed income securities are rated using a composite of Moody's, Standard & Poor and Dominion Bond Rating Service ratings, and reinsurers are rated using A.M. Best. The balances in the above tables do not contain any amounts that are past due.

c) Liquidity risk

Liquidity risk is the risk that the Company will not have enough funds available to meet all expected and unexpected cash outflow commitments as they fall due. Under stressed conditions, unexpected cash demands could arise primarily from a significant increase in the level of claim payment demands.

To manage its cash flow requirements, the Company has arranged diversified funding sources and maintains a significant portion of its invested assets in highly liquid securities such as cash and cash equivalents and government bonds (see note 5b). In addition, the Company has established counterparty exposure limits that aim to ensure that exposures are not so large that they may impact the ability to liquidate investments at their market value.

Claims liabilities account for the majority of the Company's liquidity risk. A significant portion of the investment portfolio is invested with the primary objective of matching the investment asset cash flows with the expected future payments on these claims liabilities. This portion, referred to as the ALM investment portfolio, consists of fixed income and preferred equity securities that are intended to address the liquidity and cash flow needs of the Company as claims are settled. The remainder of the Company's overall investment portfolio, the AFS portfolio, backs equity and is invested in fixed income securities and equities with the objective of preserving capital and achieving an appropriate return consistent with the objectives of the Company.

The following tables summarize the maturities of the assets and contractual obligations by contractual maturity or expected cash flow dates (the actual repricing dates may differ from contractual maturity because certain securities and debentures have the right to call or prepay obligations with or without call or prepayment penalties) as at:

Amounts stated in Canadian dollars (amounts in tables in thousands)

	December 31, 2022				
	Within one year	One to five years	More than five years	No fixed maturity	Total
Assets					
Cash and cash equivalents	$ 35,741	$ -	$ -	$ -	$ 35,741
Investments - designated as FVTPL	53,407	188,491	125,469	427	367,794
Investments - available-for-sale	-	74,168	90,566	112,602	277,336
Investment income due and accrued	3,583	-	-	-	3,583
Due from reinsurers	1,339	-	-	-	1,339
Due from insureds	2,150	-	-	-	2,150
Reinsurers' share of claim liabilities	7,718	16,683	7,649	-	32,050
Due from Law Society of Ontario	11,541	-	-	-	11,541
Other receivable	5,497	-	-	-	5,497
Other assets	1,117	-	-	4,934	6,051
Total	**$ 122,093**	**$ 279,342**	**$ 223,684**	**$ 117,963**	**$ 743,082**
Liabilities					
Claims liabilities	106,418	262,805	131,109	-	500,332
Due to reinsurers	893	-	-	-	893
Due to insureds	38	-	-	-	38
Lease liabilities	816	3,275	8,527	-	12,618
Expenses due and accrued	9,026	-	-	-	9,026
Total	**$ 117,191**	**$ 266,080**	**$ 139,636**	**$ -**	**$ 522,907**

	December 31, 2021				
	Within one year	One to five years	More than five years	No fixed maturity	Total
Assets					
Cash and cash equivalents	$ 24,473	$ -	$ -	$ -	$ 24,473
Investments - designated as FVTPL	85,403	194,386	117,243	600	397,632
Investments - available-for-sale	2,074	76,433	93,968	140,415	312,890
Investment income due and accrued	2,924	-	-	-	2,924
Due from reinsurers	123	-	-	-	123
Due from insureds	2,221	-	-	-	2,221
Reinsurers' share of claim liabilities	11,862	23,992	10,883	-	46,737
Due from Law Society of Ontario	6,908	-	-	-	6,908
Other receivable	476	-	-	-	476
Other assets	586	-	-	3,158	3,744
Total	**$ 137,050**	**$ 294,811**	**$ 222,094**	**$ 144,173**	**$ 798,128**
Liabilities					
Claims liabilities	108,672	256,759	115,354	-	480,785
Due to reinsurers	944	-	-	-	944
Due to insureds	29	-	-	-	29
Lease liabilities	803	3,272	9,346	-	13,421
Expenses due and accrued	3,267	-	-	-	3,267
Total	**$ 113,715**	**$ 260,031**	**$ 124,700**	**$ -**	**$ 498,446**

d) Market and interest rate risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rate, foreign exchange rates, and equity prices. Due to the nature of the Company's business, invested assets and insurance liabilities as well as revenues and expenses are impacted by movements in capital markets, interest rates, and to a lesser extent, foreign currency exchange rates. Accordingly, the Company considers these risks together in managing its asset and liability positions and ensuring that risks are properly addressed. These risks are referred to collectively as market price and interest rate risk - the risk of loss resulting from movements in market price, interest rate, credit spreads and foreign currency rates.

Amounts stated in Canadian dollars (amounts in tables in thousands)

Interest rate risk is the potential for financial loss arising from changes in interest rates. The Company is exposed to interest rate price risk on monetary financial assets and liabilities that have a fixed interest rate and is exposed to interest rate cash flow risk on monetary financial assets and liabilities with floating interest rates that are reset as market rates change.

For FVTPL assets and other financial assets supporting actuarial liabilities, the Company is exposed to interest rate risk when the cash flows from assets and the policy obligations they support are significantly mismatched, as this may result in the need to either sell assets to meet policy payments and expenses or reinvest excess asset cash flows under unfavourable interest environments. Bonds designated as AFS generally do not support actuarial liabilities. Changes in fair value, other than foreign exchange rate gains and losses, of AFS fixed income securities are recorded to OCI.

The following chart provides the estimated increase (decrease) on the Company's net income before tax, and other comprehensive income before tax, after an immediate parallel increase or decrease of 1% in interest rates as at December 31 across the yield curve in all markets.

		December 31, 2022		
		Net income before tax	OCI before tax	CI before tax
Interest rates	+1%	$ (580)	$ (7,634)	$ (8,214)
	-1%	$ 468	$ 8,185	$ 8,653

		December 31, 2021		
		Net income before tax	OCI before tax	CI before tax
Interest rates	+1%	$ 435	$ (8,009)	$ (7,574)
	-1%	$ (803)	$ 8,541	$ 7,738

Market price and interest rate risk is managed through established policies and standards of practice that limit market price and interest rate risk exposure. Company-wide market price and interest rate risk limits are established and actual positions are monitored against limits. Target asset mixes, term profiles, and risk limits are updated regularly and communicated to portfolio managers. Actual asset positions are periodically rebalanced to within established limits.

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual equity securities. The Company's equities are designated as AFS and generally do not support actuarial liabilities. The following chart provides the estimated increase (decrease) on the Company's after-tax OCI, assuming all other variables held constant, after an immediate 10% increase or decrease in equity prices as at December 31.

Amounts stated in Canadian dollars (amounts in tables in thousands)

		2022	2021
		After-tax OCI	
Equity prices	+10%	$ 8,276	$ 10,320
	-10%	(8,276)	(10,320)

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates, in particular when an asset and liability mismatch exists in a different currency than the currency in which they are measured. As the Company does not hold significant liabilities in foreign currencies, the resulting currency risk is borne by the Company and forms part of its overall investment income. The table below details the effect of a 10% movement of the currency rate against the Canadian dollar as at December 31, with all other variables held constant.

	2022		2021	
Currency	Effect on profit (loss) before taxes (+/-)	Effect on OCI (+/-)	Effect on profit (loss) before taxes (+/-)	Effect on OCI (+/-)
US Dollar	$ 11	$ 3,500	$ 9	$ 3,997
Euro	-	220	-	174
Other	-	1,460	-	1,863
	$ 11	**$ 5,180**	**$ 9**	**$ 6,034**

The Company also manages possible excessive concentration of risk. Excessive concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political and other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location. In order to avoid excessive concentrations of risk, the Company applies specific policies on maintaining a diversified portfolio. Identified risk concentrations are managed accordingly.

The following tables summarize the carrying amounts of financial assets by geographical location of the issuer, as at:

	December 31, 2022					
	Cash and cash equivalents	Fixed income securities	Equities	Investment income due and accrued	Total	% of total
Canada	$ 35,568	$ 495,234	$ 42,762	$ 3,201	$ 576,765	84.3%
USA	106	36,867	47,560	246	84,779	12.4%
Switzerland	13	-	6,934	-	6,947	1.0%
United Kingdom	-	-	6,521	-	6,521	1.0%
Others	54	-	9,252	136	9,442	1.3%
Total	**$ 35,741**	**$ 532,101**	**$ 113,029**	**$ 3,583**	**$ 684,454**	**100.0%**

Amounts stated in Canadian dollars (amounts in tables in thousands)

	December 31, 2021					
	Cash and cash equivalents	Fixed income securities	Equities	Investment income due and accrued	Total	% of total
Canada	$ 24,172	$ 551,348	$ 59,285	$ 2,654	$ 637,459	86.4%
USA	88	13,085	54,299	71	67,543	9.2%
Switzerland	-	-	8,623	12	8,635	1.2%
United Kingdom	-	-	8,366	-	8,366	1.1%
Others	213	5,074	10,442	187	15,916	2.1%
Total	**$ 24,473**	**$ 569,507**	**$ 141,015**	**$ 2,924**	**$ 737,919**	**100.0%**

FOR INFORMATION

LiRN INC.
Audited Financial Statements
for the year ended December 31, 2022

The Committee recommends the audited Annual Financial Statements for LiRN Inc. ("LiRN") for December 31, 2022 be received by Convocation for information.

LiRN is the central manager of the Ontario county courthouse library system in accordance with the objectives, policies and principles established and approved by the Law Society, in consultation with the Federation of Ontario Law Associations and the Toronto Lawyers' Association, all shareholders of the organization. This is the third year of operations as LiRN since the transition from LibraryCo Inc. at the beginning of 2020.

LiRN is a wholly-owned subsidiary of the Law Society with two classes of shares: 100 common shares and 100 special shares. The Law Society holds all of the common shares outstanding. Of the special shares outstanding, 25 are held by the Toronto Lawyers' Association and 75 are held by the Federation of Ontario Law Associations.

LiRN is fully funded by the Law Society through annual fees collected from lawyers. The actual grant to LiRN is determined and approved as part of the Law Society annual budget process. LiRN's 2022 approved budget of $9.4 million was funded as follows:

- $8.5 million through the County Libraries Fund component of the annual fee of $183 per lawyer.
- Up to $900,000 from the unrestricted fund balance of the Errors & Omissions Fund as approved by Convocation in the Law Society's 2022 budget.

Any variance resulting from the imposition of the per lawyer fee on the actual number of lawyers billed and the grant paid to LiRN is retained in the Law Society's County Libraries Fund. This fund balance is available to mitigate the future LiRN component of the annual fee, or to support LiRN operations at the discretion of Convocation. Grants to the 48 county libraries comprised most of LIRN's expenditures with the balance being centralized expenses such as access to online research products.

These financial statements have been approved by the LiRN Board. They received an unqualified audit opinion from the auditors, PricewaterhouseCoopers LLP, with no issues or exceptions identified. The financial statements are at the following tab.

MANAGEMENT DISCUSSION AND ANALYSIS

DECEMBER 31, 2022

Results of Operations

For 2022, the financial results of LiRN Inc. (LiRN) report an excess of revenues over expenses of $167,000 (2021 – $339,000 excess of expenses over revenues).

The grant from the Law Society of Ontario (Law Society) for LiRN operations was $8.5 million after a reduction to $7.2 million in 2021. This return to normal grant funding in 2022 followed as the uncertainty regarding the financial impact of the pandemic on the Law Society and annual fee-paying lawyers subsided. The increase in the grant to LiRN for 2022 operations included an increase in funding to the county and district law libraries across Ontario above pre-pandemic levels.

A Law Society transition grant of $729,000 allowed LiRN, through the launch of E-LiRN, to significantly expand the catalogue of digital legal resources available through the county and district law libraries facilitating more equitable access to legal information across all regions in Ontario. In addition, LiRN updated the information technology infrastructure across the network to support implementation of the expanded suite of digital resources.

LiRN's approved 2023 budget maintains the level of funding required to sustain support of the law library network and to maintain the expanded access to electronic legal resources across the Province.

Statement of Revenues and Expenses – Revenues

The Law Society grant totalled $9.3 million (2021 - $7.2 million) which includes $729,000 in transitional funding designated for the expansion of a suite of electronic legal resources and the required upgrade of information technology infrastructure.

Statement of Revenues and Expenses – Expenses

Head office administration expenses for 2022 are comparable to 2021, with a decrease in professional fees related to the board recruitment biannual cycle.

With the significant expansion in centralized digital legal resources funded by the transitional grant, the expenses for electronic products and services for 2022 increased to $947,000 (2021 - $374,000).

County and district law library grants of $7.2 million (2021 - $6.4 million) are detailed by county in the notes to the financial statements and include the annual grants approved as part of the 2022 budget. As noted above, county and district law library annual grants increased in 2022 with the restoration of funding from the Law Society for LiRN's operations.

Balance Sheet and Statement of Changes in Fund Balances

The General Fund accounts for the delivery, management and administration of library services. The General Fund has increased by the excess of revenues over expenses of $167,000 to $362,000.

The Reserve Fund has an unchanged balance of $500,000.

Independent auditor's report

To the Board of Directors of LiRN Inc.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of LiRN Inc. (LiRN) as at December 31, 2022 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

What we have audited
LiRN's financial statements comprise:

- the statement of financial position as at December 31, 2022;
- the statement of revenues and expenses for the year then ended;
- the statement of changes in fund balances for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of LiRN in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
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In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Canadian accounting standards for not-for-profit organizations, 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 LiRN'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 LiRN or to cease operations, or has no realistic alternative but to do so.

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

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 21, 2023

LiRN
Legal Information and Resource Network

STATEMENT OF FINANCIAL POSITION

Stated in dollars
As at December 31, 2022

	2022	2021
Assets		
Current Assets		
Cash	**967,092**	727,822
Accounts receivable	**31,680**	22,851
Prepaid expenses	**42,358**	37,440
Total Assets	**1,041,130**	788,113
Liabilities, Share Capital & Fund Balances		
Current Liabilities		
Accounts payable and accrued liabilities (note 4 and 6)	**178,739**	93,115
Total Liabilities	**178,739**	93,115
Share Capital & Fund Balances		
Share capital (notes 1 and 5)	**200**	200
General fund (note 2)	**362,191**	194,798
Reserve fund (note 2)	**500,000**	500,000
Total Share Capital & Fund Balances	**862,391**	694,998
Total Liabilities, Share Capital & Fund Balances	**1,041,130**	788,113

The accompanying notes are an integral part of these financial statements

On behalf of the Board of Directors

Chair – Board of Directors

Vice-Chair – Board of Directors

LiRN
Legal Information and Resource Network

STATEMENT OF REVENUES AND EXPENSES

Stated in dollars
For the year ended December 31, 2022

	2022	2021
Revenues		
Law Society of Ontario grant (note 6)	**9,270,630**	7,217,194
Interest income	**19,644**	3,990
Total Revenues	**9,290,274**	7,221,184
Expenses		
Head Office / Administration		
Administration	**309,285**	305,080
Professional fees	**22,326**	72,097
Other (note 7)	**28,394**	24,790
Total Head Office / Administration Expenses	**360,005**	401,967
Law Libraries - Centralized Purchases		
Electronic products and services (note 6)	**947,431**	374,026
Group benefits and insurance	**338,417**	330,827
IT infrastructure (note 6)	**161,949**	-
Other (notes 6 and 8)	**97,949**	59,981
Total Law Libraries - Centralized Purchases	**1,545,746**	764,834
County and district law libraries grants (note 9)	**7,217,130**	6,393,274
Total County and District Law Libraries Expenses	**7,217,130**	6,393,274
Total Expenses	**9,122,881**	7,560,075
Excess of Revenues over Expenses (Expenses over Revenues)	**167,393**	(338,891)

The accompanying notes are an integral part of these financial statements

LiRN
Legal Information and Resource Network

STATEMENT OF CHANGES IN FUND BALANCES

Stated in dollars
For the year ended December 31, 2022

	2022			2021
	General Fund	Reserve Fund	**Total**	
Balance, beginning of year	194,798	500,000	**694,798**	1,033,689
Excess of revenues over expenses (expenses over revenues)	167,393	-	**167,393**	(338,891)
Balance, end of year	**362,191**	**500,000**	**862,191**	694,798

The accompanying notes are an integral part of these financial statements

LiRN
Legal Information and Resource Network

STATEMENT OF CASH FLOWS

Stated in dollars
For the year ended December 31, 2022

	2022	2021
Net inflow (outflow) of cash related to the following activities		
Excess of revenues over expenses (expenses over revenues) for the year	**167,393**	(338,891)
Net change in non-cash operating working capital items:		
Accounts receivable	**(8,829)**	552
Prepaid expenses	**(4,918)**	(3,748)
Accounts payable and accrued liabilities	**85,624**	35,647
Cash sourced in operating activities	**239,270**	(306,440)
Net inflow (outflow) of cash during the year	**239,270**	(306,440)
Cash, beginning of year	**727,822**	1,034,262
Cash, end of year	**967,092**	727,822

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the year ending December 31, 2022

1. General

At the beginning of 2020, the name of the corporation was changed from LibraryCo Inc. to LiRN Inc. (LiRN). LiRN was established to develop policies, procedures, guidelines, and standards for the delivery of county law library services and legal information across Ontario and to administer funding from the Law Society of Ontario (the Law Society).

LiRN has two classes of shares: Common shares and Special shares. The Law Society holds all of the 100 Common shares outstanding. Of the 100 special shares outstanding, 25 are held by the Toronto Lawyers Association (TLA) and 75 are held by the Federation of Ontario Law Associations (FOLA).

LiRN is not subject to federal or provincial incomes taxes.

The Law Society provides certain administrative functions to LiRN for no fee.

2. Significant Accounting Policies

Basis of Presentation
The financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations (ASNPO) set out in Part III of the Chartered Professional Accountants of Canada Handbook – Accounting.

General and Reserve Funds
LiRN follows the restricted fund method.

The General Fund accounts for the delivery, management, and administration of library services. The Reserve Fund is maintained to assist LiRN's cash flows and act as a contingency fund.

Cash
Cash consists of amounts on deposit with LiRN's financial institution.

Revenue Recognition
Grants are recorded as revenue in the General Fund in the fiscal year in which they are received or receivable.

Interest income is recognized when receivable if the amount can be reasonably estimated.

Grants Paid
Grants paid are recognized in the fiscal year in which they are paid or payable.

Use of Estimates
The preparation of financial statements in accordance with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the year. Actual results could differ from such estimates.

3. Financial Instruments

LiRN's financial assets and financial liabilities are classified and measured as follows:

Asset / Liability	**Measurement**
Cash	Fair value
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

4. Accounts Payable and Accrued Liabilities

There are no amounts of payable for government remittances.

5. Share Capital

Authorized:

Unlimited number of Common shares

Unlimited number of Special shares

Issued:

	2022	2021
100 Common shares	**$100**	$100
100 Special shares	**100**	100
Total	**$200**	$200

6. Related Party Transactions

The Law Society provided LiRN with grant funding of $9,271,000 during the year. The 2022 grant comprises:

- $8,542,000 (2021 - $7,217,000) for LiRN operations including grants to the County and District Law Libraries for the purpose of library operations and,
- $729,000 (2021 – nil) in transitional funding to modernize and expand the suite of digital resources available through the library network across the province and to upgrade the supporting information technology infrastructure.

The Law Society provides certain administrative services to the LiRN (note 1) as well as other services and publications. The total amount billed by the Law Society for 2022 was $25,973 (2021 - $51,878). Included in accounts payable and accrued liabilities are amounts due to the Law Society of $848 (2021 - $7,997).

Lawyers' Professional Indemnity Company (LAWPRO) provides professional liability insurance to lawyers in Ontario and is also a wholly owned subsidiary of the Law Society. There were no transactions with LAWPRO during 2022 or 2021.

These transactions are entered in the ordinary course of business and are measured at fair value.

7. Other Expenses – Head Office/Administration

Included in these expenses are directors' and officers' insurance, Board of Directors' meetings, telephone services and other miscellaneous items.

8. Other Expenses – County and District Law Libraries – Centralized Purchases

Included in these expenses are costs associated with conference bursaries, the Conference for Ontario Law Associations' Libraries, document delivery, publications, committee meetings and miscellaneous items.

9. County and District Law Libraries Grants

These grants represent the quarterly distribution of funds to the 48 County and District Law Libraries for the purpose of library operations and any incremental, Board-approved grants. The grants are distributed in accordance with policies and procedures established by the LiRN's Board of Directors. The table on the following page contains individual law library grants that were distributed by LiRN during 2022 and 2021.

County and District Law Libraries Grants - 2021 and 2022

Law Association	2022	2021
Algoma	**$158,852**	$139,346
Brant	**112,494**	103,516
Bruce	**64,491**	58,963
Carleton	**621,592**	583,647
Cochrane	**56,024**	51,222
Dufferin	**50,108**	49,126
Durham	**190,043**	154,685
Elgin	**91,365**	86,292
Essex	**324,921**	265,511
Frontenac	**159,056**	137,022
Grey	**75,637**	69,819
Haldimand	**37,477**	32,178
Halton	**156,000**	140,961
Hamilton	**512,966**	424,184
Hastings	**94,815**	89,431
Huron	**87,518**	80,016
Kenora	**94,000**	92,012
Kent	**80,519**	74,296
Lambton	**91,255**	80,177
Lanark	**45,000**	42,273
Leeds & Grenville	**79,666**	75,722
Lennox & Addington	**31,411**	28,628
Lincoln	**207,775**	180,333
Manitoulin	**-**	2,732

Law Association	2022	2021
Middlesex	**436,979**	342,345
Muskoka	**74,848**	68,044
Nipissing	**98,694**	90,906
Norfolk	**88,287**	74,319
Northumberland	**98,499**	87,634
Oxford	**78,138**	75,012
Parry Sound	**50,705**	47,324
Peel	**280,846**	280,846
Perth	**63,188**	57,772
Peterborough	**152,951**	136,928
Prescott & Russell	**16,039**	14,970
Rainy River	**33,105**	29,032
Renfrew	**144,589**	128,221
Simcoe	**196,732**	141,888
Stormont Dundas & Glengarry	**89,460**	81,792
Sudbury	**185,201**	185,201
Temiskaming	**46,514**	46,514
Thunder Bay	**201,146**	172,124
Toronto	**582,314**	555,571
Victoria-Haliburton	**111,547**	92,386
Waterloo	**287,739**	241,153
Welland	**116,984**	96,905
Wellington	**87,348**	79,861
York	**272,292**	224,434
	$7,217,130	$6,393,274