



Law Society  
of Ontario

Barreau  
de l'Ontario

**Tab 5**

## **Audit & Finance Committee**

### **Report to Convocation**

April 25, 2024

**Committee Members:**

Sidney Troister (Chair)

Michelle Lomazzo (Vice Chair)

Rebecca Durcan

Laura Emmett

Heather Hansen

Howard Levitt

Atrisha Lewis

Hassan Pirnia

Michael Radan

Stephen Rotstein

Mark Surchin

Trevor Townsend

**Authored By:**

Finance

Brenda Albuquerque-Boutilier

Executive Director, Finance & CFO



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# FOR DECISION

## Law Society of Ontario Annual Financial Statements for the year ended December 31, 2023

### Motion

That Convocation approve the audited annual financial statements for the Law Society of Ontario for the financial year ended December 31, 2023, including the following net inter-fund transfers listed in Note 14 not previously approved by separate motion of Convocation:

- **\$10,533,000 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;**
- **\$230,000 from the Lawyer General Fund to the Special Projects Fund related to deferred expenses to develop the Foundations of Sole Practice course;**
- **\$114,000 from the Special Projects Fund to the General Funds to fund bench election expenses incurred in 2023;**
- **\$100,000 from the Lawyer General Fund to the Repayable Allowance Fund, as provided in the 2023 budget to fund the Repayable Allowance Program in the lawyer candidate Licensing Process; and**
- **\$57,000 from the Special Projects Funds to the Paralegal General Fund related to the development of the Family Legal Services Provider program.**

The financial statements present the financial position and operations of the Law Society and include the General Fund (or operating fund) 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.

The financial statements are accompanied by an unmodified opinion from the Law Society's appointed auditor PricewaterhouseCoopers LLP (PwC).

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

## **Inter-fund Transfers**

The net inter-fund transfers 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 transfers not previously approved are presented for approval in conjunction with the financial statements.

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 bench election, which only occurs every four years.

## **Management Discussion & Analysis**

The primary Management Discussion and Analysis (MD&A) follows at the next tab and will accompany the Annual Financial Statements in the Annual Report. As referenced in the MD&A that follows, the 2023 financial statements incorporate a change in accounting policy related to the presentation of the Law Society's investment in subsidiaries, in particular, its investment in LAWPRO of \$35.6 million. The change has been applied retrospectively, with the support of the Law Society's external auditor, PricewaterhouseCoopers LLP, and results in the removal of the asset on the Statement of Financial Position and a decrease of \$35.6 million in the fund balance of the E&O Fund. The investment in LAWPRO continues to be disclosed in the notes to the financial statements. The change in accounting policy and financial statement presentation does not affect the value of the Law Society's investment in its subsidiaries.

# LAW SOCIETY OF ONTARIO 2023 ANNUAL FINANCIAL STATEMENTS

## MANAGEMENT DISCUSSION AND ANALYSIS

### Summary of Financial Performance

The Law Society of Ontario's (Society) combined financial statements report revenues exceeding expenses from operations by \$3.1 million for 2023 (2022 – expenses exceeded revenues by \$6.1 million). In addition to the positive financial results from operations, the market value of the Society's investment portfolios benefited from overall favourable financial markets in 2023. The fair value of the Society's investments experienced unrealized gains of \$5.9 million this year (2022 - unrealized losses of \$7.8million).

The combined positive results from operations and the unrealized increase in the fair value of investments resulted in the Society ending the year with total revenues exceeding expenses by \$9.0 million (2022 – expenses exceeded revenues by \$13.9 million), with an equivalent increase in overall fund balances. The Society's 2023 budget planned for an overall reduction of \$8.7 million in fund balances.

Three key factors drove the strong financial performance:

- notable unbudgeted unrealized gains experienced in 2023 related to the portfolio investments of the General, Compensation and Errors & Omissions Insurance (E&O) Funds, as financial markets recovered from the negative volatility of 2022, with the Society not immune having experienced significant unrealized losses;
- interest rates throughout 2023 were about 2.5% higher than when the 2023 budget was developed in the summer of 2022, which led to investment returns markedly greater than budget; and
- greater use of hybrid and virtual modalities to hold meetings, hearings, functions and conduct other Society business, beyond that expected when planning the 2023 budget, led to savings.

The Society's Lawyer and Paralegal General Funds, which account for the Society's program delivery and administrative activities, ended the year with combined revenues in excess of expenses of \$5.7 million (2022 – excess of expenses over revenues of \$2.2 million). Of this amount, \$5.3 million is attributable to the positive performance on investments, both investment income and the increase in fair market value of investments in 2023. The 2023 budget incorporated funding of \$4.0 million from the fund balance of the Lawyer General Fund along with \$1.2 million in funding from cumulative surplus investment income in the E&O Fund. Similarly, the 2023 budget planned for the utilization of \$500,000 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 (Fund Policy) and not-for-profit budgeting best practices.

The Society ended the year with the fund balance of the Lawyer General Fund at \$39.3 million and the Paralegal General Fund with a balance of \$2.6 million.

In preparing the 2024 budget, the fund balance of the Lawyer General Fund was forecast to end the year above the maximum threshold under the Fund Policy. As a result, Convocation earmarked in the 2024 budget use of

- \$9.2 million to fund the Business Technology and Transformation Initiative (Transformation) through a transfer of \$3.5 million and a loan of \$5.675 million to the Capital Allocation Fund, and
- \$6.0 million to fund 2024 operations and mitigate the impact on the General Fund component of the lawyer annual fee.

The Society's restricted funds are reporting combined excess of revenues over expenses of \$3.3 million in 2023 (2022 – excess of expenses over revenues of \$11.7 million), impacted predominantly by unrealized gains in the Compensation and E&O Funds' portfolio investments.

The lawyer pool of the Compensation Fund reported an excess of revenues over expenses of \$1.3 million (2022 – excess of expenses over revenues of \$9.4 million) ending the year with a fund balance of \$23 million (2022 – \$21.7 million). While the lawyer pool of the Compensation Fund notably benefited from the positive financial markets of 2023 and higher interest rates, it faced increases in the volume and severity of claims against the Fund. Historically, the Society has experienced increased claims activity a few years after an economic downturn, and early indicators are that financial pressures are on the horizon for the Fund.

The E&O Fund is reporting excess of revenues over expenses of \$1.9 million (2022 – excess expenses over revenues of \$1.8 million) primarily from the increase in fair value of its portfolio investments.

In 2023, to align with not-for-profit accounting standards, the Society changed its accounting policy related to the presentation of its investment in its subsidiaries, most notably the Lawyers' Professional Indemnity Company (LAWPRO). The Society's \$35.6 million investment in LAWPRO was previously reported on the Statement of Financial Position at cost and disclosed in the notes to the financial statements. With this change in policy, the investment in LAWPRO continues to be disclosed in the notes to the financial statements but is no longer reported on the Statement of Financial Position as an asset nor reflected in the fund balance of the E&O Fund. The change in accounting policy does not change or affect the Society's \$35.6 million investment in LAWPRO.

# Statement of Revenues and Expenses & Change in Fund Balances

## Revenues

### *Annual Fees*

Total annual fee revenues are higher than last year at \$101.6 million (2022 – \$90.9 million). This is attributable to the 2023 annual fee increase of \$168 for lawyers, partially to deal with Compensation Fund claims pressures, and \$80 for paralegals, as well as continued growth in the number of full-fee equivalent paying lawyers and paralegals.

### *Insurance Premiums and Levies*

The 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 and remits these amounts to LAWPRO. Insurance premiums and levies decreased to \$110.0 million in 2023 (2022 – \$111.1 million). High interest rates slowed down real estate sales resulting in an \$8.8 million decrease in transaction levy revenues, a 30% drop from 2022. This reduction was partially offset by an overall increase in base premium revenues of \$7.7 million, compared to the prior year. An increase in the number of insured lawyers in Ontario and in their base premium for professional liability insurance coverage, from \$3,000 to \$3,250, led to higher insurance premium revenues.

### *Professional Development and Competence (PD&C)*

PD&C revenues comprise licensing process and continuing professional development fees. Total PD&C revenue increased this year to \$24.0 million (2022 – \$21.7 million).

Licensing Process revenue from lawyer and paralegal candidates of \$16.6 million increased by \$2.4 million from 2022. The growth in revenue was partially anticipated as the 2023 budget incorporated an increase in candidate examination fees to address inflationary impacts on Licensing Process expenses generally, and increasing venue costs with the return to in-person examinations. In addition to this planned increase in revenue, the Licensing Process also experienced growth in the number of lawyer candidates in the program.

### *Investment Income*

Investment returns were positively impacted in 2023 by high interest rates with investment income for the General, Compensation and E&O Funds of \$5.8 million (2022 – \$2.5 million) compared to a budget of \$2.2 million. While forecasting interest rates and investment returns is challenging during periods of inflationary pressure, the 2024 budget incorporates a conservative increase in anticipated returns.

### ***Other Revenue***

Other revenue of \$6.3 million (2022 – \$7.5 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, there were a few large recoveries in the Compensation Fund that contributed to higher revenues last year.

### **Expenses**

Expenses of the Lawyer and Paralegal General Funds focus on operations and were \$112.7 million (2022 – \$107.0 million) against a budget of \$119.0 million. The 2023 budget was developed on the heels of the Society returning to regular business operations, post pandemic and the related restrictions. It assumed a greater resumption of in-person activities, including travel, from attendance at governance meetings to interactions with licensees and stakeholders across Ontario. The Society's experience is that there is continued demand for the flexibility of virtual and hybrid modalities to support meetings, hearings, functions, and events, which led to notable cost savings in 2023, and with the noted trend, influenced reducing the 2024 budget accordingly. Other factors influencing lower General Fund expenses include reduced fees related to the engagement of external counsel and continued labour market conditions impacting recruitment.

#### ***Professional Regulation, Tribunals and Compliance***

Total regulatory expenses increased to \$33.1 million (2022 – \$32.3 million) but were less than budget. The variance from budget was driven by lower spending on counsel fees as the number of matters with external counsel declined, reduced paper document reproduction costs with an increasing shift to electronic retention supported by the Transformation and savings related to employee travel with continued use of virtual engagements where effective and appropriate.

#### ***Professional Development and Competence (PD&C)***

Total PD&C expenses have increased to \$33.0 million (2022 – \$31.3 million) and were in line with budget. The Law Society returned to in-person licensing examinations in April 2022 and the anticipated expenses associated with this were reflected in the 2023 budget. In addition, post pandemic, the cost of venues and supporting services to administer the licensing examinations increased exponentially.

In addition to the planned increase in Licensing Process expenses, there has been a significant rise in the number of accommodated examinations to support lawyer and paralegal candidates requiring accommodation, with an increase of approximately 68% and 39%, respectively, over the past two years. This resulted in higher than budgeted costs in the lawyer and paralegal licensing process of \$1.4 million. The 2024 budget for



expenses related to accommodated examinations was increased to reflect this trend, while licensing candidate fees remained unchanged. This was possible through efficiencies in examination administration that optimized the use of venues and reduce costs. Offsetting these unbudgeted costs in PD&C were savings due to lower travel costs, as a significant number of practice audits and reviews continue to be performed virtually.

### ***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 \$32.8 million (2022 – \$29.9 million) and were approximately \$2 million higher than budget.

Two factors, along with inflationary pressures, contributed to increased expenses over the prior year and budget. First, unbudgeted legal and expert advisory expenses to manage Ontario Line developments, most notably, external counsel to support Convocation approved litigation in early 2023. The second was increased technology subscription and sustainment costs as the Society maintained legacy systems and the first release of the Transformation. While these costs were not budgeted, savings in other areas offset the impact of these expenses and allowed the Transformation to progress faster than originally anticipated.

### ***Convocation, Policy and Outreach***

Convocation, policy and outreach expenses, primarily related to Policy, External Relations & Communications, and Governance, including benchers related expenses, increased to \$7.8 million (2022 – \$7.7 million) and were less than budget. The 2023 budget assumed a full return to in-person meetings of Convocation, Committees, Task Forces and Working Groups. In 2023, these meetings have continued in hybrid or virtual formats resulting in savings in benchers expenses and remuneration and governance functions when compared to budget. There were also further savings in stakeholder engagement, advisory groups, media relations and communications. The desire of benchers and other attendees at these meetings or events for continued virtual or hybrid participation informed the reduction of associated expenses in the 2024 budget. In addition, spending in 2023 was also lower than budget as the \$1 million contingency for unforeseen circumstances was not used this year, unlike 2022.

### ***Services to Licensees and Public***

Services to licensees and the public increased to \$6.1 million (2022 – \$5.9 million) but were less than budget. The increase from the prior year was primarily due to the Federation of Ontario Law Associations resuming its full schedule of meetings and conferences for the year since the pandemic and a budgeted increase in the support provided by the Society to the Canadian Legal Information Institute (CanLII).

## Change in Fair Value of Investments

The fair market value of the Society's portfolio investments recovered notably in 2023 experiencing in year unrealized gains of \$5.9 million (2022 – unrealized losses of \$7.8 million). Of the total unrealized gains, \$1.8 million pertains to the General Funds, \$2.7 million is related to the Compensation Fund, and \$1.4 million is specific to the E&O Fund. The Society does not budget for the change in fair value of investments as it is dependent on the financial markets and therefore unpredictable.

## Changes in Fund Balances

### *General Fund*

The Lawyer General Fund experienced excess of revenues over expenses for the year of \$5.3 million and net interfund transfers to other Funds of \$3.7 million leading to an increase in the fund balance to \$39.3 million. The Society's Fund Policy establishes minimum and maximum benchmarks of two and three months of operating expenses to be maintained as the fund balance of the Lawyer General Fund; a balance between \$18.6 million and \$27.9 million based on 2024 budgeted expenses. To bring the fund balance within the Fund Policy benchmarks, Convocation approved use of \$15.2 million to fund 2024 operations (\$6 million) and invest in the Society's future, through the Transformation (\$9.2 million).

The Paralegal General Fund ended the year with revenues exceeding expenses by \$354,000 and net interfund transfers from other Funds of \$69,000 leading to an increase in the fund balance to \$2.6 million. The Society's 2024 budget planned for the use of \$600,000 of this fund balance to fund operations.

### *Restricted Funds*

In 2023, the excess of revenues over expenses for the year in the lawyer pool of the Compensation Fund was \$1.3 million, increasing the fund balance to \$23.0 million. The increase in the fund balance was driven by two factors. First, there was a partial rebound in the financial markets in 2023 that caused an unbudgeted increase in the fair market value of investments, resulting in unrealized gains of \$2.5 million. Second, investment returns were notably greater than budget, influenced by interest rates higher than anticipated in planning the 2023 budget. These positive investment results mitigated the pressure the lawyer pool of the Compensation Fund experienced with the provision for unpaid grants expense exceeding budget by approximately \$1.8 million due to an increase in the volume and severity of claims against the Fund.

Under the current Fund Policy, the minimum and maximum fund balance benchmarks for the lawyer pool of the Compensation Fund are \$20.4 million and \$103.3 million, respectively. The 2023 year end fund balance of \$23.0 million is \$2.6 million above the

minimum benchmark. An overall downward turn in the financial markets in 2024 affecting the fair value of the Compensation Fund's portfolio investments or the continuation of increased claims activity could result in the lawyer pool of the Compensation Fund falling below the minimum fund balance benchmark. This would trigger the requirement under the Fund Policy to replenish the fund balance of the lawyer pool of the Compensation Fund over the next three fiscal years.

In 2023, the excess of revenues over expenses for the year in the paralegal pool of the Compensation Fund was \$217,000 increasing the fund balance to \$963,000. The increase was mainly the result of unrealized investment gains of \$132,000 and lower expenses related to the provision for unpaid grants. Convocation approved a Fund Policy for the paralegal pool of the Compensation Fund in 2023, with minimum and maximum benchmarks of \$143,000 and \$707,000 respectively. As the current and projected fund balance of the paralegal pool of the Compensation Fund exceeds the maximum benchmark, the Compensation Fund component of the paralegal annual fee is \$1 in the 2024 budget.

The fund balance of the E&O Fund increased from \$9.2 million at the end of 2022 to \$11.1 million at the end of 2023. The increase is attributed to expenses exceeding revenues by \$1.9 million, predominantly due to unrealized gains on portfolio investments and higher investment income.

The Capital Allocation Fund ended 2023 with a fund balance of \$10.8 million (2022 – \$15.2 million). Included in this total is \$1.8 million that is internally restricted for the Transformation (2022 – \$9.1 million). The internally restricted amounts at the end of 2023 and the planned transfer and loan from the Lawyer General Fund in 2024 are expected to fund the remaining capital investments in the Transformation. The balance of the Capital Allocation Fund is for use in ongoing capital projects including the restoration of the Bencher Wing and other critical infrastructure projects. The 2024 budget also includes the planned use of \$600,000 in uncommitted funding within the Capital Allocation Fund.

## **Statement of Financial Position**

### ***Portfolio Investments***

Portfolio investments are shown at the fair value of \$82.8 million (2022 – \$78.2 million). The increase is attributable to the increase in the fair market value of the portfolio investments. Of the total portfolio investments, \$21.6 million pertains to the General Funds, \$40.7 million pertains to the Compensation Fund, and \$20.5 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 \$1.7 million loan matured in 2023 and the full amount, including accrued interest, was repaid to the Society during the year.

### ***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 2023, the amount due to LAWPRO decreased to \$11.3 million (2022 – \$11.5 million) and relates primarily to the timing of the transfer of premiums collected in 2023 from lawyers for 2024 professional liability insurance coverage.

### ***Provision for Unpaid Grants***

The Compensation Fund liability for unpaid grants increased to \$31.9 million (2022 – \$27.8 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 the provision for unpaid grants liability is due to the severity of claims in the lawyer pool of the Compensation Fund increasing coupled with added claims activity.

## **Conclusion**

The Society has maintained solid fund balances through prudent management of operations, a strong recovery in the financial markets and the benefit of high interest rates on investments. This has allowed the Society to invest in the Transformation, the most significant operational project undertaken in years, involving a multi-year transition of all aspects of the administration of our mandate as a public interest regulator. The Transformation is an investment in business process improvements and the replacement of the Society's high-risk legacy systems, to permit the organization to continue its forward movement as a modern, proactive and risk-informed regulator. The first phase was implemented in the summer of 2023, within budget, and the second release is anticipated in 2024.

While the Society is entering the upcoming year on strong footing, like most other organizations, it is difficult to know what, if any, impact current global events and financial market volatility may have on the Society's finances. Similarly uncontrollable is Compensation Fund claims activity. The lawyer pool of the Fund is facing pressure with an increase in both the volume and the severity of claims, and this trend is expected to continue based on regulatory activity in the first quarter of 2024.

Despite these uncertainties, the Society continues to be in a financially sound position with its Fund Balance Management Policies mitigating the impact of unforeseen circumstances. With strong fund balances, the Society is positioned for 2024 to fulfill its important regulatory work in the public interest, continue moving forward with the Transformation, and implement Convocation policy decisions such as Family and Legal Service Provider licensure and the Foundations of Sole Practice program.



## Independent auditor's report

To the Members of the Law Society of Ontario

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### 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, 2023 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, 2023;
- 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.

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### 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.

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### Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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

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.

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### **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.

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### **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.

(to be signed - PricewaterhouseCoopers LLP)

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario  
April 25, 2024



## Statement of Financial Position

Stated in thousands of dollars

As at December 31

### Assets

	2023	2022 (note 3)
<b>Current Assets</b>		
Cash (note 10)	36,828	34,211
Short-term investments	20,620	23,083
Accounts receivable (notes 4 and 9)	14,157	14,210
Prepaid expenses	4,206	2,943
Loan receivable (note 7)	-	1,701
<b>Total current assets</b>	<b>75,811</b>	<b>76,148</b>
Portfolio investments (note 6)	82,809	78,153
Capital assets (note 8)	8,084	7,611
Intangible assets (note 8)	10,143	3,003
<b>Total Assets</b>	<b>176,847</b>	<b>164,915</b>
<b>Liabilities and Fund Balances</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (notes 5 and 9)	12,164	11,642
Deferred revenue	4,721	6,676
Due to LAWPRO (note 4)	11,259	11,460
<b>Total current liabilities</b>	<b>28,144</b>	<b>29,778</b>
Provision for unpaid grants/claims	31,875	27,778
Unclaimed trust funds (note 10)	8,341	7,801
Lease obligations	707	781
<b>Total Liabilities</b>	<b>69,067</b>	<b>66,138</b>
<i>Other trust funds (note 11), Commitments (note 16), and Contingent liabilities (note 17)</i>		
<b>Fund Balances</b>		
<b>General funds</b>		
Lawyers	39,343	37,746
Paralegals	2,585	2,162
<b>Restricted funds</b>		
Compensation - lawyers	23,034	21,705
Compensation - paralegals	963	746
Errors and omissions insurance (note 3)	11,086	9,143
Capital allocation	10,810	15,191
Invested in capital and intangible assets	18,227	10,614
County libraries	222	177
Other	1,510	1,293
<b>Total Fund Balances</b>	<b>107,780</b>	<b>98,777</b>
<b>Total Liabilities and Fund Balances</b>	<b>176,847</b>	<b>164,915</b>

The accompanying notes are an integral part of these financial statements

**Statement of Revenues and Expenses and Change in Fund Balances**
*Stated in thousands of dollars*
*For the year ended December 31*

	2023		2022		2023		2022		2023		2022	
	General Fund		General Fund		Restricted Funds		Total		2023		2022	
	Lawyer		Paralegal						(note 3)		(note 3)	
<b>Revenues</b>												
Annual fees	77,116	72,489	6,750	6,064	17,757	12,364	101,623	90,917	101,623	111,077	109,951	111,077
Insurance premiums and levies	-	-	-	-	109,951	111,077	23,985	21,747	23,985	2,453	5,808	2,453
Professional development and competence	21,061	18,347	2,924	3,400	-	-	6,271	7,450	6,271	7,450	6,271	7,450
Investment income	3,096	1,196	392	115	2,320	1,142	5,808	2,453	5,808	2,453	5,808	2,453
Other (note 12)	4,705	4,848	557	579	1,009	2,023	6,271	7,450	6,271	7,450	6,271	7,450
<b>Total revenues</b>	<b>105,978</b>	<b>96,880</b>	<b>10,623</b>	<b>10,158</b>	<b>131,037</b>	<b>126,606</b>	<b>247,638</b>	<b>233,644</b>	<b>247,638</b>	<b>233,644</b>	<b>247,638</b>	<b>233,644</b>
<b>Expenses</b>												
Professional regulation, tribunals and compliance	31,217	30,501	1,840	1,762	-	-	33,057	32,263	33,057	32,263	33,057	32,263
Professional development and competence	29,368	27,159	3,662	4,145	-	-	33,030	31,304	33,030	31,304	33,030	31,304
Corporate services	29,011	26,497	3,793	3,377	-	-	32,804	29,874	32,804	29,874	32,804	29,874
Convocation, policy and outreach (note 13)	7,018	6,952	735	736	-	-	7,753	7,688	7,753	7,688	7,753	7,688
Services to licensees and public	5,613	5,495	438	403	-	-	6,051	5,898	6,051	5,898	6,051	5,898
Restricted (note 19)	-	-	-	-	131,799	132,750	131,799	132,750	131,799	132,750	131,799	132,750
<b>Total expenses</b>	<b>102,227</b>	<b>96,604</b>	<b>10,468</b>	<b>10,423</b>	<b>131,799</b>	<b>132,750</b>	<b>244,494</b>	<b>239,777</b>	<b>244,494</b>	<b>239,777</b>	<b>244,494</b>	<b>239,777</b>
<b>Excess of revenues over expenses</b>												
<b>(expenses over revenues) from operations</b>	<b>3,751</b>	<b>276</b>	<b>155</b>	<b>(265)</b>	<b>(762)</b>	<b>(6,144)</b>	<b>3,144</b>	<b>(6,133)</b>	<b>3,144</b>	<b>(6,133)</b>	<b>3,144</b>	<b>(6,133)</b>
Change in fair value of investments	1,574	(1,959)	199	(248)	4,086	(5,583)	5,859	(7,790)	5,859	(7,790)	5,859	(7,790)
Excess of revenues over expenses	5,325	(1,683)	354	(513)	3,324	(11,727)	9,003	(13,923)	9,003	(13,923)	9,003	(13,923)
<b>Fund balances, beginning of year</b>	<b>37,746</b>	<b>38,333</b>	<b>2,162</b>	<b>2,685</b>	<b>58,869</b>	<b>71,682</b>	<b>98,777</b>	<b>112,700</b>	<b>98,777</b>	<b>112,700</b>	<b>98,777</b>	<b>112,700</b>
<b>Interfund transfers (notes 2 and 14)</b>	<b>(3,728)</b>	<b>1,096</b>	<b>69</b>	<b>(10)</b>	<b>3,659</b>	<b>(1,086)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balances, end of year</b>	<b>39,343</b>	<b>37,746</b>	<b>2,585</b>	<b>2,162</b>	<b>65,852</b>	<b>58,869</b>	<b>107,780</b>	<b>98,777</b>	<b>107,780</b>	<b>98,777</b>	<b>107,780</b>	<b>98,777</b>

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



## Statement of Cash Flows

Stated in thousands of dollars

As at December 31

Net inflow (outflow) of cash related to the following activities	2023	2022
<b>Operating</b>		
Excess of revenues over expenses (expenses over revenues)	9,003	(13,923)
Items not affecting cash:		
Amortization of capital assets	1,474	1,307
Amortization of intangible assets	1,423	1,406
Loss on disposal of capital and intangible assets	23	25
Unrealized losses (gains) on investments	(5,860)	7,790
Reinvested investment income	(2,883)	(1,680)
Lease obligations	(74)	(17)
Net change in non-cash operating items:		
Accounts receivable	53	178
Prepaid expenses	(1,263)	(445)
Accounts payable and accrued liabilities	522	1,312
Provision for unpaid grants/claims	4,097	7,009
Due (to)/from LAWPRO	(201)	4,633
Deferred revenue	(1,955)	(363)
Fund contribution - unclaimed trusts	540	692
<b>Cash from operating activities</b>	<b>4,899</b>	<b>7,924</b>
<b>Investing</b>		
Loan receivable	1,701	-
Purchase of short-term investments	(3,750)	(7,000)
Proceeds from disposal of short-term investments	7,000	-
Proceeds from disposal of portfolio investments	3,300	-
Capital asset and intangible asset additions	(10,533)	(4,030)
<b>Cash used in investing activities</b>	<b>(2,282)</b>	<b>(11,030)</b>
<b>Net inflow (outflow) of cash, during the year</b>	<b>2,617</b>	<b>(3,106)</b>
Cash, beginning of year	34,211	37,317
<b>Cash, end of year</b>	<b>36,828</b>	<b>34,211</b>

The accompanying notes are an integral part of these financial statements

## LAW SOCIETY OF ONTARIO

### Notes to Financial Statements, December 31, 2023

*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, 2023, lawyers entitled to practice law and paralegals entitled to provide legal services in Ontario numbered approximately 59,000 and 11,100 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 component of the annual fee for the next fiscal year;
- transfer the excess to another Society Fund.

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 component of the annual fee for the next fiscal year;
- transfer the excess to another Society Fund.

As at December 31, 2023, the fund balance of the Lawyer General Fund was \$39,343,000 (2022 – \$37,746,000).

The Lawyer General Fund balance as of December 31, 2023 exceeds three months of budgeted Lawyer General Fund expenses. The 2024 budget plans for the use of \$6,000,000 of the Lawyer General Fund balance to mitigate the Lawyer General Fund component of the annual fee in 2024.

Convocation also approved through the 2024 budget the use of available fund balance in the Lawyer General Fund to support funding the Business and Technology Transformation Initiative (Transformation); an organization-wide project to transform the Society's business processes and technology infrastructure. The 2024 approved budget incorporates a transfer of \$3,500,000 from the Lawyer General Fund to the Capital Allocation Fund and provides for a loan of up to \$5,675,000 from the Lawyer General Fund to the Capital Allocation Fund, both restricted to fund the Transformation. Funds to repay the loan from the Lawyer General Fund may be raised through the Capital Allocation Fund over the next few years.

As at December 31, 2023, the fund balance of the Paralegal General Fund was \$2,585,000 (2022 – \$2,162,000).

The 2024 budget plans for the use of \$600,000 of the Paralegal General Fund balance to mitigate the Paralegal General Fund component of the annual fee in 2024.

## **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 restricted funds maintained to manage claims pertaining to lawyer licensees and paralegal licensees.

In 2023, the Society engaged an actuarial firm to complete stochastic modelling using historical claims data pertaining to the paralegal pool of the Compensation Fund. Convocation approved establishing a fund balance management policy for the paralegal pool of the Compensation Fund similar to the policy in place since 2013 that governs the lawyer pool of the Fund.

The Society's fund balance management policy is to maintain each separate 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. A review of the lawyer pool was conducted in 2023 and Convocation approved updated minimum and maximum policy benchmarks for that pool of the Compensation Fund.

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

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

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

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

As at December 31, 2023, the fund balance of the lawyer pool of the Compensation Fund was \$23,034,000 (2022 – \$21,705,000) and is within the minimum and maximum fund balance policy benchmarks of \$20,400,000 and \$103,300,000, respectively.

As at December 31, 2023, the fund balance of the paralegal pool of the Compensation Fund was \$963,000 (2022 – \$746,000). The minimum and maximum fund balance policy benchmarks are \$143,000 and \$707,000, respectively. The balance of the paralegal pool of the Compensation Fund as of December 31, 2023 exceeds the maximum policy benchmark. The 2024 budget reduces the component of the annual fee for the paralegal pool of the Compensation Fund to \$1.

The statement of financial position for the Compensation Fund, lawyer and paralegal pools combined, is set out below:

(\$000s)	2023	2022
Cash and short-term investments	<b>15,213</b>	11,930
Accounts receivable	<b>26</b>	1,331
Portfolio investments	<b>40,683</b>	37,027
<b>Total assets</b>	<b>55,922</b>	50,288
Accounts payable and accrued liabilities	<b>51</b>	59
Provision for unpaid grants – lawyers	<b>31,566</b>	27,424
Provision for unpaid grants – paralegals	<b>308</b>	354
<b>Total liabilities</b>	<b>31,925</b>	27,837
Fund balance – lawyers	<b>23,034</b>	21,705
Fund balance – paralegals	<b>963</b>	746
<b>Total liabilities and fund balances</b>	<b>55,922</b>	50,288

#### ***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. 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, 2023, the fund balance of the E&O Fund was \$11,086,000 (2022 – \$9,143,000).

#### ***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, 2023, the fund balance was \$10,810,000 (2022 – \$15,191,000). Within the Capital Allocation Fund, \$1,784,000 (2022 – \$9,100,000) is internally restricted by Convocation for the purpose of the Transformation.



### ***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, 2023, the balance was \$18,227,000 (2022 – \$10,614,000), 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 and legal information resource network purposes, which are used to fund grants to LiRN. The fund balance as at December 31, 2023 was \$222,000 (2022 – \$177,000).

### ***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, 2023, the fund balance was \$265,000 (2022 – \$134,000).

The Special Projects Fund is maintained to ensure that financing is available for ongoing special projects. The fund balance as at December 31, 2023 was \$852,000 (2022 – \$792,000).

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, 2023, the fund balance was \$393,000 (2022 – \$367,000).

## **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).

### ***Change in Accounting Policy***

In 2023, the Society changed its accounting policy regarding the presentation of its investment in its wholly-owned subsidiaries, LAWPRO and LiRN. In prior years, the Society recorded its investment of \$35,642,000 and \$100 in LAWPRO and LiRN, respectively, at cost along with disclosure in the notes to the financial statements. The Society is no longer reporting its total investment of \$35,642,100 as a non-current asset nor as part of the fund balances of the Errors and Omissions Fund (\$35,642,000) and County Libraries Fund (\$100) on the Statement of Financial Position. This change in accounting policy was applied retrospectively. The history and nature of the Society's investment in LAWPRO and LiRN are provided in Note 4.

### ***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:

<b>Asset / Liability</b>	<b>Measurement</b>
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

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 \$20,942,000 (2022 – \$18,866,000).

### ***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, short and long-term fixed income investments was \$108,603,000 (2022 – \$108,415,000). 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 \$14,157,000 (2022 – \$14,210,000). 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 the estimated useful life of the asset ranging from three to ten 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 4.17% (2022 – 4.39%).

### **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**

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

Paralegals obtain professional liability insurance coverage through independent insurance companies.

## *Investment in LAWPRO*

The Society's total investment of \$35,642,000 in LAWPRO comprises:

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

LAWPRO was incorporated by the Society in 1990. The Society holds 20,000 redeemable preferred shares and 30,000 commons shares of at a total cost of \$5,000,000.

In June 1994, Convocation established the Insurance Task Force and the Insurance Committee on the Operation of the Society's Errors and Omissions Insurance Program (Task Force). The Task Force mandate was to identify and report on the amount and implications of the insurance deficit and the nature of E&O operation.

In late 1994, Convocation received the Task Force's report (Report) and approved its recommendation to establish a special levy for the capitalization of LAWPRO, to address a significant deficit in the E&O Fund. The Report described the capitalization effort as an investment by all lawyers and that the investment would be reflected on the Society's statement of financial position. The Report, as approved by Convocation, anticipated that once LAWPRO was fully funded, the Society could require LAWPRO to repay the capital investment or earn a return on the investment with receipt of either used by the Society for its general purposes. Between 1995 and 1997, the Society transferred a total of \$30,642,000 to LAWPRO for the capitalization. To date, no arrangement has been entered into between the Society and LAWPRO for the return of capital.

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.

In 2023, LAWPRO adopted revised IFRS Accounting Standards, specifically, IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments that were mandatory and effective for annual reporting periods that begin on or after January 1, 2023. As a result, certain comparative information as of December 31, 2022 was restated and is reflected in the summarized statements.

Summarized statement of financial position of LAWPRO:

(\$000s)	2023	2022
Total assets	<b>773,233</b>	752,714
Total liabilities	<b>472,744</b>	473,265
Total shareholders equity	<b>300,489</b>	279,449
Total liabilities and shareholders equity	<b>773,233</b>	752,714

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

(\$000s)	2023	2022
Insurance revenue	<b>123,526</b>	147,168
Insurance and other expenses	<b>(147,135)</b>	(134,052)
Investment Income (loss)	<b>53,026</b>	(39,164)
Profit (loss) before taxes	<b>29,417</b>	(26,048)
Income tax (expense) recovery	<b>(8,047)</b>	7,134
Profit (loss)	<b>21,370</b>	(18,914)
Other comprehensive income (loss) net of tax	<b>(330)</b>	1,557
Comprehensive income (loss)	<b>21,040</b>	(17,357)

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

(\$000s)	2023	2022
Net cash inflow from operating activities	<b>4,774</b>	4,634
Net cash inflow from investing activities	<b>1,458</b>	7,055
Net cash outflow from financing activities	<b>(451)</b>	(421)
Cash and cash equivalents, beginning of year	<b>35,741</b>	24,473
Cash and cash equivalents, end of year	<b>41,522</b>	35,741

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 \$109,951,000 (2022 – \$111,077,000) for premiums during the year. LAWPRO contributed \$555,000 (2022 – \$575,000) to the Society towards directors' fees for benchers appointed to the LAWPRO Board and a wellness program available to licensees. These transactions are entered in the ordinary course of business and are measured at exchange value. Included in the Society's financial statements are amounts due to LAWPRO of \$11,259,000 (2022 – \$11,460,000). 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 at a total cost of \$100. 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)	2023	2022
Total assets	<b>1,982</b>	1,041
Total liabilities	<b>829</b>	179
Total share capital and fund balances	<b>1,153</b>	862
Total liabilities, share capital and fund balances	<b>1,982</b>	1,041

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

(\$000s)	2023	2022
Total revenues	<b>9,656</b>	9,290
Total expenses	<b>9,610</b>	9,123
Excess of revenues over expenses from operations	<b>46</b>	167
Recovery of excess prior year county libraries grant funding	<b>245</b>	-
Excess of revenues over expenses	<b>291</b>	167

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

(\$000s)	2023	2022
Net cash inflow from operating activities	<b>937</b>	239
Cash, beginning of year	<b>967</b>	728
Cash, end of year	<b>1,904</b>	967



The Society provided LiRN with a grant of \$9,572,000 (2022 – \$9,270,000) 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 2023 was \$33,000 (2022 – \$26,000). 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 \$4,000 (2022 – \$1,000).

## 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 \$5,000 (2022 – \$4,000).

## 6. Portfolio Investments

(\$000s)	<b>2023</b>	2022
Debt securities	<b>51,155</b>	49,420
Canadian equities	<b>10,712</b>	9,867
Global equities	<b>20,942</b>	18,866
Total portfolio investments	<b>82,809</b>	78,153

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

	<b>2023</b>	2022
Effective interest rates (%)	<b>3.1 - 7.6</b>	3.2 – 11.5
Maturity dates (years)	<b>0 - 9</b>	1 - 10

## 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. The loan and all accrued interest were repaid by CanLII in May 2023.

## 8. Capital Assets and Intangible Assets

Capital Assets (\$000s)	2023			2022
	Cost	Accumulated amortization	Net	Net
Land and buildings	25,395	25,395	-	-
Building and leasehold improvements	32,313	24,808	7,505	6,961
Furniture, equipment and computer hardware	2,520	1,941	579	650
<b>Total capital assets</b>	<b>60,228</b>	<b>52,144</b>	<b>8,084</b>	<b>7,611</b>

	2023			2022
	Cost	Accumulated amortization	Net	Net
Computer applications and software	19,115	8,972	10,143	3,003
<b>Total intangible assets</b>	<b>19,115</b>	<b>8,972</b>	<b>10,143</b>	<b>3,003</b>

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 \$919,988 due from government remittances, primarily sales taxes (2022 – \$935,305).

The accounts receivable balance comprises:

(\$000s)	2023	2022
Accounts receivable	<b>49,658</b>	46,719
Allowance for doubtful accounts	<b>(35,501)</b>	(32,509)
Accounts receivable – net	<b>14,157</b>	14,210

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 \$8,341,000 (2022 – \$7,801,000).

## 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, 2023, total funds held in trust amount to \$6,679,000 (2022 – \$3,639,000).

## 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 \$425,000 (2022 – \$606,000). The total expense reimbursements of the elected, ex-officio and lay benchers during the year was \$164,000 (2022 – \$130,000). The Treasurer's honorarium expense for the year was \$233,000 (2022 – \$224,000).

## 14. Interfund Transfers

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

- \$10,533,000 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;
- \$3,500,000 from the Lawyer General Fund to the Capital Allocation Fund as part of the 2023 budget, restricted to fund the Transformation;
- \$230,000 from the Lawyer General Fund to the Special Projects Fund related to the development of the Foundations of Sole Practice course;
- \$114,000 from the Special Projects Fund to the General Funds to fund bench election expenses incurred in 2023;
- \$100,000 from the Lawyer General Fund to the Repayable Allowance Fund, as provided in the 2023 budget to fund the Repayable Allowance Program in the Licensing Process;
- \$57,000 from the Special Projects Fund to the Paralegal General Fund related to the development of the Family Legal Services Provider licence.

## 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 2023 amounted to \$3,168,150 (2022 – \$2,989,540).

## 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 and to annual minimum payments for software licences with the agreement ending in 2028. Aggregate minimum annual payments to the expiry of the agreement are approximately as follows:

2024	\$3,441,000
2025	\$3,565,000
2026	\$3,677,000
2027	\$3,689,000
2028	\$887,000
<b>Total</b>	<b><u>\$15,259,000</u></b>

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.

### Schedule of Restricted Funds

Stated in thousands of dollars

For the year ended December 31

	Compensation Fund		Errors and omissions insurance	Capital allocation	2023			Total	2022
	Lawyer	Paralegal			Invested in capital and intangible assets	County libraries	Other restricted		Total
<b>Fund balances, beginning of year (note 3)</b>	<b>21,705</b>	<b>746</b>	<b>9,143</b>	<b>15,191</b>	<b>10,614</b>	<b>177</b>	<b>1,293</b>	<b>58,869</b>	71,682
<b>Revenues</b>									
Annual fees	4,328	71	-	3,641	-	9,617	100	17,757	12,364
Insurance premiums and levies	-	-	109,951	-	-	-	-	109,951	111,077
Investment income	1,724	91	505	-	-	-	-	2,320	1,142
Other	316	-	-	626	-	-	67	1,009	2,023
<b>Total revenues</b>	<b>6,368</b>	<b>162</b>	<b>110,456</b>	<b>4,267</b>	<b>-</b>	<b>9,617</b>	<b>167</b>	<b>131,037</b>	126,606
<b>Total expenses</b>	<b>7,555</b>	<b>77</b>	<b>109,951</b>	<b>1,615</b>	<b>2,920</b>	<b>9,572</b>	<b>109</b>	<b>131,799</b>	132,750
<b>Excess of revenues over expenses (expenses over revenues) from operations</b>	<b>(1,187)</b>	<b>85</b>	<b>505</b>	<b>2,652</b>	<b>(2,920)</b>	<b>45</b>	<b>58</b>	<b>(762)</b>	(6,144)
Change in fair value of investments	2,516	132	1,438	-	-	-	-	4,086	(5,583)
<b>Excess of revenues over expenses (expenses over revenues)</b>	<b>1,329</b>	<b>217</b>	<b>1,943</b>	<b>2,652</b>	<b>(2,920)</b>	<b>45</b>	<b>58</b>	<b>3,324</b>	(11,727)
<b>Interfund transfers</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7,033)</b>	<b>10,533</b>	<b>-</b>	<b>159</b>	<b>3,659</b>	(1,086)
<b>Fund balances, end of year</b>	<b>23,034</b>	<b>963</b>	<b>11,086</b>	<b>10,810</b>	<b>18,227</b>	<b>222</b>	<b>1,510</b>	<b>65,852</b>	58,869

# **FOR INFORMATION**

## **Lawyers' Professional Indemnity Company Audited Financial Statements for the year ended December 31, 2023**

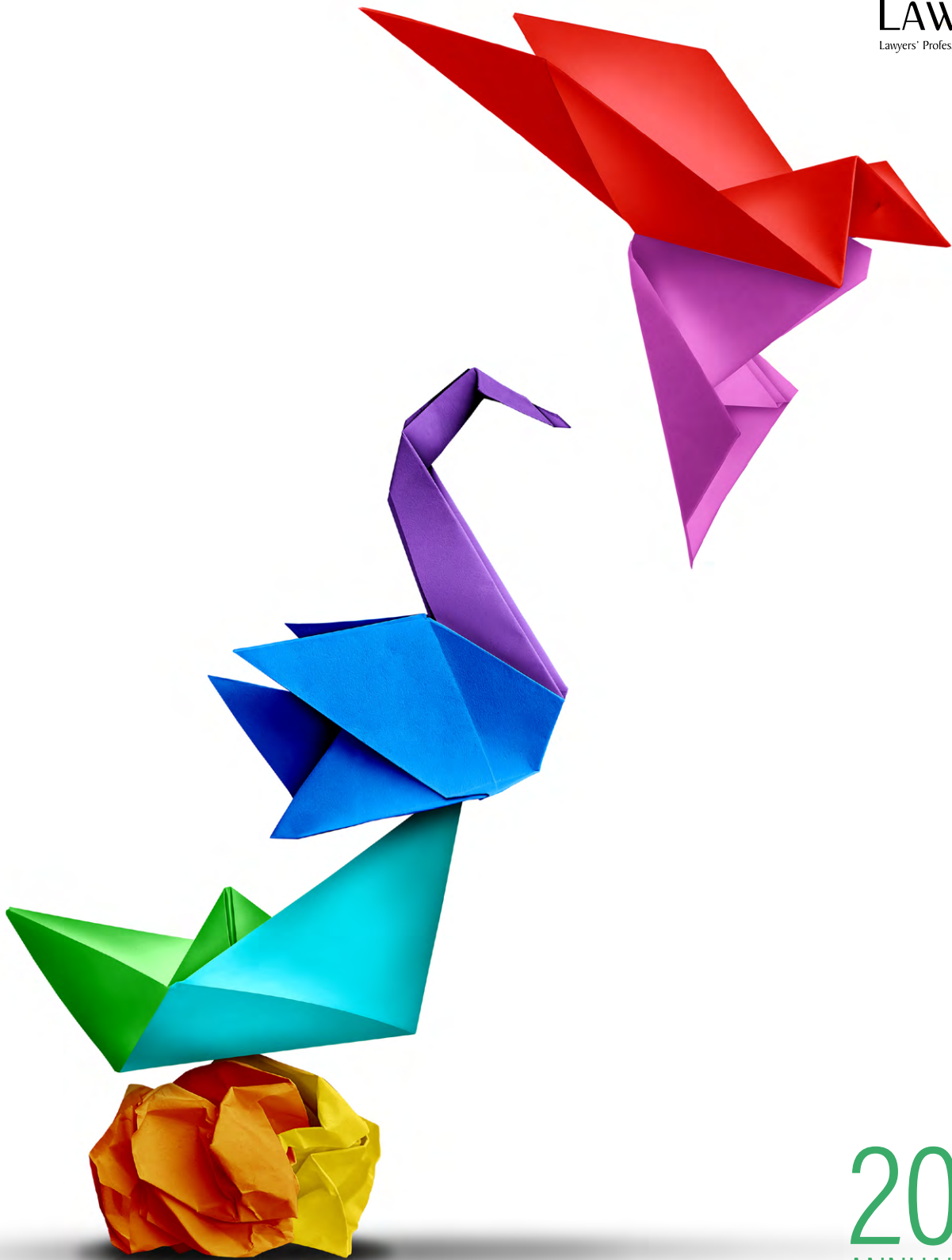
The Law Society provides mandatory professional liability insurance to lawyers through the Lawyers' Professional Indemnity Company (LAWPRO), a provincially licensed insurer and wholly-owned subsidiary of the Law Society. The professional liability insurance program generally requires practising lawyers 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. Each year, the audited financial statements for LAWPRO are presented to the Law Society's Audit & Finance Committee (Committee) and Convocation for information.

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, those used by the Law Society, 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.

In 2023, LAWPRO adopted revised IFRS Accounting Standards, specifically, IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments that were mandatory and effective for annual reporting periods that begin on or after January 1, 2023. As a result, certain comparative information as of December 31, 2022 was restated. The impact of the restatement is set out in the notes to LAWPRO's financial statements.

LAWPRO's President & CEO, Dan Pinnington and their CFO, Krista Franklin, presented the audited financial statements for the year ended December 31, 2023 to the Committee. The financial statements have been approved by LAWPRO's Board.



2023  
ANNUAL REPORT

# TRANSFORMATION



## Our mission:

To be an innovative provider of insurance products and services that enhance the viability and competitive position of the legal profession.

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# ABOUT US

## Primary insurance coverage program

All lawyers in private practice in Ontario purchase primary professional liability insurance with a \$1 million per claim, \$2 million annual aggregate coverage from LAWPRO.

## Affordability

Price fairness is maintained by allocating premiums and levies based on practice area and apportioning higher costs to riskier activities.

## Protecting lawyers and the public

Mandatory insurance coverage for all lawyers from one provider means that every lawyer is guaranteed to be insured with minimum coverages and limits to protect lawyers and the public. In a competitive market environment, insurers would have the right to turn down lawyers resulting in some clients being at risk unfairly and unexpectedly.

## Accountable and regulated

Incorporated by the Law Society of Ontario, in response to the insurance crisis of 1994, LAWPRO operates independently with its own management and board of directors in a commercially viable and responsible manner in accordance with the regulations of the Ontario Insurance Act, the Ontario Corporations Act, and other applicable legislation and regulators.

## Discounts and special coverages

Lawyers have options to lower their insurance costs including:

- New lawyers: 20 – 50% discount
- Part-Time Practice: 50% discount
- Criminal or Immigration law: 50% discount
- Designated Agencies including Civil Society Organizations: 75% discount
- LAWPRO approved pro bono programs: lawyers can remain on Run-off coverage while providing legal services to the public
- Risk Management Credit: Up to \$100 credit applied for completion of approved educational programs



## Excess insurance program

LAWPRO's Excess Insurance offers limits up to \$9 million above the primary policy. Over 1,700 firms representing more than 4,000 lawyers are currently insured with LAWPRO's Excess program. It is designed to meet the needs of small and mediumsized firms of fewer than 50 lawyers.



## TitlePLUS title insurance

Title insurance provides coverage for title-related risks associated with real estate transactions. It is designed to cover issues that a lawyer could have uncovered doing searches (saving homeowners the cost of those searches) as well as the lawyer's own legal services on the transaction and future risks like fraud or encroachments. Title insurance moves the risk associated with title to the title insurer, away from the homebuyer, the lending institution, or the lawyer. This program is built around lawyers being central to real estate transactions and keeping prices and coverages competitive.



## practicePRO program

practicePRO is LAWPRO'S risk management program, developed to help lawyers practise successfully and minimize the risk of claims. Free resources include:

- LAWPRO Magazine: articles about the law, insurance and current hot topics in the legal profession
- Tips and insights into practice issues including real-time warnings on active frauds targeting lawyers
- Precedents, checklists, and videos to help lawyers succeed in their day-to-day business
- Claims fact sheets that describe common scenarios that lead to claims and practical steps that can be taken to lessen the risk of a claim



## MESSAGE from the Chair

LAWPRO takes its responsibility to every Ontario lawyer very seriously. It provides both defense to lawyers and pays claims to set clients right when they experience a loss caused by the negligence of their lawyer. Coverage must be available no matter the area of law, the region of the province or the lawyer's level of experience or expertise. It must be affordable and properly funded in compliance with provincial regulations.

Like any other insurance company, LAWPRO sets premiums without knowing exactly what its claims costs will be in the year ahead and beyond. Even after lawyers have left private practice, their coverage continues indefinitely as Run-off coverage.

Financial stability comes from prudent investing, reasonable forecasting of expenses, controlling operating costs, and carefully managing claims. To achieve these ends, LAWPRO relies on the expertise of its staff, its Board of Directors, professional investment managers, and advisors. In recognition of the Company's financial strength, LAWPRO has again earned an "A (Excellent)" rating by A.M. Best Co, a leading rating agency.

Why is this so important? LAWPRO provides confidence, enabling its insureds to work in an increasingly complicated and changing professional legal environment. Without a solid financial foundation to pay claims – especially a cluster of claims – there would be neither comfort nor certainty in the market. LAWPRO provides both.

In the charts on the following pages, you will see that in 2023 the Company saw 3,272 reported claims – the highest in its history. Beyond inflationary pressures, the number of claims valued at over \$100,000 continues to increase yet, at the same time, the base LAWPRO premium is lower than it was 8 years ago. This is a testament to LAWPRO's careful management.

LAWPRO investments did well in 2023, in large part because of the strong investment market and high interest rates. These results prepare the company to withstand market volatility going forward. As can be seen by the Company's year-end Minimum Capital Test (MCT) result of 240%, LAWPRO continued to meet insurance regulator expectations. The MCT is a tool used to ensure an insurance company's assets are sufficient to meet its present and future obligations. An insurance company's MCT ratio is impacted by the insurance risk, market risk, credit risk, and operational risk to which it is exposed.

I am proud to be a part of LAWPRO - its complexity and scope is larger than any other Canadian program - it has more insureds and responds to more claims than any other province. I want to thank the LAWPRO team for their continued hard work and excellent results.

*Andrew J. Spurgeon*

Andrew J. Spurgeon  
Chair



## MESSAGE from the CEO

**When is it time to take on a corporate transformation?** It is never convenient or easy to dismantle and rebuild a system that was carefully constructed to meet the needs of a past era. But, if left too long, processes can become less efficient and fail to meet the needs of changing times. When one can see that technology has become too old to fix, people no longer feel procedures are relevant and effective, and the concerns of the company don't fit the wants and needs of the customer, the time for change has arrived.

In July of 2023, you may have noticed the launch of our new online My LAWPRO portal. This portal is a façade to a huge number of changes behind the scenes – some of which are already in use and others are still being constructed. We have moved our policy administration and claims management systems to a modern cloud-based platform.

Our goal for this technological transformation is to improve the customer experience, increase efficiency for employees, and stay on top of security requirements. 2023 saw the beginning of these changes, and in 2024 we will continue this journey of transformation.

While much of our focus for 2023 was on implementing our new platform, LAWPRO continued to offer the insurance coverage and program we are known for to a growing number of lawyers in private practice in Ontario.

Mandatory insurance coverage for all lawyers from one provider means that every lawyer is guaranteed access to affordable coverage, thereby protecting both lawyers and the public. It's a system where no one is left out and lawyers can depend on a viable insurance program to support them when things go wrong. This is not the case in many other countries. In some instances, lawyers outside Ontario find they aren't eligible for coverage due to strict underwriting requirements, or it is simply too expensive for smaller firms to acquire the insurance they need. In some places, there is no protection for the public because E&O insurance is not required at all.

In the 29 years since LAWPRO's creation by The Law Society in 1995, LAWPRO has:

- Expended funds on claims against over 22,000 different individual lawyers.
- Paid for defense and/or indemnity on 61,992 different claims; and
- Spent approximately \$1.57 billion in defending and indemnifying those claims.

Claims Counsel at LAWPRO are empathetic and, where possible, make every effort to repair an issue before it becomes a claim. This means money saved, lower pressure on premiums, and less stress for the insured lawyer.

The team at LAWPRO is not only helpful after a potential claim arises, but they also work hard to help lawyers avoid and prevent mistakes in the first place. LAWPRO's practicePRO initiative offers free Continuing Professional Development sessions that provide practical skills to help lawyers avoid claims. Many of our virtual sessions have over 1,000 participants and we presented risk management content at events and law firms over 100 times last year. Our tools and checklists are another free resource offered to insureds to help them succeed. There were 114,000 downloads from the practicepro.ca website in 2023 and over 150 calls for help.

These are but a few examples of how LAWPRO provides value to Ontario lawyers – in private practice or not – as part of its mandate of insurance coverage for all.

*Daniel E. Pinnington*

Daniel E. Pinnington  
President & CEO

# TRANSFORMATION

## Evolving to meet tomorrow's challenges

The world has gone through many changes in the past few years. From COVID, to inflationary pressures; from remote workplaces, to the rise of generative AI; revolutionary change happens seemingly overnight. In 2023, LAWPRO took steps towards building the tools, systems, and data we will use to meet these revolutionary changes in our world.

Last year, our biggest step involved migrating to a new cloud-based policy administration and claims management platform, along with a refreshed My LAWPRO portal. This a new platform that will allow improved customer support, file management, and data analysis. This changeover was years in the making and its impact cannot be understated. While some elements of the changeover continue, we are pleased that the first stage of this substantial task was successfully completed in 2023—thanks not only to the superlative efforts of LAWPRO staff, but also the patience and understanding of our insureds during this changeover.

But software upgrades were far from the only evolutions we saw in 2023. From new threats of fraud, new trends in claims data, new Financial Reporting Standards (IFRS 17), and new court processes, LAWPRO was at the forefront of change with a view to the future.

## Protecting insureds from a growing number of E&O claims

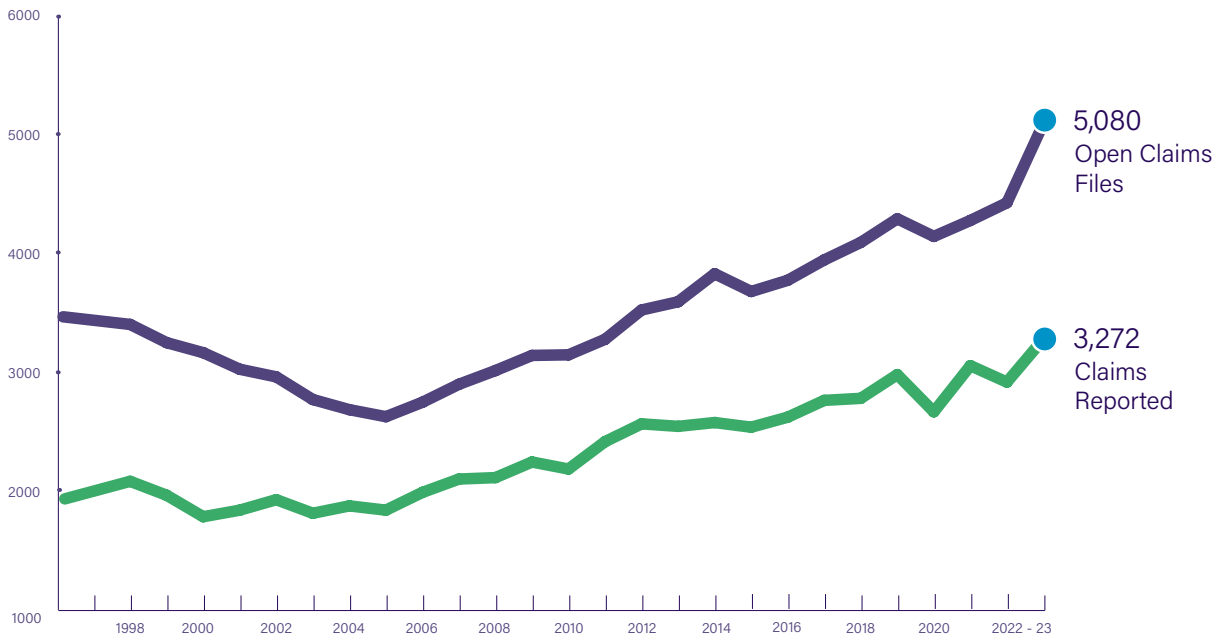
LAWPRO saw 3,272 claims in 2023, a dramatic increase from the 2,910 claims seen in 2022 and a new high, surpassing the 3,048 claims in 2021 and the pre-pandemic high of 2,973 claims we saw in 2019. It appears that the see-saw nature of claims numbers over the past three years has been in response to pandemic-related closures and consequent reopening of both businesses and courts. Regardless, it's clear that any short-term drop in claims last year was transitive, and we must prepare for a growing number of claims in the future.

To go with this increase in claims, the total cost of the 2023 professional liability program increased by approximately 10% in 2023. This was partially due to an increase in the rates paid to outside claims counsel to meet inflationary pressures. However, even accounting for these rate increases, indemnity payments are still on the rise.

Notably, the number of high-value claims (in the \$750,001 to \$1 million range) was substantially higher last year. There was a 92% increase in the cost of large file settlements in 2023 compared with 2022 (\$11.6 million in settlements compared to \$6.1 million in 2022), and an 86% increase in the *number* of settlements, with 13 large file settlements in 2023, compared with 7 in 2022.

# Number of claims reported and open claims

Total number of open claims at Dec. 31, 2023

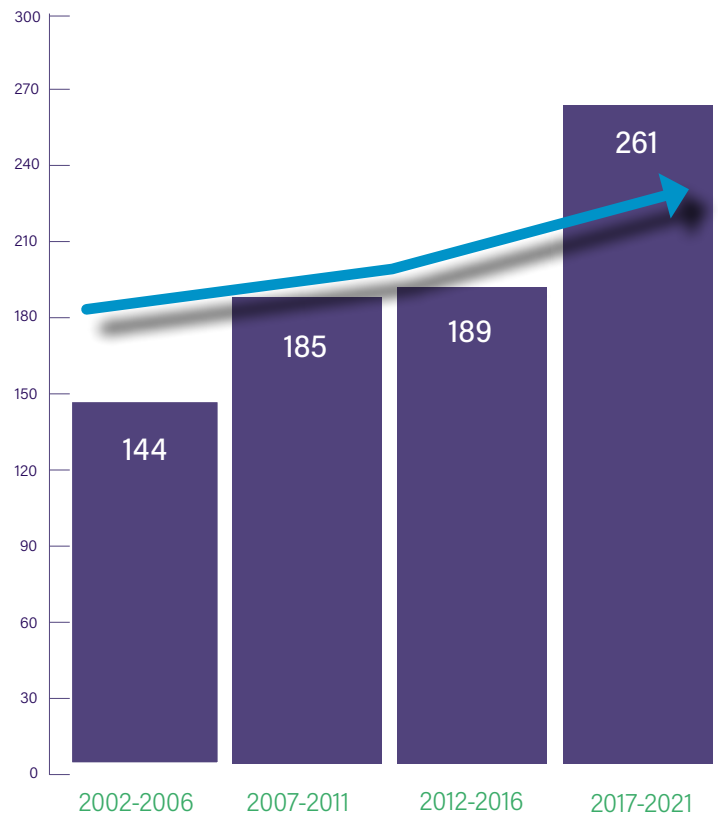


LAWPRO's response to this increase is threefold: First, LAWPRO has hired additional claims counsel to respond to these new claims in a timely and effective manner. Second, LAWPRO is taking steps to reduce the number of incoming claims. LAWPRO does this through coordinated strategies to educate the profession on current claims trends and threats such as fraud. Although fraud is not the highest frequency claim, it is one of the costliest areas of claims. The best defence is always avoiding a potential claim from the beginning.

Third, LAWPRO has updated the primary policy to respond to the increasing risk of fraud by way of social engineering. In general terms, social engineering is a fraud that is perpetrated by deceiving a target into revealing information or taking action for illegitimate reasons. It is often associated with phishing or email impersonation and can lead to incorrectly wiring funds or transferring property.

## Average number of claims

with a value greater than \$100,000



Beginning in 2024, Ontario lawyers must take steps to protect their firm and their clients from Social Engineering to maintain a \$1 million limit for these claims. These steps include establishing instructions for the transfer of funds at the outset of the retainer and confirming any changes to these instructions by telephone call or in-person. For more information, please see our [Social Engineering Toolkit](#).

These policy changes targeting Social Engineering are intended to both inform the profession of the risks they face, as well as encourage behaviour to help avoid these frauds from being perpetuated.

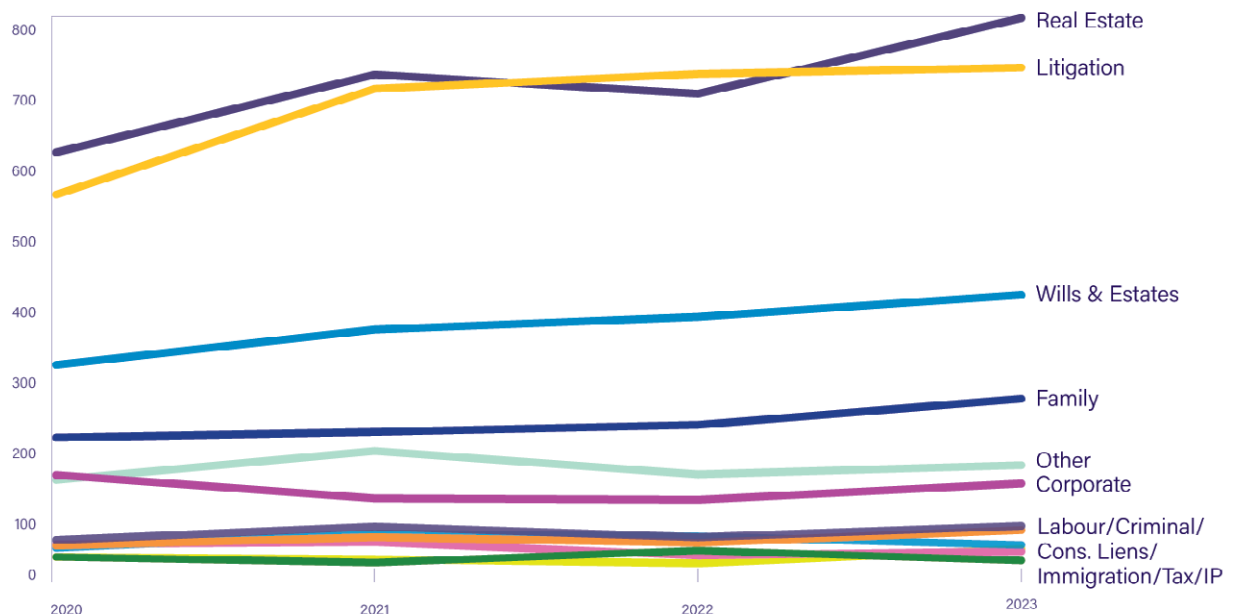
## Analyzing data on the causes of claims and where they occur

To stay abreast of current trends and to best inform the profession of malpractice threats, LAWPRO is always keeping an eye on claims statistics. By tracking changes over time, LAWPRO can respond to macro-trends and provide relevant claims prevention assistance to the profession.

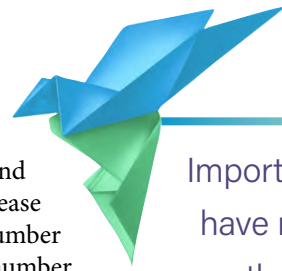
In 2023, the largest percentage of reported claims continued to be related to real estate (28%) and litigation (26%). With respect to litigation, this reflects a decrease in the proportion of total claims (from 29% in 2022). However, this is due to the total number of litigation claims remaining stable year-over-year (to 729 from 719), while the total number of claims increased.

In contrast, real estate claims notably increased in 2023, to 799 from 693. While this increase in real estate claims was partially due to an increase in fraud—targeting lawyers and their clients—it is primarily a consequence of an increasingly active real estate market.

### Distribution of claims by area of law







We also continue to see an increasing number of claims in wills and estates claims. 407 such claims were reported in 2023, an 8% increase from 2022. With an aging population comes an increase in the number of large estates, and as the number of large estates increases, the number of potentially litigious beneficiaries also increases. LAWPRO will continue to keep an eye on this area of law in the years to come.

Importantly, the courts have now announced that administrative dismissals will resume in May 2024. As such, we expect time management related claims to increase over the coming months, potentially reverting to pre-pandemic trend levels.

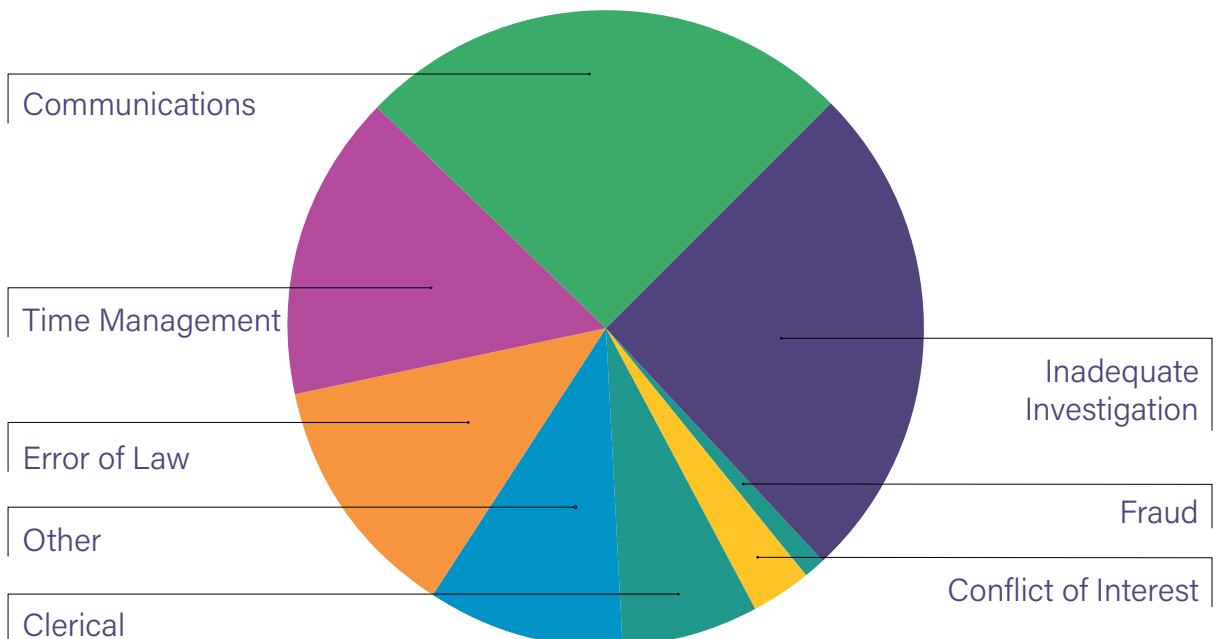
## Causes of loss

The investigation of claims can take up to a year or more after an initial report. For this reason, LAWPRO is cautious when interpreting short term fluctuations in the cause of loss data.

As in recent years, inadequate investigation, communication errors and time management mistakes caused the most claims. However, four years ago, in 2020, we saw a sharp decrease in the number of claims caused by time management and communication-related errors. This was largely due to changes brought on by the pandemic, such as the tolling of limitation periods reducing the quantity of claims brought on by missed limitation periods. The reduction in communication and time management claims in 2020 and 2021 was such that “inadequate investigation” briefly became the most common cause of claims. Inadequate investigation claims typically relate to lawyers who have not uncovered all the facts or developed a sufficient understanding of a client’s matter.

In 2023, time management claims continued to be depressed compared with pre-pandemic levels. One potential explanation for the reduced number of time management claims is the continuing pause on administrative dismissals the courts continued through 2023 (where courts will dismiss cases that haven’t been set down for trial 5 years after commencement). Importantly, the courts have now announced that administrative dismissals will resume in May 2024. As such, we expect time management related claims to increase over the coming year, potentially reverting to pre-pandemic trend levels.

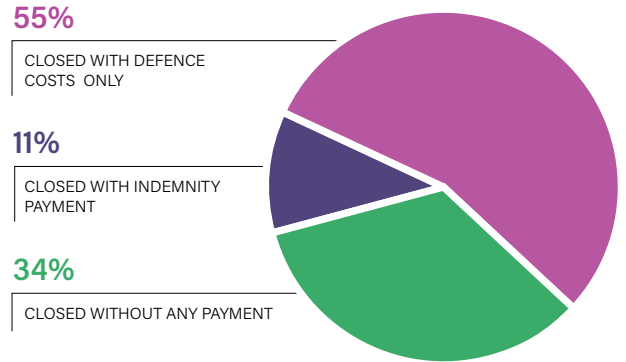
## Reported claims count by cause of loss



# Closing claims and giving insureds peace of mind

As a policy, LAWPRO does not pursue economic settlements and will defend insureds vigorously from false or frivolous claims. In 2023, 89% of claims files that came in were closed without any indemnity payments, whether by settlement or judgment. In fact, 34% of claims were closed without payment of any kind.

## Claims by outcome



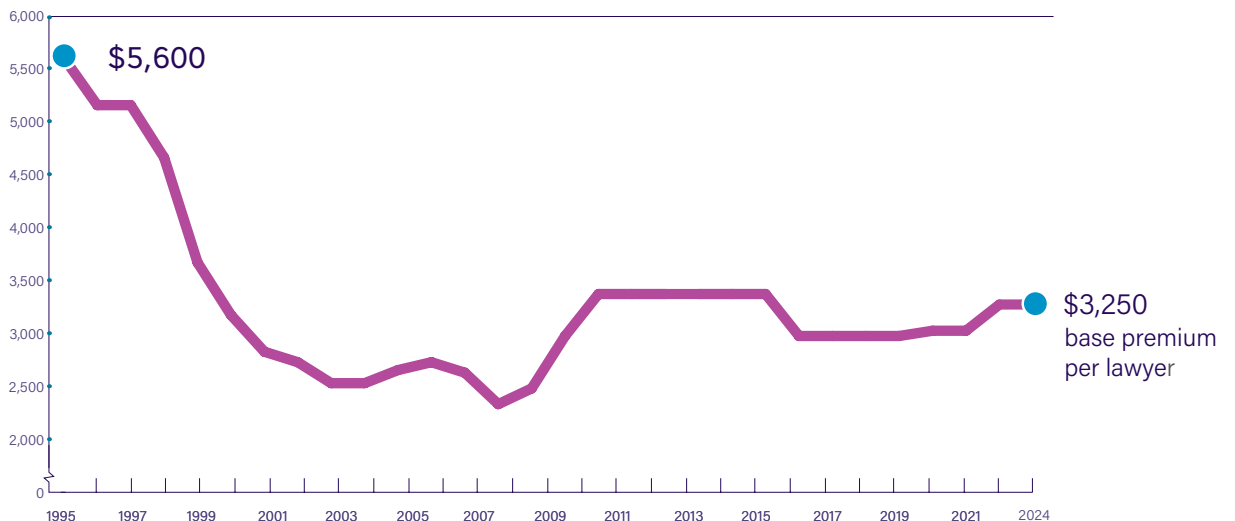
# Covering more lawyers than ever before

Under the primary E&O program, LAWPRO insured over 31,000 people in 2023. Every year, the number of Ontario lawyers grows. As the number of lawyers grows, the number of claims grows. As the number of claims grows, LAWPRO must evolve and adjust to meet this challenge.

For the 2023 year, the base premium was increased to \$3,250. This premium remains the same for 2024.

This premium level allowed LAWPRO to respond to inflationary pressures. Despite this increase, the annual LAWPRO premium paid by most Ontario lawyers is lower today than it was in the past – something you won't find with just about any other type of insurance. In fact, as recently as 2016, the base LAWPRO premium was \$3,350 – \$100 more than today.

## Base premium since inception





# Offering discounts to meet your needs

One of the hallmarks of the LAWPRO E&O program is its flexibility. Lawyers have several options to tailor their insurance coverage to their specific needs – often with the added benefit of reducing the actual premium payable below the base premium level. The number of lawyers availing themselves of these options continues to increase.

For new or retiring lawyers, LAWPRO offers reduced premiums to address their reduced risk profiles. New lawyers see fewer claims than those with more experience, which may be partly due to having less responsibility over various files than their senior colleagues. LAWPRO responds to the reduced risk inherent in new lawyers by providing premium discounts to those with less than four years of practice. This discount ranges from 50% of base premium (for lawyers with less than one full year in practice) to 20% of base premium (for lawyers with between three and four years in practice).

For lawyers that are retiring or leaving private practice and provide notice of such, LAWPRO offers run-off coverage of \$250,000 per claim and in the aggregate, at no charge. Additional coverage options are available for lawyers who need more protection beyond that amount.

## Did You Know?

If the base premium charged when LAWPRO was created were to be adjusted for inflation today, it would be \$10,157.40. In other words, today's premium of \$3,250 (adjusted for inflation) is approximately 68% less than what it was in 1995.

<p><b>New Lawyer Discount</b> 20% to 50% discount for those called in the last 1-4 years</p>	<p><b>7,000 insureds</b></p>	<p><b>Risk Management Credit</b></p> <p>To encourage participation in CPD programs that include risk management content, LAWPRO offers a \$50 premium credit (to a maximum of \$100) for each qualifying program taken</p> <p>6,673 insured and 12,000 credits</p>
<p><b>Part-Time Practice Discount</b> 50% base premium discount for eligible lawyers</p>	<p><b>2,400 insureds</b></p>	
<p><b>Criminal or Immigration Practice</b> 50% base premium discount</p>	<p><b>1,800 insureds</b></p>	



## Excess insurance

Since it was established in 1997, LAWPRO's optional Excess insurance program has posted consistent annual growth in revenues and numbers of law firms (and lawyers) insured under the program. Over 1,700 firms receive their excess insurance from LAWPRO.

With consistent year-over-year growth, and a retention rate on excess business of over 90%, the program is shown to meet the needs of the small and medium-sized firms that it is designed to serve.

In fact, LAWPRO's Excess program insures almost 20% of lawyers employed in firms of 50 or fewer lawyers. Prudent underwriting and solid claims management have helped ensure that the Excess program is a successful line of business for LAWPRO.



## Title insurance

The TitlePLUS product and service was completely reengineered in 2021 with new features, policy wording, pricing structure, and website. Since then, TitlePLUS has continued to adapt to the changing real estate market in Ontario. Policies such as existing home coverage help address the growing risks associated with fraud for home owners.

The new platform was developed based on feedback from legal professionals and was built to address their need for fast, convenient title insurance without sacrificing comprehensive coverage.

TitlePLUS title insurance is the only wholly Canadian-owned title insurance product in Canada. It is underwritten by LAWPRO and protects not only Canadian homeowners and lenders, but also lawyers through included legal services coverage that covers errors and omissions made by the lawyer for the entire transaction, excluding properties in Quebec and Existing Owner policies.



## Working for you – Our Customer Service department

For years, the annual volume of correspondence received by the Underwriting & Customer Service department has been in the range of 20,000 to 25,000 pieces. But in the past two years this has increased to almost 30,000.

Consisting of approximately 25 team members, the department is responsible for maintaining accurate records for all insureds, policy drafting, program guides, forms, underwriting optional coverages, processing filings; and answering questions from licensees.

LAWPRO's Underwriting & Customer Service department is the point of contact for licensees seeking to renew, change or inquire about their insurance options. A new account is established soon after a lawyer is called to the Ontario bar, and existing accounts are adjusted as lawyers move their practice or move out of private practice entirely.

Correspondence received by the department is more than just coverage questions. It includes applications such as increased run-off, new applications for primary coverage, Excess applications, increased innocent party limits, exemption forms, notices about lawyers leaving and joining firms, refund requests, and many others.

LAWPRO addressed this increase in volume through the continued refinement of a cloud-based virtual call system and automated queue callbacks to better respond to customer inquiries in effective, convenient, and expedient ways. All of this was done while migrating to a new cloud-based policy administration and claims management platform. As these new tools come into place, our Customer Service department looks forward to providing more timely responses to customer inquiries and needs.

# REPAIRS



When LAWPRO is quickly alerted to potential claims, we can often rectify the problem, and prevent loss and further lawsuits from arising. Our counsel know how to best address issues such as withdrawing admissions, rectification of trusts, extending the time to set a matter down for trial, and other repairable matters.

[HERE ARE A FEW EXAMPLES OF CASES WHERE LAWPRO SUCCESSFULLY REPAIRED POTENTIAL LOSSES IN 2023.](#)

## Withdrawing admissions and amendment of pleadings

When is an admission not an admission? Or rather, when is an alleged withdrawal of an admission merely a clarification of a position? The difference can mean success or failure in a motion to amend pleadings.

In this case, the Plaintiff sought payment of both short term and long term disability payments from the Defendant Insurance Company, pursuant to a group insurance policy.

The Defendant Insurance Company denied liability, alleging, first, that the short term disability payments were solely the responsibility of the Plaintiff's employer, and second, that the Plaintiff was not disabled to the extent required for payment of long term disability payments.

The Defendant Insurance Company further alleged that the Plaintiff had failed to submit an application for benefits and proof of claim within the time period for doing so under the policy. Since that period had expired, the Plaintiff could no longer assert their claim.

A key point at issue was a line in the Plaintiff's pleadings that read "[the Plaintiff] did not submit an application for LTD benefits... pending resolutions of [their] STD benefit with [their] employer."

In February 2022, the Plaintiff moved to amend their Pleadings to clarify that the Defendant Insurance company was put on notice that the Plaintiff was seeking both short term and long term benefits, and this notice was provided within the required time period.

Unfortunately, the motion judge dismissed the Plaintiff's motion on the grounds that the Plaintiff was seeking to withdraw an admission and assert a new cause of action that was statute barred. The Plaintiff appealed this decision.

LAWPRO assisted the Plaintiff in successfully arguing on appeal that the motion judge erred in concluding the amendments sought to withdraw an admission.

The appeal court agreed that the Plaintiff's original pleadings admitted the Defendant Insurance Company's factual allegation that the Plaintiff did not submit an application for long term benefits. However, the original pleadings did not admit the Defendant's position that this fact had fatal consequences to the Plaintiff's claim. The proposed amendments merely confirmed and clarified the Plaintiff's original position that notice was given despite a formal application for benefits.

Therefore, the proposed amendments did not attempt to withdraw an admission, the motion judge should have allowed them to occur, and the appeal was allowed.

## Drafting errors and rectification of trust deeds

Despite lawyers' best efforts, drafting errors will inevitably occur. Sometimes, these errors don't just create ambiguity in a contract or trust, but may seem to undermine the entire purpose of the trust.

In this case, the Applicants had formulated a family trust for the purpose of receiving dividends from a family operating company and distributing said proceeds to a Corporate Beneficiary holding company. In order to avoid application of the "Attribution Rule" (s. 75(2) of the Income Tax Act), the trust was drafted with the intention that the Corporate Beneficiary would not be entitled to any income or capital that was derived from itself.

Unfortunately, the trust deed contained a drafting error, whereby the Corporate Beneficiary was, in fact, barred from receiving any income or capital derived from itself as well as the family operating company. This was in direct contravention to the purpose of the trust.

This error was not discovered until many years later, when the CRA reassessed the trust on the basis that the trust deeds prohibited distribution of dividends received from the family operating company to the Corporate Beneficiary.

Although the CRA did not oppose rectification of the trust documents to comply with their original intent, the CRA required a court order to avoid negative tax consequences.

The Applicants therefore sought a rectification order from the courts, correcting the drafting error.

LAWPRO successfully assisted the Applicants in obtaining a court order for rectification. The court agreed that, while rectification will not be granted to implement retroactive tax planning or to avoid unintended negative tax consequences, rectification is appropriate when correcting documents that erroneously fail to accurately record the original agreement.

In this case, the evidence was clear that the parties originally agreed to allow the Corporate Beneficiary to receive dividends from the family operating company. As such, rectification was an appropriate remedy.

## A series of unfortunate errors: Avoiding administrative dismissals

Bad things come in threes—including, it seems, inadvertent errors by a lawyer.

In this case, a negligence action regarding the assessment and remediation of property contamination was issued in February 2017, with the statement of defence and a crossclaim delivered in September 2017.

After the delivery of pleadings, Plaintiff's counsel proceeded to retain an environmental consultant to review and discuss materials necessary to proceed with the claim and prepare documents. Plaintiff's counsel also began retaining and preparing experts with respect to the claim in early 2018. Document collection and preparation of experts continued through 2020, when the COVID pandemic delayed preparation for some time.

As the claim was originally filed in 2017 the deadline for setting a trial date, and thereby avoiding an administrative dismissal, was mid-September 2022 (incorporating the tolling of limitation periods in 2020 due to the pandemic). Unfortunately, Plaintiff's counsel inadvertently set their calendar reminder for the 5-year administrative dismissal deadline for September 2023—one year late.

Plaintiff's counsel realized this error on March 7, 2022. At that time, Plaintiff's counsel attempted to email opposing counsel to discuss a timeline to proceed expeditiously, compile affidavits, and finalize expert reports. Unfortunately, Plaintiff's counsel erroneously sent these communications to the wrong email address.

On July 20, Plaintiff's counsel discovered and rectified the erroneous email address and sought Defence counsel's consent to a timetable order. A few weeks later, on August 7, Plaintiff's counsel served the Plaintiff's motion record seeking a timetable order by motion hearing. Shortly after that, on August 12, Defence counsel informed Plaintiff's counsel that the Defence would oppose the Plaintiff's motion for a timetable to continue the action.

Unfortunately, an inadvertent error struck again as Plaintiff's counsel was informed on September 6 that the Plaintiff's motion record was not filed due to a technical issue with the forms. At that time, Plaintiff's counsel reported the matter to LAWPRO, which assumed carriage of the motion.

LAWPRO's counsel then requisitioned a motion date before an associate justice to extend the time to set the action down for trial and set a timetable for completion of the remaining steps.

LAWPRO assisted the Plaintiff's counsel in extending the deadline for setting a trial date. The court agreed that the Plaintiff provided an acceptable explanation for the delay. Steps had been taken throughout the previous five years to advance the claim, and Plaintiff's failure to set a date for trial, or schedule a hearing to extend the time period before the deadline, was due to inadvertent errors on the part of counsel.

Since the Defendant would not suffer any non-compensable prejudice by extending the time, the motion was granted.

## The continuing story of the rule in Handley and Aecon

In this case, the Plaintiff construction company was retained to do work on four properties owned by three related Defendants. With one of the Defendants ("Defendant One"), the Plaintiff held a joint venture agreement granting the Plaintiff an interest in one of the properties in exchange for financing.

The Plaintiff later alleged non-payment and breach of trust for work done on the various properties. The Plaintiff then registered liens and had statements of claim issued for three of the properties in 2020.

In late 2021, the Plaintiff was paid the full amounts owing on one of the projects by Defendant One. Shortly thereafter, the Plaintiff agreed to discharge the lien on one of the properties so that Defendant One could sell it to an arm's-length purchaser.

The Remaining Defendants (other than Defendant One) then brought a motion to dismiss the action as an abuse of process. The Remaining Defendants alleged that the Plaintiff and Defendant One had entered into at least six agreements that entirely altered the litigation landscape and were not immediately disclosed. This was alleged to be in breach of the rule in Handley and other similar cases.

The Plaintiff took the position that the alleged "agreements" between the Plaintiff and Defendant One did not "entirely alter the litigation landscape" as contemplated by the rule, and therefore were not grounds for dismissal regardless of any lack of disclosure.

LAWPRO assisted the Plaintiff in successfully opposing the motion for dismissal. Of the "six agreements" that allegedly should have been immediately disclosed, one (the joint venture agreement) pre-dated the litigation and therefore could not be seen as altering the landscape.

Of the remaining agreements, the court accepted that the "landscape of the litigation" was not entirely altered and was instead only minimally altered. A portion of the claim was resolved as between the Plaintiff and Defendant One; however, there was no evidence that Defendant One had otherwise altered its position and was now co-operating with the Plaintiff.

The motion was therefore dismissed.



## Where to sign? Obtaining declarations that a will is valid

This matter involved an unopposed application for a declaration and order that a will met the formalities of execution set out in the Succession Law Form Act.

The testator signed their will in May 2020. The testator's lawyer arranged to have the will delivered to the testator along with written instructions on how it should be signed and witnessed.

The will was then signed by the testator in the presence of two neighbours. The neighbours then initialed or signed every page of the will themselves, except the last page. The will was then returned to the testator's lawyer.

After the testator's death, their lawyer realized that the neighbours failed to sign the final page of the will. The estate then sought a declaration that the will was valid, despite this lack of witness signatures on the final page.

LAWPRO assisted the estate in obtaining an order that the will was formally valid. The court agreed that the provisions of the Succession Law Reform Act do not require the witnesses to sign or initial every page and does not specifically require a signature on the final page of the will, so long as the witnesses otherwise "subscribe" the will in the presence of the testator.

The signatures and initials of the witnesses on all but the final page met this requirement, and the order was therefore granted.



### Small fixes now prevent big problems later

Immediately notifying LAWPRO of potential errors or omissions means steps can be taken to resolve the situation before it develops into a malpractice claim. If you make an error or believe you could be accused of making an error down the road, don't try to resolve the problem on your own. A call to LAWPRO means we can provide expedient and experienced advice and assistance.

# DEFENDING

## lawyers in court

Despite any attempts to resolve claims without litigation, sometimes court is inevitable. Every year, LAWPRO steps in to defend licensees from unwarranted lawsuits and accusations.

BELOW ARE A FEW EXAMPLES OF DEFENCES SUCCESSFULLY ADVANCED BY LAWPRO IN 2023 ON BEHALF OF INSUREDS.

### Sale of business and contract dispute – Alleged failure to flag contractual ambiguity

When selling a business, the negotiation of key terms will often be done with the direct involvement of lawyers on both sides of the transaction. However, some business owners take it upon themselves to not only lead, review, and approve key elements in principle, but propose and negotiate the language used in documents. When those key elements include language that will govern the valuation of the business, the lawyer may be left out of the loop.

In this case, the Plaintiff was a successful business owner that was also qualified as a chartered professional accountant and had substantial experience in the business world. The Plaintiff was selling the business to retire and had found a willing purchaser.

While the Plaintiff's lawyer had been made aware of the plan to sell the business, the Plaintiff had taken it upon themselves to conduct the negotiations themselves. These negotiations took place over many weeks and multiple draft agreements. A key point of contention was the method of valuation of the business.

Only near the end of negotiations did the Plaintiff send draft language to their lawyer for review. The lawyer suggested that the Plaintiff should ensure they understood the definitions used throughout the contract, particularly with respect to the valuation provisions. The lawyer advised the Plaintiff to consult an accountant to ensure there was no misunderstanding.

The Plaintiff did not, in fact, consult an accountant, and did not inform their lawyer that they were not planning to do so. The agreement was signed, and subsequently a dispute arose over the interpretation of the valuation provisions. Specifically, two provisions of the contract appeared to be in conflict.

The parties took the dispute to arbitration, and the arbitrator found in favor of the purchaser's interpretation of the agreement, a conclusion that reduced the purchase price by approximately \$1 million. The Plaintiff thereafter sued their lawyer for negligent legal advice with respect to the contract.

LAWRO successfully assisted the Lawyer in rebutting the Plaintiff's allegations of negligent legal advice. The Lawyer had not negotiated the agreement, and when presented with the draft agreement for review, had advised the Plaintiff to consult an accountant regarding the very provisions that were later disputed. The lawyer had reasonably satisfied their duties to their client and the Plaintiff's misunderstanding with respect to the valuation provisions was of their own doing.

## Employment law – Alleged failure to advise client about tax implications of termination provisions

Tax advice should be left to the experts. Unfortunately, most complex transactions have even more complex tax implications, requiring the application of such expertise. Generally, if a lawyer is not retained to give tax advice, and the lawyer is not confident in their abilities to give such advice, the client should be advised to speak with a tax lawyer or accountant regarding the tax implications of any course of action. This advice should be properly documented and retained in the lawyer's file.

In this case, the Plaintiff had previously obtained a demand loan from their employer in 2012 in the amount of \$125,000. In 2016, the Plaintiff was terminated from their position with the employer. As part of the termination, the employer agreed to forgive the loan in exchange for the Plaintiff's acceptance of a Release and Indemnity Agreement regarding the termination.

The Plaintiff met with their lawyer ("Defendant Lawyer") regarding the termination and Release and Indemnity Agreement. The Defendant Lawyer practiced in multiple areas, including some wrongful dismissals, but did not practice tax law.

Unfortunately, no written retainer was created, and the Defendant Lawyer did not take contemporaneous notes regarding the meeting with the Plaintiff. The Defendant Lawyer recalled that they informed the Plaintiff that the forgiveness of the Demand Loan was a taxable benefit. The Plaintiff acknowledged this and, according to the Defendant Lawyer, was primarily concerned with whether they could be obligated to repay the demand loan in the future.

In 2017, the Plaintiff was assessed by the CRA for approximately \$70,000 in unpaid taxes flowing from the debt forgiveness. The Plaintiff then sued the Defendant Lawyer for negligent tax advice, claiming that they would not have accepted the Release and Indemnity Agreement if they had known of the tax consequences.

According to the Plaintiff, they had met with the Defendant Lawyer to seek advice specifically pertaining to the agreement's tax implications, and the Defendant Lawyer had failed to properly explain those implications to the Plaintiff.

LAWPRO successfully assisted the Defendant Lawyer in contesting the Plaintiff's account of their meeting. While documentary evidence is always of benefit when defending malpractice claims, in this case, the Plaintiff's evasive responses to questions and illogical narrative led the court to accept the Defendant Lawyer's version of events. The court consequently found that the Defendant Lawyer met their duties by properly answering the client's questions regarding the enforceability of the debt forgiveness and alerting the client to the potential tax implications.

## Real estate law – Alleged improper registration of caution on property

It is well established that lawyers have a duty of care toward their client. Their professional obligations towards third parties, or the opposing side in a dispute, are less obvious. Nevertheless, LAWPRO invariably sees claims brought by non-clients alleging that a lawyer's professional actions wronged them in some way.

In this case, the Plaintiff was the mortgagee of a property. The mortgagee obtained judgment against the owner and took possession of the mortgaged property. The Plaintiff then attempted to sell the property.

Before the Plaintiff's sale could close, the lawyer of another interested part ("Defendant Lawyer") registered a caution on the property on behalf of their client. The Plaintiff's sale of the property then failed to close, which the Plaintiff attributed to the registration of the caution.

The Plaintiff then sued the Defendant Lawyer for losses arising out of the registration of the caution and subsequent failure of the Agreement of Purchase and Sale to close. The Plaintiff alleged that the Defendant Lawyer's actions constituted professional negligence, and, further, that they were liable under section 132 of the *Land Titles Act*, which reads:

"A person who registers a caution without reasonable cause is liable to make to any person who may sustain damage by its registration such compensation as is just, and the compensation shall be deemed to be a debt due from the person who has registered the caution to the person who has sustained damage."

The Plaintiff alleged that the Defendant Lawyer constituted a "person" as described under s. 132, notwithstanding the fact that the sought legal advice from their lawyer ("Defendant Lawyer") was registering a caution on behalf of their client.

LAWPRO successfully assisted the Defendant Lawyer in defending the claim as pleaded. The court found that "person," as used in s. 132, could only refer to the person who asserts for themselves a right or interest in land. Since the Defendant Lawyer was not asserting any right or interest for themselves, but was instead acting on behalf of their client, it was plain and obvious that they could not be held liable under s. 132 of the LTA.

With respect to the claim in negligence, the court agreed with the Defendant Lawyer that the claim as drafted disclosed no cause of action, as the Defendant Lawyer was not acting as the Plaintiff's lawyer at any time. The court granted leave to amend the pleadings to clarify the claim in tort, but otherwise dismissed the claim as disclosing no cause of action.

## Criminal law – allegations of ineffective assistance of counsel

In this case, the Criminal Defendant pleaded guilty to possession of a controlled substance and the proceeds of crime. They were sentenced to two years in custody in addition to the 228 days they had already spent in pre-trial custody.

After serving two months of their sentence, the Criminal Defendant obtained new counsel and appealed the conviction on the grounds that their guilty plea was involuntary, and they received ineffective assistance from their Trial Lawyer.

Specifically, the Criminal Defendant asserted that they were under the erroneous understanding that their guilty plea was dependent on a sentencing agreement with the Crown that provided for a sentence of two years including the time already spent in pre-trial custody. The Criminal Defendant's sentence, in fact, provided for two years in addition to time spent in pre-trial custody.

The Trial Lawyer informed LAWPRO of the potential malpractice claim flowing from the appeal and assertion of ineffective assistance of counsel.

LAWPRO successfully assisted the Trial Lawyer through the Criminal Defendant's appeal. The Trial Lawyer had maintained records of their interactions with the Criminal Defendant, which noted that the Criminal Defendant had been informed of the Crown's position of two years in addition to time served. Furthermore, the sentencing judge had conducted a plea inquiry, where the Criminal Defendant had confirmed their voluntary guilty plea and their understanding of the consequences of such.

The appeal court therefore dismissed the Criminal Defendant's appeal, and there was no remaining potential claim against the Trial Lawyer.

# Civil procedure and contempt of court - Negligence claims dismissed as collateral attacks

When things go wrong, it's often easy to blame the lawyer—even when the client is themselves a lawyer. But asserting malpractice by a lawyer generally cannot be used as a vehicle to attack an underlying judgment or order that didn't go the client's way.

In this case, the Plaintiff Lawyer was representing a client in a separate cause of action, wherein the Plaintiff Lawyer had received a production order for documentary evidence. Specifically, 14 boxes of documentary evidence allegedly relevant to the ongoing dispute. After receiving this court order for production of documents, the Plaintiff Lawyer contacted their client and offered to return the 14 boxes of documents so long as their outstanding fees were immediately paid.

The Plaintiff Lawyer's bill was paid, and the 14 boxes were delivered to the client rather than the opposing side in the underlying dispute. Subsequently, the client delivered only 5 of said 14 boxes pursuant to the production order.

The opposing side asserted that the conduct of the Plaintiff Lawyer and the Plaintiff Lawyer's client amounted to contempt of court and an attempt to hide prejudicial evidence from the opposing party. The Plaintiff Lawyer sought legal advice from their lawyer ("Defendant Lawyer") with respect to the resulting contempt hearing.

Following the contempt hearing, the Plaintiff Lawyer discovered that an Exhibit was missing from the materials provided in their defence. The Defendant Lawyer wrote to the opposing counsel to inform them of this oversight and bring it to the court's attention. However, at the same time, the court rendered its decision against the Plaintiff Lawyer, finding them in contempt.

The Plaintiff Lawyer unsuccessfully attempted to appeal the contempt finding with the Defendant Lawyer continuing to represent the Plaintiff Lawyer on appeal. After said appeals also failed, the Plaintiff Lawyer surrendered to serve a custodial sentence as punishment for the contempt.

After serving this sentence, the Plaintiff Lawyer sued the Defendant Lawyer for negligent legal representation, asserting that the Defendant Lawyer's failure to notice the missing exhibit during the contempt hearing led to the finding of contempt.

LAWPRO successfully assisted the Defendant Lawyer in showing that the Plaintiff Lawyer's claim of negligence was, in fact, a collateral attack on the original finding of contempt. Since the Plaintiff Lawyer had not raised ineffective assistance of counsel as grounds for the appeals of the contempt finding, a subsequent malpractice lawsuit on those grounds constituted an abuse of process. The Plaintiff Lawyer was, in fact, attempting to relitigate the contempt finding with additional evidence. The action was therefore dismissed.



## Lawyers for lawyers

A malpractice claim doesn't necessarily mean a lawyer made a mistake, but a defence still needs to be raised. LAWPRO provides effective assistance and prides itself on defending licensees.

# Building our community

Corporate Social Responsibility at LAWPRO is informed by a spirit of community and accountability, while acknowledging that we are governed and profoundly shaped by our unique role as the provider of the primary professional liability insurance program for lawyers in Ontario.

## Supporting our future legal community

LAWPRO's efforts and activities to support law students included 12 presentations at law schools, LPP programs and colleges.

In its twelfth year, LAWPRO's sponsorship of the annual award of the Caron Wishart Memorial Scholarship went to University of Toronto Faculty of Law student Alexander Jia-Hao Tj Macfarlane. The Caron Wishart Memorial Scholarship was created in memory of Caron Wishart, LAWPRO's first Vice President, Claims who passed away in 2010.

The fully endowed scholarship, managed by the University of Toronto, was funded by donations from LAWPRO, Caron's family members, and members and organizations of the legal profession.

In 2023, LAWPRO held a Women's Networking event and an Early Career Mentorship event to develop relationships and build community with new and established counsel. Both events received great feedback from attendees who enjoyed connecting in person.

## Providing a healthy and rewarding workplace



In furtherance of LAWPRO's commitment to advancing mental health awareness, LAWPRO provided approximately one-half of the funding for the Law Society arm's-length Member Assistance Program (MAP).

LAWPRO achieved the Ontario Living Wage Employer Certification. This certification looks at living wage, market competitiveness and total compensation with the goal to ensure a competitive program to attract, retain and reward employees.

LAWPRO continued its Equity, Diversity and Inclusion journey and partnership with the Canadian Centre for Diversity and Inclusion ("CCDI"). Various free CCDI webinars were made available to employees. The EDI Advisory Group regularly posted awareness days/months and provided additional resources.

## Giving back to the Canadian community



Over 90% of employees participated in LAWPRO's employee-led charitable giving program and the funds raised were matched by LAWPRO. LAWPRO continued to encourage employees to take a paid day to volunteer at an eligible charity of their choice. Other initiatives included participating in Partners for Life (Canadian Blood Services).

To strengthen our community, LAWPRO staff nominate and elect five charities to support each year through employee payroll deductions and special events. In 2023, \$28,710 was raised for the following five charities: Canadian Fanconi Anemia Research Fund, The Toronto Humane Society, Canada-Ukraine Foundation, Daily Bread Food Bank and Minwaashin Lodge - Aboriginal Women's Support Centre. LAWPRO employees are proud to support charities that are doing critical work to build a more just and equitable future.

# practicePRO

helping lawyers succeed

“Where claims happen, why claims happen, and the steps that can be taken to avoid them”

The practicePRO program provides risk management, claims prevention and law practice management information to Ontario lawyers. Its resources, precedents and checklists are intended to help Ontario lawyers take proactive steps to avoid legal malpractice claims and grow successful and thriving law practices.

Our best practicePRO resources from 2023 to help your practice grow are available free at [practicepro.ca](https://practicepro.ca). Here are a few highlights:

[Wiring funds checklist](#): This checklist will help you address the risk presented by the sharp increase in cyber attacks that divert wire payments to fraudsters’ accounts. We encourage lawyers to use this checklist for every transaction that involves wiring funds from their trust account.

[Protecting your firm against fraud CPD](#): This program provides information on actual fraud attempts, the types of fraud claims LAWPRO counsel are seeing right now, and how best to avoid these scams. As well, legal and law enforcement experts provide tips and advice. The replay has been viewed nearly 2,000 times on YouTube. It is eligible for LAWPRO Risk Management and LSO professionalism credits.

[Virtual identity verification \(IDV\) provider chart](#): As of January 1st, 2024, the Law Society of Ontario requires lawyers who only meet with clients virtually to verify their clients’ identity online by authenticating their identification documents, or using an alternate, approved verification method. LAWPRO invited companies to provide information about their service including costs, onboarding, turnaround time, process, and privacy. The vendors completed a survey and provided self-asserted information.

[Insurance 101 for lawyers: Tips for insuring your practice CPD](#): This panel offers an understanding on obtaining different types of insurance to protect your firm from risk. Experts explain the how-to of putting the insurance puzzle together—from Errors & Omissions coverage to Executor and Trustee coverage to Commercial General Liability coverage to Cybercrime and Data Loss coverage. The replay on YouTube has nearly 900 views.

[Excess insurance booklet](#): This booklet outlines the LAWPRO optional Excess insurance program. Additional coverage is available to lawyers in private practice or on exemption in case defence and indemnity payments exceed the limits of the primary LAWPRO insurance program.

[Top tips for advocates CPD:](#) This program, full of practical advice and tips in all areas of practice features leading advocates and LAWPRO counsel discussing recent developments in limitation periods, ineffective assistance of counsel, and establishing the legal status of clients. The replay on YouTube has been viewed more than 1,800 times.

[Building resilience and maintaining mental health in the legal profession CPD:](#) This program provides practical advice from those on the frontlines of improving mental health for lawyers; a clinician at the Member Assistance Program, a Peer-Support Ambassador that works with lawyers experiencing mental health concerns, a LAWPRO Unit Director on managing when things go wrong, and an expert in mindfulness within the legal profession. The replay has been viewed more than 900 time on YouTube.

[Client management and effective client relations CPD:](#) Leading advocates give advice on well-drafted retainer agreements, setting fee expectations, what to do when the client does not pay, understanding how diversity and culture can impact communication with clients and managing communication and relationship breakdowns when they occur. The replay has over 800 views on YouTube.

[Social engineering toolkit:](#) Social engineering is a fraud that is perpetrated by deceiving a target into revealing information or taking action for illegitimate reasons. It is often associated with phishing or email impersonation and leads to incorrectly wiring funds or transferring property. This toolkit is designed to help lawyers meet LAWPRO's new mandatory requirements to increase social engineering coverage from the minimum \$250,000 to the full \$1 million per claim. It lists the Policy requirements, provides sample retainer letter wording (and wording for existing clients), and answers frequently asked questions about the new coverage.

[Risk management alert:](#) This notice to the profession helps lawyers know what to do as administrative dismissals resume for Small Claims Court, Divisional Court, and family matters. Direction for cases at risk of administrative dismissal that have not previously been set down and struck from the trial list as well as what to do if you cannot file a consent timetable and draft order are outlined.







TitlePLUS was completely reengineered in 2021 with new features, policy wording, pricing structure, and website. Since the launch of the “new” TitlePLUS, it continues to evolve, add integrations, and process improvements while providing unmatched comprehensive coverage that is fast and easy to use.

2023 saw some big developments for TitlePLUS including a new leader who is eager to grow TitlePLUS to its full potential and new technology integrations that improve the TitlePLUS client experience and help our clients meet new requirements with ease.

## New Leadership

In August, LAWPRO welcomed Mark Huttram as the new Vice President of TitlePLUS. Mark joined TitlePLUS with a wealth of knowledge and experience in the legal, banking, real estate, and insurance fields.

“I see a lot of opportunity for growth within the TitlePLUS product,” said Mark. “The recent redesign of the online ordering platform, coupled with Legal Counsel Fees and clearer policy wording has set it up at the starting line of success. When combined with its unique affiliation with the E&O insurer for Ontario lawyers, TitlePLUS offers a package of coverages that I think has been underestimated in the market.”

## Technology Integration

TitlePLUS continued to transform and adapt to lawyers’ needs, the changing real estate market, and technological advances. One focus has been on technology integration. In addition to integrations with RealiWeb and Unity, we are integrated with Treefort IDV. These integrations made the goal of providing a simple one-stop process to obtaining a TitlePLUS title insurance policy a reality for busy legal professionals.

visit [titleplus.ca](https://titleplus.ca) to learn more

# Moving forward with TitlePLUS

## A smooth claims experience – for the lawyer and the client

**FOR LAWYERS:** TitlePLUS Legal Service Coverage is automatically included in most policies – no missed coverage, no extra input, and no extra charge.

There is no need for the lawyer to remember to purchase, register for coverage, add to each policy, or decide on which legal service coverage you may need. It has no limitations on payouts other than the policy amount, and the industry standard inflation protection limit on the original policy amount.

With a TitlePLUS policy, a client simply submits a claim directly to TitlePLUS. This means, the lawyer’s primary E&O policy will not be engaged and will not trigger a deductible or claims history levy surcharge in respect of the claim.

**FOR CLIENTS:** A few examples of real life stories of TitlePLUS claims:

### Power play

Homeowners lived next door to a vacant lot for years. Eventually, the neighbouring lot was sold to develop the land. The developers informed the homeowners that the hydro line serving their property ran across the vacant lot and would have to be moved.

The homeowners were not aware of the encroachment and it was not shown on any survey available at the time of purchase.

Luckily, the homeowner’s lawyer had recommended a TitlePLUS policy so the hydro pole was moved and TitlePLUS covered the cost.

### Effluent overflow

A homeowner’s septic system was unable to “accept and filter effluent effectively” because it wasn’t big enough to handle the size of the house.

The septic system had been built for a three-bedroom house, but when the house was sold it had five bedrooms and four bathrooms!

Luckily the homeowner’s lawyer had recommended a TitlePLUS policy with a rural property endorsement that covered the issue and paid for a new septic system.

### Unchecked deck

Homeowners discovered the wraparound decks on the main and second floors were in poor repair. Upon investigation, the city confirmed that the decks were built without a permit.

TitlePLUS covered the cost to remove the decks and paid the diminution in value to the property caused by the loss of the decks. When the decks were removed the contractor discovered there was water damage inside the siding of the house caused by the fact that the siding was never intended to have decks attached.

Fortunately, the homeowners had a TitlePLUS policy that covered not just the removal of the decks but also the exterior repairs caused by the unpermitted deck.

# FINANCIAL STATEMENTS

LAWYERS' PROFESSIONAL INDEMNITY COMPANY



Years ended December 31, 2023 and 2022

# 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, 2023, in comparison with the year ended December 31, 2022. These comments should be read in conjunction with the corresponding audited financial statements, including the accompanying notes, which are under the new accounting standards IFRS 17 (Insurance Contracts) and IFRS 9 (Financial Instruments).

## Financial highlights

### Statement of profit or loss

During 2023 the Company had an Insurance Service Result of \$9.1 million, an increase of \$9.6 million over 2022. The Company generated Investment Income, including unrealized gains and losses, of \$53.0 million compared to a loss of \$39.2 million in 2022.

The Company generated a profit after tax of \$21.4 million, an increase of \$40.3 million over 2022, and experienced a comprehensive income of \$21.0 million, an increase of \$38.4 million from 2022.

### Insurance Revenue

Insurance revenue decreased by \$1.2 million to \$122.2 million, mainly due to reduced transaction levies that were greater than the increase in base premium.

Gross written premiums (non-GAAP measure) from the mandatory Ontario errors and omissions ("E&O") insurance program were 0.8% lower than 2022 results. The optional excess E&O insurance program grew by 1.3% in the year, while TitlePLUS premiums decreased by 14.6% from 2022 results.

### Insurance Service Expenses

Insurance service expenses increased by \$3.8 million to \$107.6 million in 2023. The most significant expenses for the Company are claims costs and employee salaries and benefits. Claims costs excluding the loss component decreased by \$4.0 million to \$81.0 million in 2023, all of which falls under Insurance service expense. Total employee salaries and benefits increased by 2.7% in 2023, which is split between insurance service expense (~80%) and other expenses (~20%) according to IFRS 17 methodology.

### Net Expenses from Reinsurance Contracts Held

Net expenses from reinsurance contracts held decreased by \$14.7 million to \$5.5 million mainly due to the ninety percent quota share reinsurance on optional Excess E&O. There was a change in reserving methodology for optional Excess E&O in 2022, from the expected loss ratio method to the Bornheutter-Ferguson ("BF") method, resulting in a \$13.5M undiscounted (\$14.6 million discounted) favourable development in 2022. There was no reserving method change in 2023.

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 which prior to 2011 was fully reinsured. The high level of reinsurance significantly mitigates exposure to the Company from claims in this program.

### Investment income

Investments generated \$53.0 million income in 2023 compared to a \$39.2 million in losses in 2022. As all unrealized gains and losses are now in the Company's Statement of Profit or Loss under IFRS 9, there will be greater volatility in investment income.

Investment income from interest and dividend receipts increased by \$4.3 million to \$21.5 million, primarily due to the 75 basis points rise in the Bank of Canada key rate during 2023.

The company experienced net realized losses of \$1.1 million in 2023 compared to \$6.1 million in 2022. There were unrealized gains of \$34.0 million in 2023 compared to unrealized losses of \$48.9 million in 2022, representing a swing of \$82.9 million.

## Insurance Finance Income or Expense

In 2023, there was insurance finance expense of \$26.0 million compared to income of \$23.8 million in 2022. Under IFRS 17, the impact of discounting contract liabilities is reported under Insurance Finance Income or Expense, separate from Insurance Service Expense. The increase in the yield environment was much smaller this year, thus the favourable change in discounting assumptions was much smaller compared to the unwinding of the discount. The unwinding of the discount was much higher during 2023 as it is based on year-end 2022 where there was a high yield environment, so the combined impacts of the discount unwind and change in discounting during 2023 led to the \$26.0 million insurance finance expense.

## Reinsurance Finance Income or Expense

In 2023, there was reinsurance finance income of \$1.4 million compared to expense of \$2.1 million in 2022. The \$3.5 million improvement was mainly due to the effect of changes in financial risk.

## Other Expenses

Other expenses increased by 0.5% to \$8.0 million in 2023. The ~20% of salaries and benefits that is allocated to other expenses under IFRS 17 (see insurance service expense above) represents the majority of other expenses. The other main components of this expense amount include directors' remuneration (all allocated to other expenses), information systems, professional fees, other finance costs (all allocated to other expenses), and occupancy expenses. The remaining expenses in this category are advertising and communications, travel, meals and entertainment, telecommunications, and printing and stationery.

## Statement of financial position

The Company ended 2023 with shareholder's equity of \$300.5 million, up \$21.0 million from last year. The increase represents \$21.4 million in profit after tax reduced by \$0.4 million other comprehensive loss for the remeasurement of the defined benefit plan net of income tax expense.

## Investments

As of December 31, 2023, the market value of the Company's investment portfolio was more than its cost base by \$20.7 million, compared to 2022 where the market value was \$13.3 million less than cost base. Investment assets, inclusive of cash and cash equivalents and investment income due and accrued, increased by \$35.3 million to \$719.7 million as of December 31, 2023. This reflects the overall improved performance of both the fixed income products and equity pooled funds.

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.

## Insurance Contract Liabilities

The insurance contract liabilities represent the amount required to satisfy all the Company's obligations to claimants prior to reinsurance recoveries. This balance increased by \$5.1 million in 2023 predominantly due to the \$8.0 million increase in the present value of future cash flows in the liability for incurred claims ("LIC"), partially offset by the \$3.0 million decrease in the liability for remaining coverage ("LRC"), excluding loss component, at the end of 2023 versus December 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.

# Management Statement on Responsibility for Financial Information

The preparation of the annual financial statements, Management's Discussion and Analysis and all other information in the Company's Annual Report is the responsibility of the Company's management, and the annual financial statements have been approved by the Board of Directors.

The financial statements have been prepared in accordance with International Financial Reporting Standards. Financial statements, by their very nature, include amounts and disclosures based on estimates and judgements. Where alternative methods or interpretations exist, management has chosen those it deems most appropriate in the circumstances, including appropriate consideration to relevance and materiality. Actual results in the future may differ materially from management's current assessment given the inherent variability of future events and circumstances. Financial information appearing elsewhere in the Company's Annual Report is consistent with the financial statements.

Management maintains the necessary system of internal controls over financial reporting to meet its responsibility for the reliability of the financial statements. These controls are designed to provide management with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

The Board of Directors is responsible to ensure that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out its responsibility primarily through its audit committee, which is independent of management. The audit committee reviews the financial statements and recommends them to the Board for approval. The audit committee also reviews and monitors the Company's system of internal controls over financial reporting in the context of reports made by management or the external auditor.

## Role of the Auditor

The external auditor, PricewaterhouseCoopers LLP, has been appointed by the shareholder. Its responsibility is to conduct an independent and objective audit of the financial statements in accordance with Canadian generally accepted auditing standards and to report thereon to the Company's shareholder. In carrying out its audit, the auditor considers the work of the appointed actuary and his report on the policy liabilities of the Company. The external auditor has full and unrestricted access to the audit committee and the Board of Directors to discuss audit, financial reporting and related findings. The auditor's report outlines the scope of its audit and its opinion.

## Role of the Appointed Actuary

The actuary is appointed by the Board of Directors of the Company. With respect to the preparation of these financial statements, the appointed actuary is required to carry out a valuation of the policy liabilities and to report thereon to the Company's shareholder. The valuation is carried out in accordance with accepted actuarial practice and regulatory requirements. The scope of the valuation encompasses the policy liabilities as well as any other matter specified in any direction that may be made by the regulators. The policy liabilities consist of a provision for unpaid claims and adjustment expenses on the expired portion of policies, a provision for future obligations on the unexpired portion of policies, and other policy liabilities that may be applicable to the specific circumstances of the Company.

In performing the valuation of the policy liabilities, which are by their very nature inherently variable, the appointed actuary makes assumptions as to the future rates of claims severity, inflation, reinsurance recoveries, expenses and other matters, taking into consideration the circumstances of the Company and the nature of the insurance coverage being offered. The valuation is necessarily based on estimates; consequently, the final values may vary significantly from those estimates. The appointed actuary also makes use of management information provided by the Company, and uses the work of the auditor with respect to the verification of the underlying data used in the valuation.

Toronto, Ontario  
February 23, 2024

*Dan Pinnington*  
Daniel E. Pinnington  
President & CEO

*Krista Franklin*  
Krista Franklin  
Chief Financial Officer

# Independent Auditor's Report

To the Shareholder of Lawyers' Professional Indemnity Company



## Independent auditor's report

To the Shareholder of Lawyers' Professional Indemnity Company

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### 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, 2023 and 2022 and January 1, 2022, and its financial performance and its cash flows for the years ended December 31, 2023 and 2022 in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

### What we have audited

The Company's financial statements comprise:

- the statements of financial position as at December 31, 2023 and 2022 and January 1, 2022;
- the statements of profit or loss for the years ended December 31, 2023 and 2022;
- the statements of other comprehensive income for the years ended December 31, 2023 and 2022;
- the statements of changes in equity for the years ended December 31, 2023 and 2022;
- the statements of cash flows for the years ended December 31, 2023 and 2022; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

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### 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: +1416 863 1133, F: +1416 365 8215

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

# Independent Auditor's Report

## 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, 2024

# Appointed Actuary's Report

**ECKLER**

I have valued the policy liabilities of the Lawyers' Professional Indemnity Company for its financial statements prepared in accordance with International Financial Reporting Standards for the year end 31 December 2023.

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



Louis-Christian Dupuis, FCAS, FCIA

Eckler Ltd.  
1801 McGill College Avenue, Suite 1460  
Montréal, Québec, H3A 2N4

20 February 2024



# Statement of Financial Position

Amounts stated in thousands of Canadian dollars

AS AT	DECEMBER 31 2023	DECEMBER 31 2022 (RESTATED)*	JANUARY 1 2022 (RESTATED)*
<b>Assets</b>			
Cash and cash equivalents	\$ 41,522	35,741	24,473
Investment income due and accrued	3,801	3,583	2,924
Current income tax asset	1,621	6,754	415
Investments (note 5)	674,419	645,130	710,522
Reinsurance contract assets (note 11)	30,249	29,714	45,918
Fixed, intangible & Right of Use assets (note 7, 8)	12,440	12,479	12,543
Deferred income tax asset (note 14)	-	4,688	1,423
Other assets	9,181	14,625	6,000
<b>Total assets</b>	<b>\$ 773,233</b>	<b>752,714</b>	<b>804,218</b>
<b>Liabilities</b>			
Expenses due and accrued	3,419	9,026	3,268
Insurance contract liabilities (note 10)	459,473	454,381	493,699
Lease liabilities (note 9)	8,987	9,437	9,859
Deferred income tax liability (note 14)	865	-	-
Other taxes due and accrued	-	421	586
<b>Total liabilities</b>	<b>\$ 472,744</b>	<b>473,265</b>	<b>507,412</b>
<b>Equity</b>			
Capital stock issued and paid (note 16)	5,000	5,000	5,000
Contributed surplus (note 16)	30,645	30,645	30,645
Retained earnings	264,844	243,804	261,161
<b>Total equity</b>	<b>\$ 300,489</b>	<b>279,449</b>	<b>296,806</b>
<b>Total liabilities and equity</b>	<b>\$ 773,233</b>	<b>752,714</b>	<b>804,218</b>

\* Restated for the adoption of IFRS 17 – *Insurance contracts* & IFRS 9 – *Financial instruments*.  
Refer to Note 2 Application of New and Revised IFRSs relevant to the Company.

Accompanying notes are an integral part of the financial statements.

On behalf of the Board

*Andrew J. Spurgeon*

Andrew J. Spurgeon  
Director

*Daniel E. Pinnington*

Daniel E. Pinnington  
Director

# Statement of Profit or Loss

Amounts stated in thousands of Canadian dollars

<b>FOR THE YEARS ENDED DECEMBER 31</b>	<b>2023</b>	<b>2022 (RESTATED)*</b>
Insurance Revenue (note 10)	\$ 122,162	123,399
Insurance Service Expenses (note 10, 15)	(107,608)	(103,778)
Net Expenses from Reinsurance contracts held (note 11)	(5,489)	(20,176)
<b>Insurance service result</b>	<b>9,065</b>	<b>(555)</b>
<b>Investment income</b> (note 5, 6)	<b>\$ 53,026</b>	<b>(39,164)</b>
Insurance Finance Income/(Expense) (note 10)	(26,013)	23,769
Reinsurance Finance Income/(Expense) (note 11)	1,364	(2,112)
<b>Net insurance and investment result</b>	<b>37,442</b>	<b>(18,062)</b>
Other Expenses (note 15)	(8,025)	(7,986)
<b>Profit (loss) before tax</b>	<b>29,417</b>	<b>(26,048)</b>
Income Tax (Expense) (note 14)	(8,047)	7,134
<b>Profit (loss) after tax</b>	<b>\$ 21,370</b>	<b>(18,914)</b>

\* Restated for the adoption of IFRS 17 – *Insurance contracts* & IFRS 9 – *Financial instruments*.

Refer to Note 2 Application of New and Revised IFRSs relevant to the Company.

*Accompanying notes are an integral part of the financial statements.*

# Statement of Comprehensive Income

Amounts stated in thousands of Canadian dollars

FOR THE YEARS ENDED DECEMBER 31	2023	2022 (RESTATED)*
<b>Profit (loss) after tax</b>	\$ 21,370	(18,914)
Other comprehensive income, net of income tax:		
<u>Items that will not be reclassified subsequently to profit or loss:</u>		
Remeasurements of defined benefit plan, net of income tax expense (recovery) of (\$119) [2022: \$562]	(330)	1,557
<b>Other comprehensive income</b>	<b>(330)</b>	<b>1,557</b>
<b>Comprehensive income</b>	<b>\$ 21,040</b>	<b>(17,357)</b>

# Statement of Changes in Equity

Amounts stated in thousands of Canadian dollars

	Capital stock	Contributed surplus	Retained earnings	AOCI**	Equity
<b>Balance at December 31, 2021</b>	<b>\$ 5,000</b>	<b>30,645</b>	<b>227,465</b>	<b>22,671</b>	<b>285,781</b>
Impact of the initial application of IFRS 17			11,025		11,025
Impact of the initial application of IFRS 9			22,671	(22,671)	-
<b>Balance at January 1, 2022 (Restated)*</b>	<b>5,000</b>	<b>30,645</b>	<b>261,161</b>	<b>-</b>	<b>296,806</b>
Total comprehensive income for the year (Restated)*			(18,914)	1,557	(17,357)
Transfer of defined benefit remeasurements from OCI to retained earnings			1,557	(1,557)	-
<b>Balance at December 31, 2022 (Restated)*</b>	<b>\$ 5,000</b>	<b>30,645</b>	<b>243,804</b>	<b>-</b>	<b>279,449</b>
Total comprehensive income for the year	-	-	21,370	(330)	21,040
Transfer of defined benefit remeasurements from OCI to retained earnings			(330)	330	-
<b>Balance at December 31, 2023</b>	<b>\$ 5,000</b>	<b>30,645</b>	<b>264,844</b>	<b>-</b>	<b>300,489</b>

\* Restated for the adoption of IFRS 17 – *Insurance contracts* & IFRS 9 – *Financial instruments*.  
Refer to Note 2 Application of New and Revised IFRSs relevant to the Company.

\*\* Accumulated other comprehensive income

Accompanying notes are an integral part of the financial statements.

# Statement of Cash Flows

Amounts stated in thousands of Canadian dollars

FOR THE YEARS ENDED DECEMBER 31	2023	2022 (RESTATED)*
<b>Operating Activities</b>		
<b>Profit (loss)</b>	\$ 21,370	\$ (18,914)
<b>Items not affecting cash:</b>		
Deferred income taxes	5,670	(3,826)
Amortization of fixed and right of use assets	188	196
Amortization of intangible assets	146	93
Realized (gains) losses on disposition or impairment	2,108	6,148
Amortization of premiums and discounts on bonds	(882)	1,514
Changes in unrealized (gains) losses	(34,002)	48,940
	<b>(5,402)</b>	<b>34,151</b>
<b>Changes in non-cash working capital balances:</b>		
Investment income due and accrued	(218)	(659)
Reinsurance contract assets	(548)	16,204
Other assets	4,992	(6,506)
Current income tax asset	5,133	(6,339)
Insurance contract liabilities	6,845	(37,810)
Expenses due and accrued	(5,607)	5,758
Other taxes due and accrued	(421)	(165)
<b>Total cash inflow (outflow) from operating activities</b>	<b>\$ 4,774</b>	<b>4,634</b>
<b>Investing Activities</b>		
Purchases of capital assets	(1,226)	(482)
Purchases of intangible assets	(802)	(1,251)
Purchases of investments	(216,262)	(365,632)
Proceeds from sales and maturities of investments	219,748	374,420
<b>Total cash inflow (outflow) from investing activities</b>	<b>\$ 1,458</b>	<b>7,055</b>
<b>Financing Activities</b>		
Payment of lease liabilities	(451)	(421)
<b>Total cash inflow (outflow) from financing activities</b>	<b>(451)</b>	<b>(421)</b>
Net change in cash and cash equivalents during the year	5,781	11,268
Cash and cash equivalents, beginning of year	35,741	24,473
<b>Cash and cash equivalents, end of year</b>	<b>\$ 41,522</b>	<b>\$ 35,741</b>
<b>Cash and cash equivalents at end of year consists of:</b>		
Cash	3,531	2,895
Cash equivalents	37,991	32,846
	<b>\$ 41,522</b>	<b>\$ 35,741</b>
<b>Supplemental disclosure of cash flow information:</b>		
Income taxes paid (received) (operating activity)	\$ (2,757)	\$ 3,031
Interest received (investing activity)	18,278	16,041
Interest paid (financing activity)	365	382
Dividends received (investing activity)	2,223	2,056

\* Restated for the adoption of IFRS 17 – *Insurance contracts* & IFRS 9 – *Financial instruments*.  
Refer to Note 2 Application of New and Revised IFRSs relevant to the Company.

Accompanying notes are an integral part of the financial statements.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

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

In the current year, the Company has applied the following revised IFRS Accounting Standards as issued by the International Accounting Standards Board that are mandatorily effective for an accounting period that begins on or after January 1, 2023.

### 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 the above amendments did not have an impact on the Company's financial statements.

### b) Amendment to Proceeds before Intended Use

Amended to (i) prohibit an entity from deducting from the cost of an item of fixed assets and right of use assets 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 the above amendments did not have an impact on the Company's financial statements.

### c) IFRS 9 "*Financial Instruments*"

In July 2014, the IASB issued IFRS 9 which clarifies a narrow range of application issues, increases comparability internationally, and considers the interaction with the new Insurance Contracts project (IFRS 17). IFRS 9 changes the accounting guidance on classification and measurement of financial instruments and will change the model for recognition and measurement of impairment losses on financial instruments not measured at Fair Value Through Profit and Loss ("FVTPL") from an incurred loss model to an expected credit loss model. IFRS 9 was effective for annual and interim periods beginning January 1, 2018. However, insurance entities have the option to defer the adoption of IFRS 9 until adoption of IFRS 17 which is effective January 1, 2023.

Pursuant to IFRS 9, all recognized financial assets 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 Fair Value Through Other Comprehensive Income ("FVOCI"). All other debt securities, as well as equity securities, are measured at FVTPL. At initial recognition, an entity may make an irrevocable election to

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

present in OCI subsequent changes in the fair value of an investment in an equity instrument that is within the scope of IFRS 9, and that is not held for trading. Amounts presented in OCI are never recycled to profit or loss. In addition, under the fair value option, entities may elect for amortized cost or FVOCI debt securities to be classified as FVTPL if certain criteria are met.

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.

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 has applied IFRS 9 retrospectively and restated comparative information for 2022 for financial instruments in the scope of IFRS 9. Differences arising from the adoption of IFRS 9 have been recognised in retained earnings as of January 1, 2022. The Company has applied the classification overlay to all financial assets derecognized in the comparative period.

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

Condensed equity	December 31 2022	IMPACT OF IFRS 9		January 1 2023
		Before tax	After tax	
Retained earnings	\$ 221,794	5,431	3,992	225,786
Accumulated other comprehensive income	3,992	(5,431)	(3,992)	-

Condensed equity	December 31 2021	IMPACT OF IFRS 9		January 1 2022
		Before tax	After tax	
Retained earnings	\$ 227,465	30,845	22,671	250,136
Accumulated other comprehensive income	22,671	(30,845)	(22,671)	-

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as of January 1, 2023 and January 1, 2022, is as follows:

AS AT	JANUARY 1 2023 (RESTATED)*				
	IAS 39 MEASUREMENT			IFRS 9	
	Category	Amount	Reclassification	Amount	Category
Cash and cash equivalents	Loans & receivables	\$ 35,741	-	35,741	FVTPL
Investment due and accrued (FVTPL)		3,583		3,583	
Investments - classified as FVTPL		367,794	-	367,794	
From: Investments - available for sale			277,336	277,336	
	FVTPL	371,377	277,336	648,713	FVTPL
		-	-	-	
Investments - available for sale		277,336	-	277,336	
To: Investments - classified as FVTPL			(277,336)	(277,336)	
	Available for sale	277,336	(277,336)	-	FVTPL
<b>Total</b>		<b>\$ 684,454</b>	<b>-</b>	<b>684,454</b>	

AS AT	JANUARY 1 2022 (RESTATED)*				
	IAS 39 MEASUREMENT			IFRS 9	
	Category	Amount	Reclassification	Amount	Category
Cash and cash equivalents	Loans & receivables	\$ 24,473	-	24,473	FVTPL
Investment due and accrued (FVTPL)		2,924		2,924	
Investments - classified as FVTPL		397,632	-	397,632	
From: Investments - available for sale			312,890	312,890	
	FVTPL	400,556	312,890	713,446	FVTPL
		-	-	-	
Investments - available for sale		312,890	-	312,890	
To: Investments - classified as FVTPL			(312,890)	(312,890)	
	Available for sale	312,890	(312,890)	-	FVTPL
<b>Total</b>		<b>\$ 737,919</b>	<b>-</b>	<b>737,919</b>	

\* Restated for the adoption of IFRS 17 – *Insurance contracts* & IFRS 9 – *Financial instruments*.  
Refer to Note 2 Application of New and Revised IFRSs relevant to the Company.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## d) IFRS 17 "Insurance Contracts"

IFRS 17 replaces IFRS 4 Insurance Contracts effective January 1, 2023. The adoption of IFRS 17 did not change the classification of the Company's insurance contracts.

IFRS 17 provides a General Measurement Model ("GMM") for the recognition of long-duration contracts, as well as a simplified model which is the 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 applicable to the company are as follows:

The concept of portfolio and groups of contracts. A portfolio includes contracts covering similar risks and managed together as a single pool. A group of contracts within a portfolio, will define the unit of account for measurement purposes.

For presentation in the statement of financial position, the Company aggregates insurance contracts issued, and reinsurance contracts held, respectively and presents separately:

- Portfolios of insurance contracts issued that are liabilities
- Portfolios of reinsurance contracts held that are assets

Under IFRS 17, insurance revenue in each reporting period represents the changes in the liabilities for remaining coverage that relate to services for which the Company expects to receive consideration and an allocation of premiums that relate to recovering insurance acquisition cash flows.

Income and expenses from reinsurance contracts other than insurance finance income and expenses are now presented within Net expenses from reinsurance contracts held.

Insurance finance income and expenses are presented separately from insurance revenue and insurance service expenses in the Statement of Profit or Loss.

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

The line-item descriptions in the Statement of Profit or Loss have been changed when compared with last year. Previously, the Company reported the following line items:

- Gross written premiums
- Premiums ceded to reinsurers
- Net written premiums
- (Increase) decrease in unearned premiums
- Net premiums earned
- Gross claims incurred
- Reinsurers' share of gross claims incurred
- Net claims incurred



# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

Instead, IFRS 17 requires separate presentation of:

- Insurance revenue
- Insurance service expenses
- Net expenses from reinsurance contracts held
- Insurance finance income/(expense)
- Reinsurance finance income/(expense)

The standard applies to annual periods beginning on or after January 1, 2023. IFRS 17 is applied retrospectively as of January 1, 2022, to each group of Insurance contracts. As a result, comparative information was restated, however, wherever the full retrospective application is impracticable, then the entity chooses either modified retrospective approach or the fair value approach. The Company adopted the new standard on the required effective date together with IFRS 9. On transition, for title insurance the Company applied a fair value approach for years 2021 and prior because full retrospective approach was considered impracticable as the information required had not been collected with sufficient granularity and was unavailable because of system migrations or data retention requirements. For all other lines, which are measured under the PAA approach, the company transitioned applying the full retrospective approach.

The Company identified, recognised, and measured each group of insurance and reinsurance contracts as if IFRS 17 had always been applied and any resulting net difference was recognised in equity.

The effects of adopting IFRS 17 on the financial statements as at January 1, 2022 are presented in the statement of changes in equity.

The impact of initial application of IFRS 17 on the balance sheet as of January 1, 2022, is presented in below table:

Condensed balance sheet	IMPACT OF IFRS 17			
	December 31 2021	Presentation	Measurement	January 1 2022
Total assets	\$ 819,329	(8,252)	(6,859)	804,218
Total liabilities	533,548	(8,252)	(17,884)	507,412
Total equity	285,781	-	11,025	296,806

## Changes in accounting policies:

### Scope and separating components

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 assesses 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.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## Level of aggregation of insurance contracts

Under IFRS 17, insurance and reinsurance contracts are aggregated into portfolios and groups for measurement purposes. Portfolios comprise contracts with similar risks which are managed together. Portfolios are further divided into groups based on expected profitability at inception. This requires an entity to divide portfolios of insurance contracts into a) a group of contracts that are onerous at initial recognition, if any; b) a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and c) a group of the remaining contracts in the portfolio, if any. The IFRS 17 portfolios align to the Company's insurance coverage types, and reinsurance coverage types. Aside from transitional elections, IFRS 17 also requires that no group may contain contracts issued more than one year apart (i.e., a cohort). The Company will measure the insurance contract liability using annual cohorts.

Portfolios of insurance contract liabilities and portfolios of reinsurance contract assets are presented separately in the statement of financial position.

## Recognition and derecognition

The Company recognises groups of insurance contracts that it issues from the earliest of the following:

- The beginning of the coverage period of the group of contracts
- The date when the first payment from a policyholder in the group is due, or when the first payment is received if there is no due date
- For a group of onerous contracts, as soon as facts and circumstances indicate that the group is onerous

For PAA insurance contracts, if a group of insurance contracts (e.g., "fund year") is onerous, the Loss Component ("LC") is recognized in advance of the coverage period effective January 1st (i.e., the fourth quarter of the year preceding the fund year coverage period). For GMM insurance contracts, if a group of insurance contracts is onerous, the LC would be recognized when the contract is issued. The Company recognizes a group of reinsurance contracts held it has entered into from the earliest of the following:

- The beginning of the coverage period of the group of reinsurance contracts held, and
- The date the Company recognises an onerous group of underlying insurance contracts if the Company entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

The Company derecognizes its reinsurance contracts when the underlying insurance contract is extinguished, or the entity is no longer at risk and is therefore no longer required to transfer any economic resources to satisfy the insurance contract.

## Contract boundary

Under IFRS 17, a contract boundary is used to determine which cash flows should be considered in the measurement of an insurance contract. Cash flows that are not in the boundary of an insurance contract relate to future insurance contracts. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the period in which the policyholder is obliged to pay premiums, or the entity has a substantive obligation to provide the policyholder with insurance coverage or other services.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

If an entity has the practical ability to reassess the risk presented by a policyholder (or a portfolio of insurance contracts) and has the right to reprice without any constraints the risks, or terminate the contract, then the cash flows after the reassessment date will be outside of the contract boundary.

The Company has following contract boundaries for its group of contracts:

- Mandatory professional liability insurance (“Mandatory E&O”) – 12 months
- Excess professional liability insurance (“Excess E&O”) – 12 months
- Title insurance (“TitlePLUS”) – 20 years
- Quota share reinsurance for Excess E&O – 12 months
- Clash reinsurance for Mandatory E&O and TitlePLUS – 12 months

## Fulfilment cash flow

Fulfilment cash flows (“FCF”) comprise unbiased and probability-weighted estimates of future cash flows. The estimates of future cash flows are adjusted using the current discount rates to reflect the time value of money and the financial risks related to those cash flows, to the extent not included in the estimates of cash flows. The discount rates reflect the characteristics of the cash flows arising from the groups of insurance contracts, including timing, currency and liquidity of cash flows. The determination of the discount rate that reflects the characteristics of the cash flows and liquidity characteristics of the insurance contracts requires significant judgement and estimation. The estimates of future cash flows are also adjusted by risk adjustments to account for non-financial risks.

Risk of the Company’s non-performance is not included in the measurement of groups of insurance contracts issued. In the measurement of reinsurance contracts held, the probability-weighted estimates of the present value of future cash flows reflect the potential credit losses and other disputes of the reinsurer to reflect the non-performance risk of the reinsurer.

The Company estimates certain FCF at the portfolio level and then allocates such estimates to groups of contracts.

The Company uses consistent assumptions to measure the estimates of the present value of future cash flows for the group of reinsurance contracts held and such estimates for the groups of underlying insurance contracts.

## Onerous contracts and loss component

If there is a net outflow of FCF within a group of contracts at initial recognition, then the corresponding group is considered to be onerous.

For any group that is determined to be onerous, the Company has established a LC within the Liability for Remaining Coverage (“LRC”). A LC represents a notional record of the losses attributable to each group of onerous insurance contracts (or contracts profitable at inception that have become onerous). For contracts measured under the PAA, the LC is released in insurance service expense as the underlying contract is recognized. For contracts measured under the GMM, the LC is released based on a systematic allocation of the subsequent changes relating to future service in the FCF. The LC is also updated for subsequent changes relating to future service in estimates of the FCF and the Risk Adjustment (“RA”). The systematic allocation of subsequent changes to the LC results in the total amounts allocated to the LC being equal to zero by the end of the coverage period of a group of contracts.

## Loss Recovery component

Where the Company recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or when further onerous underlying insurance contracts are added to a group, the Company recognizes income and establishes a loss recovery component within the asset for remaining coverage for a group of reinsurance contracts held depicting the expected recovery of the losses.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

A loss recovery component is subsequently reduced to zero in line with reductions in the onerous group of underlying insurance contracts in order to reflect that the loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the entity expects to recover from the group of reinsurance contracts held.

## Discount rate

The Company has chosen a bottom-up approach to estimate the discount rate curve at the valuation date, whereby the Government of Canada risk-free yield curve plus a liquidity premium is used. The liquidity premium reflects the characteristics of the Company's insurance contract liabilities (i.e., LRC and Liability for Incurred Claims ("LIC")).

For the Company's Contractual Service Margin ("CSM"), the locked-in discount rate curve is selected based on the date of initial recognition of the group of insurance contracts and is applied at the group level. Note that under the PAA, a locked-in discount rate curve is only used if a group of insurance contracts is onerous. Otherwise, under the PAA, the LRC are undiscounted.

Under GMM, all expected FCF are discounted whereas under PAA only the LC within LRC and LIC are discounted.

## Risk adjustment

IFRS 17 requires a RA in the measurement of insurance liabilities to reflect the non-financial risks associated with the uncertainty about the amount and timing of the cash flows. The RA includes the benefit of diversification and excludes the impact of financial risks.

The Company has chosen RA 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 RA factors will be applied to the present value of future loss cashflows.

The Company has elected to disaggregate the impacts related to RA within the Statement of Profit and Loss between the Insurance Service Expenses and Insurance Finance Expenses lines.

## Initial recognition

The GMM measures a group of insurance contracts at initial recognition as the total of the FCF and CSM. The CSM represents the unearned profit the Company will recognize as it provides insurance services.

When estimating FCF, the Company includes all cash flows that are within the contract boundary and includes insurance acquisition cash flows which are allocated pro-rata to premium to profit or loss over the period of the contract in a systemic and rational way.

The PAA measures a group of insurance contracts at initial recognition as the total of premiums received (if any).

The Company measures its reinsurance assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues to which the reinsurance covers.

The Company's expectations of fulfilment cashflows are based on providing sufficient working capital for operations. The cash flow forecasts consider the probability of the Company experiencing a period of sustained surplus beyond working capital requirements. When such surplus may benefit insured members, a liability for FCF attributable to current or future insured members will be recognized and measured within insurance contract liabilities.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## Subsequent recognition

For contracts measured using the GMM, the CSM at the end of the reporting period represents the profit in the group of insurance contracts that has not yet been recognized because it relates to future service to be provided. The CSM at the end of the reporting period represents the carrying amount at the beginning of the period adjusted, as follows:

- Effect of any new contracts added to the group;
- Interest accreted on the carrying amount of the CSM during the period;
- Changes in FCF related to future service, except to the extent that:
  - Such increases in the FCF exceed the carrying amount of the CSM, giving rise to a loss, or
  - Such decreases in the FCF are allocated to the LC of the LRC;
- The amount recognized as insurance revenue based on services provided in the period.

For contracts measured using the PAA, the LRC at the end of each reporting period is the LRC at the beginning of the period, adjusted for:

- Premiums received in the period;
- Minus the amount of insurance revenue for service provided .

The estimates of the expected future cash flows are required for the initial and subsequent measurement of the LIC. The LIC is recorded when claims are incurred and comprises discounted estimates of cash flows plus a risk adjustment for non-financial risks; it has no CSM. The subsequent measurement of the expected cash flows of the LIC are updated at each reporting period.

## Insurance revenue

Insurance revenue reflects the consideration to which the insurer is entitled in exchange for the services provided on an earned basis. Insurance revenue excludes 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 LRC as follows:

- Expected Insurance service expenses incurred during the period;
- Change in RA for non-financial risk for service provided in the period;
- CSM recognized in profit or loss because of the transfer of services in the period; and
- An allocation of acquisition cash flows.

Insurance policies written under the Mandatory E&O and Excess E&O insurance programs are effective on a calendar year basis. Revenue recognition for the Mandatory E&O and Excess E&O insurance programs are earned over the term of coverage of the underlying insurance policies, which is generally one year. Revenue recognition for title insurance premiums will be spread over the contract boundary period of 20 years.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## Insurance service expenses

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

- Incurred claims and other incurred insurance service expenses that are directly attributable to a group of contracts;
- Amortization of insurance acquisition cash flows directly attributable to a portfolio of contracts, for GMM;
- Expensing as incurred the insurance acquisition cash flows directly attributable to a portfolio of contracts, for PAA;
- Changes that relate to past service (i.e., relating to LIC);
- Losses on onerous contracts and reversals.

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

The Company recognizes the Deferred Acquisition Costs (“DAE”) for TitlePLUS as a component of both revenue and expense over the contract boundary period of 20 years or less, and expenses the insurance acquisition costs as incurred for Mandatory E&O and Excess E&O.

For contracts measured under the GMM, amortization of insurance acquisition cash flows is based on the undiscounted coverage units used to recognize insurance revenue. For contracts measured under the PAA, insurance acquisition cash flows are expensed as incurred.

## Insurance finance income and expense

Insurance finance income or expense represent the effects of, and changes in, the carrying amount of a group of insurance contracts relating to the time value of money and financial risks. This includes:

- The effect of discounting and changes to discount rates; and
- The effect of financial risk and changes in financial risk.

The Company has elected to present all impacts related to the discount rate and financial risk within the Statement of Profit and Loss.

## Net expenses from reinsurance contracts held

Net expenses from reinsurance contracts held is comprised of the amounts that are expected to be recovered from reinsurers, as well as an allocation of the reinsurance premiums ceded, based on passage of time, in conjunction with the expiry of the respective insurance policy to which the reinsurance contract relates to.

The Company treats reinsurance cash flows that are contingent on claims of the underlying contracts as part of the amounts recoverable from reinsurers and includes ceded commissions not contingent on claims as a reduction of the premiums ceded to reinsurers.

### e) Amendments to IAS 1 “Presentation of financial statements” – Classification of liabilities as current or non-current

On January 23, 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 adoption of the above amendments did not have an impact on the Company’s financial statements.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## 3. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES

### 3.1 Statement of compliance

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 IFRS accounting standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

These financial statements have been prepared in accordance with accounting standards issued and effective on or before December 31, 2023. 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 26, 2024.

### 3.2 Preparation and presentation of financial statements

The material accounting policies used in the preparation of these financial statements are summarized below. Due to the adoption of IFRS 17 – Insurance Contracts ("IFRS 17") and IFRS 9 – Financial Instruments ("IFRS 9") certain comparative information was restated. 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 insurance contract liabilities and reinsurance contract assets, 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 considers 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 considers 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.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## 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 illiquidity 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:

Insurance contract liabilities	Note 10
Reinsurance contract assets	Note 11

## Financial instruments – Classification and measurement

### a) Classification

Based on the company's overall investment objective of preserving capital and maximizing returns, the company's entire investment portfolio is classified under FVTPL model.

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.



# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## b) Measurement

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.

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 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.

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.

Investment income includes:

- Realized gains and losses and net changes in unrealized gains and losses;
- Dividend income on common and preferred shares (as of the ex-dividend date);
- Net interest income, including amortization of premiums and the accretion of discounts; and
- Changes in fair value resulting from changes to foreign exchange rates.

## 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. The resulting depreciation is recognized through profit and loss with interest costs directly recognized through finance income.

## Fixed assets and Right of Use Assets

Fixed Assets and Right of Use Assets are recorded in the statement of financial position on a net basis (cost less accumulated amortization). Amortization is charged to profit and loss 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 fixed assets and right of use assets 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 fixed assets and right of use assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized immediately in profit or loss.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## Intangible Assets

Intangible assets with finite useful lives that are acquired separately or internally developed are carried at cost, less any applicable accumulated amortization. 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

At the end of each reporting period, the Company reviews the carrying amount of its fixed assets and right of use assets, 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 profit or loss, any exchange component of that gain or loss is also recognized in profit or loss.

## Insurance contract liabilities

The Insurance contract liabilities includes the fulfilment cashflows of all estimated costs of projected final settlements of insurance claims incurred on or before the date of the statement of financial position.. 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 insurance contract liability.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

The Insurance contract liabilities are separated into two components, LRC and LIC. It takes into consideration the time value of money using discount rates based on the risk-free yield curve and the illiquidity premium. A RA is then added to the discounted liabilities, to represent the compensation an insurer requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risks in order to generate the fulfillment cash flows.

These estimates of insurance contract liabilities are subject to uncertainty and are the unbiased probability weighted expected cashflows of all 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 changes that relate to past service in the LIC for both PAA and GMM and changes that relate to future service in LRC for GMM in the reporting period in which they are determined.

Insurance contract liabilities are classified as non-current, except for the LRC for contracts measured under the PAA, any claims expected to be settled within the next 12 months and the related attributable portion of RA and/or CSM. See note 19 for a breakdown of the expected settlement of claims.

## Reinsurance contract assets

In the normal course of business, the Company enters into reinsurance contracts with other insurers in order to limit its net exposure to significant losses. The Company classifies its reinsurance contracts into two portfolios of reinsurance contracts 1) proportionate reinsurance or quota share for Excess E&O, and 2) excess of loss or clash coverage for Mandatory E&O and TitlePLUS. The initial recognition for both types of reinsurance begins January 1st each year. The contract boundary for both types of reinsurance is for a 12 month period, from January 1 to December 31 each year.

Reinsurance contract assets are measured using the PAA model as each Reinsurance contract has a contract boundary of 12 months or less. In the Statement of Profit or Loss, net expenses from reinsurance are reported as part of the insurance service result. Net finance income/(expense) from reinsurance contracts held is presented as part of the net insurance and investment result.

## Income taxes

Income tax expense is recognized in profit or loss. 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 income 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 income tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets and liabilities are 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.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

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 DAE and other income and expense in the statement of profit or loss.

The retirement benefit obligation recognised 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.

## 4. NEW AND REVISED IFRSs ISSUED BUT NOT YET EFFECTIVE

There are no new and revised IFRSs issued but not yet effective that are relevant to the Company.

## 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:

### b) Maturity profile of fixed income securities

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

AS AT	DECEMBER 31 2023			DECEMBER 31 2022 (RESTATED)*		
	Fair value	Cost or amortized cost	Net Unrealized Gain (Loss)	Fair value	Cost or amortized cost	Net Unrealized Gain (Loss)
Classified as FVTPL						
Fixed income securities	\$ 540,001	553,580	(13,579)	532,101	563,348	(31,247)
Common equities (pooled funds)	134,002	99,525	34,477	112,602	94,467	18,135
Preferred equities	416	615	(199)	427	615	(188)
<b>Total</b>	<b>\$ 674,419</b>	<b>653,720</b>	<b>20,699</b>	<b>645,130</b>	<b>658,430</b>	<b>(13,300)</b>

\* Restated for the adoption of IFRS 17 – *Insurance contracts* & IFRS 9 – *Financial instruments*. Refer to Note 2 Application of New and Revised IFRSs relevant to the Company.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

The weighted average duration of fixed income securities as at December 31, 2023 is 3.93 years (December 31, 2022: 4.10 years).  
The effective yield on fixed income securities as at December 31, 2023 is 3.36% (December 31, 2022: 3.24%).

AS AT	DECEMBER 31, 2023			
	Within 1 year	1 to 5 years	Over 5 years	Total
<b>Classified as FVTPL</b>				
Issued or guaranteed by:				
Canadian federal government	\$ 17,517	12,025	42,803	72,345
Canadian provincial and municipal governments	13,726	77,826	101,805	193,357
Mortgage backed securities	-	4,962	1,289	6,251
Corporate debt	36,284	167,139	64,625	268,048
	\$			
<b>Fixed income securities</b>	<b>67,527</b>	<b>261,952</b>	<b>210,522</b>	<b>540,001</b>
Percent of total	12%	49%	39%	100%

AS AT	DECEMBER 31, 2022 (RESTATED)*			
	Within 1 year	1 to 5 years	Over 5 years	Total
<b>Classified as FVTPL</b>				
Issued or guaranteed by:				
Canadian federal government	\$ 6,867	31,132	25,395	63,394
Canadian provincial and municipal governments	14,353	55,614	97,455	167,422
Mortgage-backed securities	-	5,501	473	5,974
Corporate debt	32,187	170,412	92,712	295,311
	\$			
<b>Fixed income securities</b>	<b>53,407</b>	<b>262,659</b>	<b>216,035</b>	<b>532,101</b>
Percent of total	10%	49%	41%	100%

\* Restated for the adoption of IFRS 17 – *Insurance contracts* & IFRS 9 – *Financial instruments*.  
Refer to Note 2 Application of New and Revised IFRSs relevant to the Company.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## c) Investment income

Investment income arising from investments classified as FVTPL are recorded in net income for the year ended December 31 is as follows:

## d) Analysis of Investment income and insurance finance result

The investment portfolio is invested with the primary objective of matching the invested asset cash flows with the expected future

AS AT	2023	2022
	Classified as FVTPL	(RESTATED)* Classified as FVTPL
Interest and dividends	\$ 21,519	17,256
Net realized gains/(losses)	(1,116)	(6,146)
Change in net unrealized gains/(losses)	33,998	(48,933)
	54,401	(37,823)
Less: Investment expenses	(1,375)	(1,341)
<b>Investment income</b>	<b>\$ 53,026</b>	<b>(39,164)</b>

payments of the Insurance contract liabilities. The investments are managed to provide liquidity and address cash flow needs as claims are settled and preserve capital while achieving an appropriate return consistent with the objectives of the Company.

The table below presents an analysis of total investment income and insurance finance result recognised in profit or loss in the period:

AS AT	2023			2022 (RESTATED)*		
	Property and Casualty	Other	Total	Property and Casualty	Other	Total
<b>Summary of the amounts recognised in profit or loss</b>						
Net investment income - other investments	\$ 22,706	31,695	54,401	(17,125)	(20,698)	(37,823)
Net investment income (expenses) - other	(324)	(1,051)	(1,375)	(335)	(1,006)	(1,341)
Net insurance finance expenses	(24,649)	-	(24,649)	21,657	-	21,657
	(2,267)	30,644	28,377	4,197	(21,704)	(17,507)
<b>Summary of the amounts recognised</b>						
Insurance service result	\$ 9,065	-	9,065	(555)	-	(555)
Net investment income	22,382	30,644	53,026	(17,460)	(21,704)	(39,164)
Net insurance finance expenses	(24,649)	-	(24,649)	21,657	-	21,657
<b>Net insurance and investment result</b>	<b>\$ 6,798</b>	<b>30,644</b>	<b>37,442</b>	<b>3,642</b>	<b>(21,704)</b>	<b>(18,062)</b>

\* Restated for the adoption of IFRS 17 – *Insurance contracts* & IFRS 9 – *Financial instruments*.  
Refer to Note 2 Application of New and Revised IFRSs relevant to the Company.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## 6. FAIR VALUE MEASUREMENTS OF FINANCIAL ASSETS

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

AS AT DECEMBER 31, 2023	FAIR VALUE			
	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>				
Cash and cash equivalents	\$ 41,522	-	-	41,522
Fixed income securities	259,534	280,467	-	540,001
Common equities (pooled funds)	134,002	-	-	134,002
Preferred equities	-	416	-	416
	<b>\$ 435,058</b>	<b>280,883</b>	-	<b>715,941</b>

AS AT DECEMBER 31 2022	FAIR VALUE			
	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>				
Cash and cash equivalents	\$ 35,741	-	-	35,741
Fixed income securities	226,032	306,069	-	532,101
Common equities (pooled funds)	112,602	-	-	112,602
Preferred equities	-	427	-	427
	<b>\$ 374,375</b>	<b>306,496</b>	-	<b>680,871</b>

There were no transfers between any levels during the year ended December 31, 2023 (2022: none).

## 7. FIXED ASSETS AND RIGHT-OF-USE ASSETS

During the years ending December 31, details of the movement in the carrying values by class of fixed assets and right of use assets are as follows:

	Furniture and fixtures	Computer equipment	Computer software	Leasehold improvements	Right-of-use assets	Total
January 1, 2022	\$ 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
Additions	-	476	750	-	-	1,226
Amortization	(44)	(289)	(181)	(74)	(576)	(1,164)
<b>December 31, 2023</b>	<b>\$ 45</b>	<b>686</b>	<b>728</b>	<b>331</b>	<b>8,174</b>	<b>9,964</b>

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

Details of the cost and accumulated amortization of fixed assets and right of use assets are as follows:

AS AT	DECEMBER 31, 2023			DECEMBER 31, 2022		
	Cost	Accumulated amortization	Carrying value	Cost	Accumulated amortization	Carrying value
Furniture and fixtures	\$ 2,267	(2,222)	45	2,267	(2,178)	89
Computer equipment	4,375	(3,689)	686	3,899	(3,400)	499
Computer software	2,188	(1,460)	728	1,438	(1,279)	159
Leasehold improvements	4,403	(4,072)	331	4,403	(3,998)	405
Right-of-use assets	11,065	(2,891)	8,174	11,065	(2,315)	8,750
<b>Total</b>	<b>\$ 24,298</b>	<b>(14,334)</b>	<b>9,964</b>	<b>23,072</b>	<b>(13,170)</b>	<b>9,902</b>

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 an internally developed platform for the TitlePLUS product. The Company 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:

AS AT	2023	2022
<b>Cost</b>		
Balance, beginning of year	\$ 4,607	3,356
Additions from internal developments	802	1,251
Removal of intangible assets no longer in use	(1,242)	-
Balance, end of year	4,167	4,607
<b>Accumulated amortization and impairment</b>		
Balance, beginning of year	(2,030)	(1,450)
Amortization expense	(903)	(580)
Removal of intangible assets no longer in use	1,242	-
Balance, end of year	(1,691)	(2,030)
<b>Carrying amount</b>	<b>\$ 2,476</b>	<b>2,577</b>



# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## 9. LEASE LIABILITIES

Lease liabilities are comprised of the following:

AS AT	2023	2022
Expected to be settled in less than one year	\$ 472	450
Expected to be settled in more than one year	8,515	8,987
<b>Total</b>	<b>\$ 8,987</b>	<b>9,437</b>

## 10. INSURANCE CONTRACT LIABILITIES

### a) Roll Forward of insurance contract balances

The roll-forward of the liability for insurance contracts issued, showing the LRC and the LIC is disclosed in the table below:

FOR THE YEAR ENDED DECEMBER 31, 2023	LIABILITY FOR REMAINING COVERAGE			LIABILITY FOR INCURRED CLAIM CONTRACTS UNDER PAA		
	Excluding loss component	Loss component	Contracts under GMM	Present value of future cash flows	Risk adjustment	Total
<b>Insurance contract liabilities, beginning of period</b>	<b>\$ 2,568</b>	<b>4,151</b>	<b>7,220</b>	<b>415,494</b>	<b>24,948</b>	<b>454,381</b>
<b>Insurance revenue</b>	<b>(122,162)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(122,162)</b>
Incurring claims and other insurance service expense	-	(4,694)	4,374	117,726	5,415	122,821
Amortization of insurance acquisition cash flows	2,283	-	-	-	-	2,283
Losses and reversals on onerous contracts	-	4,145	-	-	-	4,145
Prior-year development	-	-	1,052	(16,384)	(6,309)	(21,641)
<b>Insurance service expense</b>	<b>2,283</b>	<b>(549)</b>	<b>5,426</b>	<b>101,342</b>	<b>(894)</b>	<b>107,608</b>
<b>Insurance service result from insurance contracts</b>	<b>(119,879)</b>	<b>(549)</b>	<b>5,426</b>	<b>101,342</b>	<b>(894)</b>	<b>(14,554)</b>
Insurance finance expense/(income)	1,144	229	208	23,049	1,383	26,013
<b>Total changes in Profit &amp; Loss</b>	<b>(118,735)</b>	<b>(320)</b>	<b>5,634</b>	<b>124,391</b>	<b>489</b>	<b>11,459</b>
<b>Cash flows</b>						
Premium received	122,162	-	-	-	-	122,162
Claims and other insurance service expense paid	-	-	(6,105)	(115,937)	-	(122,042)
<b>Insurance acquisition cash flows</b>	<b>(6,487)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,487)</b>
<b>Total cash flows</b>	<b>115,675</b>	<b>-</b>	<b>(6,105)</b>	<b>(115,937)</b>	<b>-</b>	<b>(6,367)</b>
<b>Insurance contract liabilities, end of period</b>	<b>\$ (492)</b>	<b>3,831</b>	<b>6,749</b>	<b>423,948</b>	<b>25,437</b>	<b>459,473</b>

\* Restated for the adoption of IFRS 17 – *Insurance contracts* & IFRS 9 – *Financial instruments*.  
Refer to Note 2 Application of New and Revised IFRSs relevant to the Company.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

FOR THE YEAR ENDED DECEMBER 31, 2022 ("RESTATED")*	LIABILITY FOR REMAINING COVERAGE			LIABILITY FOR INCURRED CLAIM CONTRACTS UNDER PAA		
	Excluding loss component	Loss component	Contracts under GMM	Present value of future cash flows	Risk adjustment	Total
<b>Insurance contract liabilities, beginning of period</b>	<b>\$ 9,588</b>	<b>12,067</b>	<b>6,455</b>	<b>439,186</b>	<b>26,403</b>	<b>493,699</b>
<b>Insurance revenue</b>	<b>(123,399)</b>	-	-	-	-	<b>(123,399)</b>
Incurring claims and other insurance service expense	-	(11,914)	4,071	121,612	5,505	119,274
Amortization of insurance acquisition cash flows	1,615	-	-	-	-	1,615
Losses and reversals on onerous contracts	-	3,841	-	-	-	3,841
Prior-year development	-	-	597	(15,840)	(5,709)	(20,952)
<b>Insurance service expense</b>	<b>1,615</b>	<b>(8,073)</b>	<b>4,668</b>	<b>105,772</b>	<b>(204)</b>	<b>103,778</b>
<b>Insurance service result from insurance contracts</b>	<b>(121,784)</b>	<b>(8,073)</b>	<b>4,668</b>	<b>105,772</b>	<b>(204)</b>	<b>(19,621)</b>
Insurance finance expense/(income)	(1,804)	157	(16)	(20,855)	(1,251)	(23,769)
<b>Total changes in Profit &amp; Loss</b>	<b>(123,588)</b>	<b>(7,916)</b>	<b>4,652</b>	<b>84,917</b>	<b>(1,455)</b>	<b>(43,390)</b>
<b>Cash flows</b>						
Premium received	123,227	-	-	-	-	123,227
Claims and other insurance service expense paid	-	-	(3,887)	(108,609)	-	(112,496)
<b>Insurance acquisition cash flows</b>	<b>(6,659)</b>	-	-	-	-	<b>(6,659)</b>
<b>Total cash flows</b>	<b>116,568</b>	-	<b>(3,887)</b>	<b>(108,609)</b>	-	<b>4,072</b>
<b>Insurance contract liabilities, end of period</b>	<b>\$ 2,568</b>	<b>4,151</b>	<b>7,220</b>	<b>415,494</b>	<b>24,948</b>	<b>\$454,381</b>

\* Restated for the adoption of IFRS 17 – *Insurance contracts* & IFRS 9 – *Financial instruments*.  
Refer to Note 2 Application of New and Revised IFRSs relevant to the Company.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## b) Roll-forward of insurance contract balances by each Component

The roll-forward of the liability for insurance contracts issued measured under the GMM showing estimates of the FCE, RA and CSM is disclosed in the table below:

<b>FOR THE YEAR ENDED DECEMBER 31, 2023</b>	Present value of future cash flows	Risk adjustment	Contractual service margin	<b>Total</b>
<b>Insurance contract liabilities, beginning of period</b>	<b>\$ 19,532</b>	<b>2,311</b>	<b>672</b>	<b>22,515</b>
<i>Changes that relate to past services:</i>				
Adjustments to liabilities for incurred claims	2,471	260	-	2,731
<b>Total Changes that relate to past services</b>	<b>2,471</b>	<b>260</b>	<b>-</b>	<b>2,731</b>
<i>Changes that relate to current services:</i>				
Contractual service margin recognised in net income / (loss) for the services provided	-	-	(72)	(72)
Change in risk adjustment for non-financial risk expired	-	(377)	-	(377)
Experience adjustments	(1,472)	(509)	-	(1,981)
<b>Total Changes that relate to current services</b>	<b>(1,472)</b>	<b>(886)</b>	<b>(72)</b>	<b>(2,430)</b>
<i>Changes that relate to future services:</i>				
Changes in estimates that adjust the contractual service margin	(72)	(9)	82	1
Contracts initially recognized in the period	2,499	430	-	2,929
Changes in estimates that result in losses and reversal of losses on onerous contracts	(725)	(120)	-	(845)
<b>Total Changes that relate to future services</b>	<b>1,702</b>	<b>301</b>	<b>82</b>	<b>2,085</b>
<b>Insurance service result from insurance contracts</b>	<b>2,701</b>	<b>(325)</b>	<b>10</b>	<b>2,386</b>
Insurance finance expense/(income)	1,402	171	8	1,581
Exchange rate differences	-	-	-	-
<b>Total changes in Profit &amp; Loss</b>	<b>4,103</b>	<b>(154)</b>	<b>18</b>	<b>3,967</b>
<b>Cash flows:</b>				
Premiums received for insurance contracts	7,195	-	-	7,195
Claims, benefits and other expenses paid	(6,104)	-	-	(6,104)
Insurance acquisition cash flows	(6,490)	-	-	(6,490)
<b>Total cash flows</b>	<b>(5,399)</b>	<b>-</b>	<b>-</b>	<b>(5,399)</b>
<b>Insurance contract liabilities, end of period</b>	<b>\$ 18,236</b>	<b>2,157</b>	<b>690</b>	<b>21,083</b>

\* Restated for the adoption of IFRS 17 – *Insurance contracts* & IFRS 9 – *Financial instruments*.

Refer to Note 2 Application of New and Revised IFRSs relevant to the Company.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

<b>FOR THE YEAR ENDED DECEMBER 31, 2022 (RESTATED)*</b>	Present value of future cash flows	Risk adjustment	Contractual service margin	<b>Total</b>
<b>Insurance contract liabilities, beginning of period</b>	<b>\$ 21,466</b>	<b>2,566</b>	<b>1,233</b>	<b>25,265</b>
<i>Changes that relate to past services:</i>				
Adjustments to liabilities for incurred claims	2,757	290	-	3,047
<b>Total Changes that relate to past services</b>	<b>2,757</b>	<b>290</b>	<b>-</b>	<b>3,047</b>
<i>Changes that relate to current services:</i>				
Contractual service margin recognised in net income / (loss) for the services provided	-	-	(128)	(128)
Change in risk adjustment for non-financial risk expired	-	(455)	-	(455)
Experience adjustments	(3,685)	(451)	-	(4,136)
<b>Total Changes that relate to current services</b>	<b>(3,685)</b>	<b>(906)</b>	<b>(128)</b>	<b>(4,719)</b>
<i>Changes that relate to future services:</i>				
Changes in estimates that adjust the contractual service margin	367	43	(450)	(40)
Contracts initially recognized in the period	3,280	678	-	3,958
Changes in estimates that result in losses and reversal of losses on onerous contracts	(1,351)	(174)	-	(1,525)
<b>Total Changes that relate to future services</b>	<b>2,296</b>	<b>547</b>	<b>(450)</b>	<b>2,393</b>
<b>Insurance service result from insurance contracts</b>	<b>1,368</b>	<b>(69)</b>	<b>(578)</b>	<b>721</b>
Insurance finance expense/(income)	(1,493)	(186)	17	(1,662)
Exchange rate differences	-	-	-	-
<b>Total changes in Profit &amp; Loss</b>	<b>(125)</b>	<b>(255)</b>	<b>(561)</b>	<b>(941)</b>
<b>Cash flows:</b>				
Premiums received for insurance contracts	8,737	-	-	8,737
Claims, benefits and other expenses paid	(3,887)	-	-	(3,887)
Insurance acquisition cash flows	(6,659)	-	-	(6,659)
<b>Total cash flows</b>	<b>(1,809)</b>	<b>-</b>	<b>-</b>	<b>(1,809)</b>
<b>Insurance contract liabilities, end of period</b>	<b>\$ 19,532</b>	<b>2,311</b>	<b>672</b>	<b>22,515</b>

\* Restated for the adoption of IFRS 17 – *Insurance contracts* & IFRS 9 – *Financial instruments*.  
Refer to Note 2 Application of New and Revised IFRSs relevant to the Company.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## c) Roll-forward of CSM

The roll-forward to show the impacts on the current period of transition approaches adopted to establishing CSMs is disclosed in the table below.

<b>FOR THE YEAR ENDED DECEMBER 31, 2023</b>	Contracts using the modified retrospective approach	Contracts using the fair value approach	All other contracts	<b>Total</b>
<b>Contractual Service Margin, beginning of period</b>	\$ -	478	194	672
<i>Changes that relate to current services:</i>				
Contractual service margin recognized for service provided	-	(53)	(19)	(72)
<b>Total Changes that relate to current services</b>	-	(53)	(19)	(72)
<i>Changes that relate to future services:</i>				
Contracts initially recognized in the period	-	-	-	-
Changes in estimates that adjust the contractual service margin	-	146	(64)	82
<b>Total Changes that relate to future services</b>	-	146	(64)	82
<b>Insurance service result from insurance contracts</b>	-	93	(83)	10
Insurance finance expense/(income)	-	5	3	8
Exchange rate differences	-	-	-	-
<b>Total changes in Profit &amp; Loss</b>	-	98	(80)	18
<b>Contractual Service Margin, end of period</b>	\$ -	576	114	690

<b>FOR THE YEAR ENDED DECEMBER 31, 2022 (RESTATED)*</b>	Contracts using the modified retrospective approach	Contracts using the fair value approach	All other contracts	<b>Total</b>
<b>Contractual Service Margin, beginning of period</b>	\$ -	1,233	-	1,233
<i>Changes that relate to current services:</i>				
Contractual service margin recognized for service provided	-	(95)	(33)	(128)
<b>Total Changes that relate to current services</b>	-	(95)	(33)	(128)
<i>Changes that relate to future services:</i>				
Contracts initially recognized in the period	-	-	-	-
Changes in estimates that adjust the contractual service margin	-	(677)	227	(450)
<b>Total Changes that relate to future services</b>	-	(677)	227	(450)
<b>Insurance service result from insurance contracts</b>	-	(772)	194	(578)
Insurance finance expense/(income)	-	17	-	17
Exchange rate differences	-	-	-	-
<b>Total changes in Profit &amp; Loss</b>	-	(755)	194	(561)
<b>Contractual Service Margin, end of period</b>	\$ -	478	194	672

\* Restated for the adoption of IFRS 17 – Insurance contracts & IFRS 9 – Financial instruments.  
Refer to Note 2 Application of New and Revised IFRSs relevant to the Company.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

The Company expects to recognise the CSM in profit or loss for existing GMM contracts within twenty years, which represents the longest coverage period for the contracts in force issued by the Company.

The expected timeline of when the CSM is expected to be in profit and loss is as follows:

2023							
	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
<b>Insurance contracts issued</b>	\$ 133	113	96	82	70	196	690

2022							
	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
<b>Insurance contracts issued</b>	\$ 110	94	80	68	58	262	672

## d) Analysis of Insurance Revenue recognized

FOR THE YEARS ENDED DECEMBER 31	2023	2022 (RESTATED)*
<b>Insurance Revenue</b>		
CSM recognized for services provided	\$ 72	128
Change in risk adjustment for non-financial risk for risk expired	328	442
<b>Expected insurance service expenses incurred:</b>		
Claims	1,840	2,430
Expenses	775	1,105
<b>Total Expected insurance service expenses incurred</b>	<b>2,615</b>	<b>3,535</b>
Recovery of insurance acquisition cash flows	2,283	1,649
Experience adjustments not related to future service	-	-
Other Changes	-	-
<b>Total Revenue from Contracts Not Measured Under PAA</b>	<b>5,298</b>	<b>5,754</b>
<b>Contracts Measured the Under PAA</b>		
Expected premium receipts allocation under the PAA	116,864	117,645
<b>Total Revenue from Contracts Measured Under PAA</b>	<b>116,864</b>	<b>117,645</b>
<b>Total Insurance Revenue</b>	<b>\$ 122,162</b>	<b>\$123,399</b>

\* Restated for the adoption of IFRS 17 – *Insurance contracts* & IFRS 9 – *Financial instruments*.  
Refer to Note 2 Application of New and Revised IFRSs relevant to the Company.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## e) Liability for incurred claims

The determination of the LIC 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 Insurance contract 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, liquid risk-free yield curve, illiquidity premium, 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 Insurance contract 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.

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.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## 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 an approach that is based on the number of expected future claims transactions by lines of business.

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

## Discount rate

The insurance contract liabilities are discounted using a risk-free rate that is derived by the bottom-up approach based on the Government of Canada zero-coupon bond rates as at the valuation date, and an illiquidity premium that is derived by the top-down approach based on a linear regression of the yield to maturity of the reference portfolio that is comprised of corporate and municipal bonds as at the reference portfolio date. The reference portfolio date for December 31, 2023 was very close to the valuation date, as the Illiquidity premium was based at November 30, 2023, while the risk free rate was based at December 27, 2023. For comparison, the reference portfolio date for December 31, 2022 was the same date as the valuation date. The reinsurance contract assets estimates and claims recoverable from other insurers are discounted in a manner consistent with the method used to establish the related liability. The discount rates are defined up to 30 years from the valuation date, more than sufficient for all expected future cash flows projected.

The FCF are initially discounted applying the discount rate determined at initial recognition of a group of contracts. This discount rate is applied in the calculation of the CSM and referred to as the “locked-in” discount rate.

The “locked-in” discount rate also applies for accreting the unwind of the discount on the CSM of a group of contracts when applying the GMM. In addition, changes in FCF related to future service of the insurance contracts (such as arising from premium related experience adjustments, changes in estimates in FCF related to future periods) are recorded using current rates, but the impact on CSM is recorded applying the “locked-in” rate. This creates a mismatch that is included in insurance finance income or expense.

Illiquid Discount Rates are as follows:-

AS AT	DECEMBER 31, 2023						DECEMBER 31 2022 (RESTATED)*					
	1 year	3 years	5 years	10 years	20 years	30 years	1 year	3 years	5 years	10 years	20 years	30 years
Yield %	5.39%	4.44%	4.20%	4.23%	4.24%	4.17%	5.69%	4.71%	4.49%	4.63%	4.66%	4.57%

\* Restated for the adoption of IFRS 17 – *Insurance contracts* & IFRS 9 – *Financial instruments*.  
Refer to Note 2 Application of New and Revised IFRSs relevant to the Company.



# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## Risk Adjustment

The Company has estimated the risk adjustment factors for the Mandatory and excess E&O portfolios and the Reinsurance portfolios based on the Confidence Level Method. In the Confidence Level Method (also referred to as “quantile”), “the compensation that the entity requires for bearing the uncertainty” is reflected in the RA calculations in the form of a target confidence level selected by the entity, resulting in a required additional provision such that the probability that the present value of future cash flows would exceed the total booked amount would be equal to one minus the target confidence level.

Based on the results of the Mandatory E&O reserve variability analysis as at December 31, 2022, distributions for each of LIC and LRC (as well as for LIC and LRC combined), were determined, RA factors were calculated, and the RA factors at the 80% confidence level were selected.

The Company has estimated the risk adjustment factors for the TitlePLUS portfolio based on the Margin Method. The risk adjustment factors were selected by adapting the margins for adverse development (MfADs) that were used in IFRS 4 for use in IFRS 17. The qualitative risk characteristics underlying the selected RA factors reflect the following considerations:

- Current claims development MfAD considerations (i.e., reflecting the current CIA guidance);
- RA factors for TitlePLUS based on the MCT Calibration approach;
- IFRS 17 qualitative principles for consideration when estimating the liability for RA; and
- Judgment to align with the 80% confidence level selected by the Company.

Considering the small size of TitlePLUS business relative to Mandatory E&O, the RA for TitlePLUS would have no material impact on the confidence level of the total RA for the Company. Therefore, the confidence level of the total RA for the Company will be the same as the confidence level of the RA for Mandatory E&O portfolios (i.e., 80% confidence level).

The primary assumption inherent in this approach is that historical claims development can be used to generate the full range of potential outcomes.

The company also incorporates qualitative judgmental factors not included in the historical data.

## f) Liability for remaining coverage under the GMM

In determining the estimated future cash flows, the company considers the full range of possible outcomes, each scenario is probability-weighted and discounted using current assumptions.

The Company includes all cash flows that are within the contract boundary and incorporates, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing, and uncertainty of those future cash flows.

## g) Coverage units

The Company’s CSM from the GMM portfolio is released to insurance revenue by the pattern of coverage units released, which quantifies the amount of insurance service provided in any given period. For TitlePLUS business, data is not readily available to directly assess the number of title insurance contracts in force (exposure) at any given point in time. Therefore, the Ontario house sales data and mortgage loans discharge data were used as a surrogate to estimate the contract boundary of the Company’s TitlePLUS business and the exposure unit underlying the Company’s TitlePLUS insurance contracts over time.

## h) Changes in methodologies or basis of selection of assumptions

The methods used to compute the Insurance contract liabilities are largely unchanged from those used in the previous actuarial valuation. Most of the assumptions employed in the actuarial valuation process were determined in a similar manner to those used in the previous valuations, except a few (e.g., directly attributable expenses) to reflect the new accounting standard. All assumptions were selected after giving consideration to the experience that emerged to the end of 2023.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## 11. REINSURANCE CONTRACT ASSETS

The Company's reinsurance program consists of a 90% quota share cession on its Excess E&O 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 claims on Mandatory E&O and/or TitlePLUS 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. If 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 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, the company has recognized non-performance risk for reinsurers in the 0.05% to 1.68% range based on the timing of the expected future cashflows. The highest factor of 1.68% for the cashflows that are 15 years and beyond in the future reflects the highest level of uncertainty based on the average credit score of the Company's reinsurers.

### a) Roll Forward of reinsurance contract balances

The roll-forward of the asset for reinsurance contracts held showing assets for remaining coverage and amounts recoverable on incurred claims is disclosed in the table below:

FOR THE YEAR ENDED DECEMBER 31, 2023	ASSET FOR REMAINING COVERAGE		ASSET FOR INCURRED CLAIMS CONTRACTS UNDER PAA		Total
	Excluding loss recovery component	Loss recovery component	Present value of future cash flows	Risk adjustment	
<b>Reinsurance contract assets, beginning of period</b>	\$ (723)	-	28,770	1,667	29,714
<b>Allocation of reinsurance premiums</b>	(6,069)	-	-	-	(6,069)
Amounts recoverable for incurred claims and other expenses	-	-	3,349	184	3,533
Loss recoveries and reversals on onerous contracts	-	-	-	-	-
Prior-year development	-	-	-	-	-
Adjustments to assets for incurred claims	-	-	(2,784)	(169)	(2,953)
<b>Amounts recoverable from reinsurers</b>	-	-	565	15	580
<b>Net expense from reinsurance contracts</b>	(6,069)	-	565	15	(5,489)
Reinsurance finance income/(expense)	-	-	1,287	77	1,364
Exchange rate differences	-	-	-	-	-
<b>Total changes in Profit &amp; Loss</b>	(6,069)	-	1,852	92	(4,125)
<b>Cash flows</b>					
Premium paid	6,022	-	-	-	6,022
Amounts received	-	-	(1,350)	(12)	(1,362)
<b>Total cash flows</b>	6,022	-	(1,350)	(12)	4,660
<b>Reinsurance contract assets, end of period</b>	\$ (770)	-	29,272	1,747	30,249

\* Restated for the adoption of IFRS 17 – *Insurance contracts* & IFRS 9 – *Financial instruments*.  
Refer to Note 2 Application of New and Revised IFRSs relevant to the Company.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

FOR THE YEAR ENDED DECEMBER 31, 2022 (RESTATED*)	ASSET FOR REMAINING COVERAGE		ASSET FOR INCURRED CLAIMS CONTRACTS UNDER PAA		Total
	Excluding loss recovery component	Loss recovery component	Present value of future cash flows	Risk adjustment	
<b>Reinsurance contract assets, beginning of period</b>	\$ (668)	-	43,929	2,657	45,918
<b>Allocation of reinsurance premiums</b>	(4,248)	-	-	-	(4,248)
Amounts recoverable for incurred claims and other expenses	-	-	3,064	180	3,244
Loss recoveries and reversals on onerous contracts	-	-	-	-	-
Prior-year development	-	-	-	-	-
Adjustments to assets for incurred claims	-	-	(16,282)	(1,050)	(17,332)
<b>Amounts recoverable from reinsurers</b>	-	-	(13,218)	(870)	(14,088)
<b>Net expense from reinsurance contracts</b>	(4,248)	-	(13,218)	(870)	(18,336)
Reinsurance finance income/(expense)	-	-	(1,993)	(120)	(2,113)
Exchange rate differences	-	-	-	-	-
<b>Total changes in Profit &amp; Loss</b>	(4,248)	-	(15,211)	(990)	(20,449)
<b>Cash flows</b>					
Premium paid	4,193	-	-	-	4,193
Amounts received	-	-	52	-	52
<b>Total cash flows</b>	4,193	-	52	-	4,245
<b>Reinsurance contract assets, end of period</b>	\$ (723)	-	28,770	1,667	29,714

\* Restated for the adoption of IFRS 17 – *Insurance contracts* & IFRS 9 – *Financial instruments*.  
Refer to Note 2 Application of New and Revised IFRSs relevant to the Company.

## 12. 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 E&O insurance program with the Company.

The insurance policy under the Mandatory E&O 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, 2023 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 Insurance contract liabilities is net of amounts relating to policies for years prior to 1995 that are payable by the Law Society.

For the year ended December 31, 2023, \$110.2M of the Insurance Revenue was related to Mandatory E&O insurance coverage provided to the Law Society and its members (2022: \$111.1M). Insurance contract liabilities relating to Mandatory E&O coverage was \$402.6M as at December 31, 2023 (2022: \$398.5M). As at December 31, 2023, the Company had a balance due from the Law Society of \$11.3M (December 31, 2022: \$11.5M due from Law Society). Out of this due from the Law Society balance, \$3.2M (December 31, 2022: \$3.3M) relates to non-insurance. The balance due from Law Society is due on demand and bears no interest.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

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:

<b>FOR THE YEARS ENDED DECEMBER 31</b>	<b>2023</b>	<b>2022</b>
Short-term compensation and benefits	\$ 3,303	3,196
Post employment benefits	321	527
	<b>\$ 3,624</b>	<b>3,723</b>

## 13. 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 2023, the Company made payments of \$854,387 (2022: \$837,398) and recorded pension expense of \$886,031 (2022: \$858,427).

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 2023 (2022: nil) and recorded \$25,470 pension income in 2023 (2022: \$342,052 pension expense). 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, 2023. Management's preliminary estimate is that there are no required contributions to the plan during the year ending December 31, 2024.

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

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.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

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.

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

<i>SDEP obligation</i>	2023	2022
<b>Accrued benefit obligation</b>		
Balance, as at January 1	\$ 7,629	10,058
Current service cost	224	424
Interest cost	374	307
Remeasurement (gains) losses:		
Actuarial (gains) losses - demographic assumptions	-	96
Actuarial (gains) losses - financial assumptions	352	(2,084)
Actuarial (gains) losses - experience adjustments	95	(717)
Benefits paid	(437)	(455)
<b>Balance, as at December 31</b>	<b>\$ 8,237</b>	<b>7,629</b>

<i>SDEP assets</i>	2023	2022
<b>AS AT</b>		
<b>Plan assets</b>		
Fair value, as at January 1	\$ 12,563	13,215
Interest income on plan assets	623	389
Remeasurement gains (losses):		
Return on plan assets greater (less) than interest	(2)	(586)
Benefits paid	(437)	(455)
Employer contribution	-	-
<b>Balance, as at December 31</b>	<b>\$ 12,747</b>	<b>12,563</b>

The SDEP assets arise primarily from employer contributions that are originally allocated between fixed income securities, investments in the units of a balanced equity pooled fund, and a real estate 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:

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

	DECEMBER 31, 2023	DECEMBER 31, 2022
Equity securities	33.7%	26.4%
Fixed income securities	10.6%	13.2%
Real Estate	10.6%	13.2%
Cash and cash equivalents	0.6%	0.4%
Refundable-tax account	44.5%	46.8%
<b>Balance, as at December 31</b>	<b>100.0%</b>	<b>100.0%</b>

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, 2023	DECEMBER 31, 2022
Fair value of plan assets	\$ 12,747	12,563
Accrued benefit obligation	(8,237)	(7,629)
<b>Balance, as at December 31</b>	<b>\$ 4,510</b>	<b>4,934</b>

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

SDEP Expense	2023	2022
Service cost:		
Current service cost	\$ 224	424
Net interest (income) expense	(249)	(82)
<b>Components of defined benefit costs recognized in profit or loss</b>	<b>\$ (25)</b>	<b>342</b>
Remeasurement on the net defined benefit liability:		
Actuarial (gain) loss due to liability experience	95	(718)
Actuarial (gain) loss due to liability assumption changes	352	(1,987)
Actuarial (gain) loss arising during year	447	(2,705)
Return on plan assets (greater) less than discount rate	2	586
<b>Components of defined benefit costs recognized in OCI</b>	<b>\$ 449</b>	<b>(2,119)</b>

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

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

	2023	2022
Discount rate	4.65%	5.05%
Rate of compensation increase	3.50%	3.50% starting in 2023
Mortality	CPM 2014 Priv mortality table 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 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, 2023, if the discount rate was 1.0% higher/(lower) the defined benefit obligation would increase by \$1,000,153 (decrease by \$836,570). 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.

The expected maturity profile of the SDEP obligation as at December 31, 2023 is as follows:

MATURITY PROFILE ON DEFINED BENEFIT OBLIGATION	2024	2025	2026	2027	2028	Thereafter
Expected benefit payments	\$ 437	435	434	432	538	3,165

The SDEP obligation as at December 31, 2023 by participant category is as follows:

Active participants	2,133
Pensioners	6,104
	<b>8,237</b>

## 14. INCOME TAXES

### a) Income tax expense recognized in comprehensive income

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

FOR THE YEARS ENDED DECEMBER 31	2023	2022 (RESTATED)*
<b>Current income tax</b>		
Expensed (recovered) during the year	\$ 1,674	(2,975)
Prior year adjustments	703	(333)
Total current income tax expense (recovery)	2,377	(3,308)
<b>Deferred income tax</b>		
Origination and reversal of temporary differences	6,982	(6,398)
IFRS 17 adoption and impact of the IFRS 17 transitional adjustment	(1,312)	2,572
Total deferred income tax expense (recovery)	5,670	(3,826)
<b>Total income tax</b>	<b>\$ 8,047</b>	<b>(7,134)</b>

\* Restated for the adoption of IFRS 17 – *Insurance contracts* & IFRS 9 – *Financial instruments*.  
Refer to Note 2 Application of New and Revised IFRSs relevant to the Company.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

Deferred income tax expense/(recovery) recognized in comprehensive income represents movements on the following items:

<b>FOR THE YEARS ENDED DECEMBER 31</b>	<b>2023</b>	<b>2022 (RESTATED)*</b>
Unused tax losses	\$ 6,916	(6,916)
IFRS 17 adoption and impact of the IFRS 17 transitional adjustment	(1,312)	2,572
Pensions	21	(124)
Investments	(40)	(39)
Insurance contract liabilities	(117)	122
Fixed, intangible, and other assests	202	559
<b>Total deferred income tax expense (recovery)</b>	<b>\$ 5,670</b>	<b>(3,826)</b>

## b) 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 comprehensive income.

<b>FOR THE YEARS ENDED DECEMBER 31</b>	<b>2023</b>	<b>2022 (RESTATED)*</b>
Profit or loss before income taxes	\$ 29,416	(26,050)
Statutory income tax rate	26.50%	26.50%
Provision for (recovery of) income taxes at statutory rates	7,795	(6,903)
Increase (decrease) resulting from:		
Investments	(264)	(264)
Other non-deductible items	489	22
Non-deductible meals and entertainment	27	11
<b>Provision for (recovery of) income taxes</b>	<b>\$ 8,047</b>	<b>(7,134)</b>

\* Restated for the adoption of IFRS 17 – *Insurance contracts* & IFRS 9 – *Financial instruments*.  
Refer to Note 2 Application of New and Revised IFRSs relevant to the Company.

The statutory rate applicable to the Company at December 31, 2023, is the same as at December 31, 2022.

During the year, the Company made income tax payments of \$208,253 (2022: \$3,493,360) and received income tax refunds of \$2,965,565 (2022: \$462,211) from the various taxing authorities.



# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## c) 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:

AS AT	DECEMBER 31 2023	DECEMBER 31 2022 (RESTATED)*
<b>Deferred tax assets</b>		
Unused tax losses	\$ -	6,916
Insurance contract liabilities	6,208	(466)
Fixed & intangible assets & other	468	308
	6,676	6,758
<b>Deferred income tax liabilities</b>		
IFRS 17 transitional adjustment	(5,247)	-
Investments	(80)	(119)
Fixed & intangible assets & pension	(2,214)	(1,951)
	(7,541)	(2,070)
<b>Total net deferred tax assets (liabilities)</b>	<b>\$ (865)</b>	<b>4,688</b>
<b>Deferred tax assets</b>		
Within one year	1,216	1,357
Greater than one year	5,460	5,402
	6,676	6,759
<b>Deferred income tax liabilities</b>		
Within one year	(1,354)	(40)
Greater than one year	(6,187)	(2,031)
	(7,541)	(2,071)
<b>Total net deferred tax assets (liabilities)</b>	<b>\$ (865)</b>	<b>4,688</b>

\* Restated for the adoption of IFRS 17 – *Insurance contracts* & IFRS 9 – *Financial instruments*.

Refer to Note 2 Application of New and Revised IFRSs relevant to the Company.

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.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## 15. OPERATING EXPENSES

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

AS AT	DECEMBER 31 2023	DECEMBER 31 2022 (RESTATED)*
Claims	\$ 81,008	85,056
Salaries and employee benefits	23,960	23,322
Defined benefit pension plan expense	(25)	342
Directors remuneration	1,040	950
Professional Fees	3,981	4,833
Legal fees	96	193
Losses on onerous insurance contracts	(549)	(8,140)
Amortization of fixed and right of use assets	1,164	1,217
Amortization of intangible assets	903	580
Occupancy expenses	1,211	1,078
Information systems	3,383	3,799
Allowance for doubtful accounts expense	18	52
Other finance costs	363	380
Other general expenses	3,062	2,850
<b>Subtotal</b>	<b>119,615</b>	<b>116,512</b>
Amounts attributed to insurance acquisition cash flows	(6,265)	(6,397)
Amortization of insurance acquisition cash flows	2,283	1,649
<b>Total</b>	<b>\$ 115,633</b>	<b>111,764</b>
<b>Represented by:</b>		
Insurance Service Expenses	\$ 107,608	103,778
Other General Expenses	8,025	7,986
<b>Total Expenses</b>	<b>\$ 115,633</b>	<b>111,764</b>

\* Restated for the adoption of IFRS 17 – *Insurance contracts* & IFRS 9 – *Financial instruments*.  
Refer to Note 2 Application of New and Revised IFRSs relevant to the Company.

Included in salaries and benefits are amounts for future employee benefits under a DCPD of \$854,387 (2022: \$837,398) and a SDEP of \$(25,470) (2022: \$342,052).

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## 16. 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.

## 17. STATUTORY INSURANCE INFORMATION

The Company does not hold any security for the assets for incurred claims from possible unregistered reinsurers (2022: nil).

## 18. CAPITAL MANAGEMENT

Capital is comprised of the Company’s equity. As at December 31, 2023 the Company’s equity was \$300,489 (December 31, 2022: \$279,449). The Company’s objectives when managing capital are to maintain financial strength and protect its claims paying abilities, to maintain creditworthiness. In conjunction with the Company’s Board of Directors and its Audit Committee, 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. These metrics are the 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% (2022: 170%) in excess of which, under normal circumstances, the Company will maintain its capital. The Company has set a preferred operating range of 210% to 240% (2022: 210% to 240%). During the year ended December 31, 2023, the Company complied with the various provincial regulators’ guidelines and as at December 31, 2023, the Company has a MCT ratio of 240.8% (December 31, 2022: 228.8%). 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.

Effective January 1, 2023, FSRA adopted Office of the Superintendent of Financial Institutions (“OSFI’s”) new capital guidelines based on insurance contracts measured under IFRS 17. The transition to the new regulatory capital requirements did not have a significant impact on the Company’s regulatory capital position and did not change the Company’s overall capital framework and management of capital.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## 19. RISK MANAGEMENT

The adoption of IFRS 17 and IFRS 9 has not changed the company's approach to risk management. 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 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 cyclicity 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.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## 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 (2022: 99%) and 96% in professional liability (2022: 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 and reviewed by management on a quarterly basis, and reviewed by 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 LIC 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 LIC. Given this line of business and the actuarial methods utilized to estimate the related LIC, 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 LIC net of reinsurance 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.

AS AT	DECEMBER 31, 2023			DECEMBER 31, 2022 (RESTATED)*		
	LIC	AIC**	Net Equity	LIC	AIC**	Net Equity
Unreported claims +20%	\$ 1,589	0	(1,168)	2,051	2	(1,506)
Average claim severities +1%	\$ 1,003	0	(737)	1,088	1	(799)

\* Restated for the adoption of IFRS 17 – *Insurance contracts* & IFRS 9 – *Financial instruments*.

Refer to Note 2 Application of New and Revised IFRSs relevant to the Company.

\*\* AIC - Assets for Incurred Claims

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

The following tables summarize the estimates of cumulative LIC and reinsurance contract assets for each successive policy year at each reporting date, together with cumulative claim payments and claims ceded to date.

## LIABILITIES FOR INCURRED CLAIMS AS AT DECEMBER 31, 2023

	POLICY YEAR											Total
	All Prior Years	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
<b>Liability of Incurred Claims</b>												
At end of Policy year	\$	102,423	104,351	112,369	111,489	107,713	110,804	94,735	104,753	112,946	109,898	
One Year Later		91,286	94,881	105,749	99,581	92,395	103,636	91,154	104,738	109,830		
Two Years Later		86,533	90,722	97,942	96,368	94,427	105,566	90,997	94,344			
Three Years Later		87,383	94,742	96,397	95,215	94,082	101,398	91,504				
Four Years Later		83,700	92,141	94,511	92,909	94,981	102,980					
Five Years Later		80,932	90,143	95,132	93,336	93,772						
Six Years Later		80,629	89,787	94,524	94,361							
Seven Years Later		80,116	88,093	95,965								
Eight Years Later		78,739	87,332									
Nine Years Later		78,052										
<b>Cumulative Claims Paid</b>												
At end of Policy year		(5,516)	(5,896)	(7,299)	(6,969)	(8,043)	(8,233)	(7,632)	(9,712)	(10,885)	(9,129)	
One Year Later		(18,123)	(19,993)	(21,104)	(22,535)	(21,020)	(25,783)	(21,182)	(22,773)	(29,744)		
Two Years Later		(30,339)	(30,943)	(35,102)	(33,687)	(32,348)	(41,616)	(31,751)	(38,251)	-		
Three Years Later		(40,880)	(42,433)	(45,204)	(41,954)	(43,269)	(53,060)	(41,466)	-	-		
Four Years Later		(45,911)	(54,319)	(55,156)	(51,263)	(51,596)	(61,528)	-	-	-		
Five Years Later		(51,069)	(59,854)	(61,265)	(58,983)	(59,510)	-	-	-	-		
Six Years Later		(55,520)	(65,522)	(66,154)	(64,825)	-	-	-	-	-		
Seven Years Later		(59,455)	(69,743)	(71,898)	-	-	-	-	-	-		
Eight Years Later		(64,354)	(72,897)	-	-	-	-	-	-	-		
Nine Years Later		(68,057)										
Estimate of Ultimate Claims		78,052	87,332	95,965	94,361	93,772	102,980	91,504	94,344	109,830	109,898	
Cumulative Claims Paid		(68,057)	(72,897)	(71,898)	(64,825)	(59,510)	(61,528)	(41,466)	(38,251)	(29,744)	(9,129)	-
Undiscounted LIC	\$ 26,682	9,995	14,435	24,067	29,536	34,262	41,452	50,038	56,093	80,086	100,769	<b>467,415</b>
Provision for DAE												<b>31,942</b>
Effect of Discounting												<b>(43,223)</b>
Present Value recognized for LIC												<b>456,134</b>

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## ASSETS FOR INCURRED CLAIMS AS AT DECEMBER 31, 2022

## POLICY YEAR

	All Prior Years	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
<b>Asset of Incurred Claims</b>												
At end of Policy year	\$	4,383	4,345	4,347	4,261	4,349	4,342	4,299	4,354	3,615	3,664	
One Year Later		4,383	4,346	4,347	4,261	4,350	4,342	4,299	3,133	4,989		
Two Years Later		4,383	4,346	4,347	4,260	4,350	4,343	2,882	2,928			
Three Years Later		4,383	4,346	4,347	4,261	4,350	2,888	2,678				
Four Years Later		4,383	4,345	4,347	4,261	2,504	2,683					
Five Years Later		4,383	4,345	4,347	4,050	2,298						
Six Years Later		4,383	4,346	4,083	3,848							
Seven Years Later		4,383	1,883	3,877								
Eight Years Later		2,141	1,677									
Nine Years Later		1,892										
<b>Cumulative Claims Ceded</b>												
At end of Policy year												
One Year Later									(8)			
Two Years Later				(100)			-169		(10)			
Three Years Later				(99)			-183					
Four Years Later				(1,202)			-184					
Five Years Later				(1,126)								
Six Years Later				(1,098)								
Seven Years Later				(1,104)								
Eight Years Later		(402)										
Nine Years Later		(408)										
Estimate of Undiscounted Claims		1,892	1,677	3,877	3,848	2,298	2,683	2,678	2,928	4,989	3,664	
Cumulative Claims Paid		(408)	-	(1,104)	-	-	(184)	-	(10)	-	-	-
Undiscounted AIC	\$ 4,910	1,484	1,677	2,773	3,848	2,298	2,499	2,678	2,918	4,989	3,664	<b>33,738</b>
Provision for DAE												<b>0</b>
Effect of Discounting												<b>2,719</b>
Present Value recognized for AIC												<b>31,019</b>

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

## 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 advisor and 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.

There is no significant credit risk arising from insurance contracts.

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 reinsurance contract assets.

	DECEMBER 31, 2023						Carrying value
	AAA	AA	A	BBB	BB and lower	Not rated	
Cash and cash equivalents	\$ 37,991	-	3,375	-	-	156	41,522
Fixed income securities	79,055	151,387	222,399	87,160	-	-	540,001
Investment income due and accrued	268	688	1,822	834	-	189	3,801
Reinsurance contract assets	-	-	30,249	-	-	-	30,249
<b>Total</b>	<b>\$ 117,314</b>	<b>152,075</b>	<b>257,845</b>	<b>87,994</b>	<b>-</b>	<b>345</b>	<b>615,573</b>

	DECEMBER 31, 2022						Carrying value
	AAA	AA	A	BBB	BB and lower	Not rated	
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
Reinsurance contract assets	-	-	29,714	-	-	-	29,714
<b>Total</b>	<b>\$ 102,818</b>	<b>117,316</b>	<b>289,833</b>	<b>89,948</b>	<b>996</b>	<b>288</b>	<b>601,139</b>



# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

Fixed income securities are rated using a composite of Moody's, Standard & Poor, and Dominion Bond Rating Service ratings, and reinsurance contract assets 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.

Insurance contract 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 Insurance contract liabilities. Operationally, total investments are managed to provide liquidity and address cash flow needs as claims are settled and preserve capital while maximizing 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:

	DECEMBER 31, 2023				Total
	Within one year	One to five years	More than five years	No fixed maturity	
<b>Assets</b>					
Cash and cash equivalents	\$ 41,522	-	-	-	41,522
Investments	67,527	261,952	210,522	134,419	674,420
Investment income due and accrued	3,801	-	-	-	3,801
Reinsurance contract assets	6,989	15,553	7,707	-	30,249
Other assets	4,671	-	-	4,510	9,181
<b>Total</b>	<b>\$ 124,510</b>	<b>277,505</b>	<b>218,229</b>	<b>138,929</b>	<b>759,173</b>
<b>Liabilities</b>					
Lease liabilities	819	3,274	7,709	-	11,802
Expenses due and accrued	3,419	-	-	-	3,419
<b>Total</b>	<b>\$ 4,238</b>	<b>3,274</b>	<b>7,709</b>	<b>-</b>	<b>15,221</b>

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

	DECEMBER 31, 2022					Total
	Within one year	One to five years	More than five years	No fixed maturity		
<b>Assets</b>						
Cash and cash equivalents	\$ 35,741	-	-	-	-	35,741
Investments	53,407	262,659	216,035	113,029	-	645,130
Investment income due and accrued	3,583	-	-	-	-	3,583
Reinsurance contract assets	7,278	15,382	7,054	-	-	29,714
Other assets	9,691	-	-	4,934	-	14,625
<b>Total</b>	<b>\$ 109,700</b>	<b>278,041</b>	<b>223,089</b>	<b>117,963</b>	<b>-</b>	<b>728,793</b>
<b>Liabilities</b>						
Lease liabilities	816	3,275	8,527	-	-	12,618
Expenses due and accrued	9,027	-	-	-	-	9,027
<b>Total</b>	<b>\$ 9,843</b>	<b>3,275</b>	<b>8,527</b>	<b>-</b>	<b>-</b>	<b>21,645</b>

The following table summarises the maturity profile of portfolios of insurance contract liabilities of the Company based on the estimates of the undiscounted future cash flows expected to be paid out in the periods presented.

	2023						Total
	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	
Insurance contract liabilities	\$ 100,659	81,173	66,175	55,182	43,635	134,575	481,399

	2022						Total
	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	
Insurance contract liabilities	\$ 101,479	82,549	67,287	54,796	44,633	127,375	478,119

## 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.

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.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

For financial assets and 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.

The following table presents an analysis of how a possible change in interest rates may impact the balances of investment assets and insurance contract liabilities, as well as the net impact on profit or loss and equity. The Company's other financial assets and liabilities are not significantly sensitive to interest rates.

AS AT	1% INCREASE IN INTEREST RATES IMPACT ON DECEMBER 31, 2023		1% DECREASE IN INTEREST RATES IMPACT ON DECEMBER 31, 2023	
	Profit (loss)	Equity	Profit (loss)	Equity
Investments	\$ (6,236)	(4,583)	6,524	4,795

AS AT	DECEMBER 31, 2022		DECEMBER 31, 2022	
	Profit (loss)	Equity	Profit (loss)	Equity
Investments	\$ (8,214)	(6,037)	8,653	6,360

AS AT	1% INCREASE IN INTEREST RATES IMPACT ON DECEMBER 31, 2023		1% DECREASE IN INTEREST RATES IMPACT ON DECEMBER 31, 2023	
	Profit (loss)	Equity	Profit (loss)	Equity
Insurance contract liabilities	\$ 13,791	10,136	(14,779)	(10,863)

AS AT	DECEMBER 31, 2022		DECEMBER 31, 2022	
	Profit (loss)	Equity	Profit (loss)	Equity
Insurance contract liabilities	\$ 13,197	9,700	(14,121)	(10,379)

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.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

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 following chart provides the estimated increase/(decrease) on the Company's after-tax profit/(loss), assuming all other variables held constant, after an immediate 10% increase or decrease in equity prices as at December 31.

		<b>2023</b>	<b>2022</b>
		After-tax Profit (Loss)	
Equity prices	+10%	\$ 9,849	8,276
	-10%	\$ (9,849)	(8,276)

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.

Currency	<b>2023</b>	<b>2022</b>
	Effect on profit (loss) before taxes (+/-)	Effect on profit (loss) before taxes (+/-)
US Dollar	\$ 5,267	4,773
UK Pound	613	652
Other	1,851	1,633
	<b>\$ 7,731</b>	<b>7,058</b>

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. To avoid excessive concentrations of risk, the Company applies specific policies on maintaining a diversified portfolio. Identified risk concentrations are managed accordingly.

# Notes to Financial Statements

For the year ended December 31, 2023 (Amounts stated in thousands of Canadian dollars)

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

	DECEMBER 31, 2023					
	Cash and cash equivalents	Fixed income securities	Equities	Investment income due and accrued	Total	% of total
Canada	\$ 41,591	505,075	57,110	3,501	607,277	84.4%
USA	11	34,926	52,749	237	87,923	12.2%
Switzerland	14	-	6,024	-	6,038	0.8%
United Kingdom	-	-	6,132	-	6,132	0.9%
Others	(94)	-	12,403	63	12,372	1.7%
<b>Total</b>	<b>\$ 41,522</b>	<b>540,001</b>	<b>134,418</b>	<b>3,801</b>	<b>719,742</b>	<b>100.0%</b>

	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%
<b>Total</b>	<b>\$ 35,741</b>	<b>532,101</b>	<b>113,029</b>	<b>3,583</b>	<b>684,454</b>	<b>100.0%</b>

# Board of Directors

As at December 31, 2023



**Andrew J. Spurgeon**  
Chair of the Board



**Frederick W. Gorbet, O.C.**  
Vice Chair of the Board



**Daniel E. Pinnington**  
President & CEO, LAWPRO



**Susan M. Armstrong,**  
FCPA FCA



**Clare A. Brunetta**  
Principal, Clare A. Brunetta



**Rebecca Durcan**



**Susan Forbes, KC**



**Heather L. Hansen, C.S.**



**Rita Hoff**  
President, R. Hoff Financial  
Management Ltd.



**Diana C. Miles**  
Chief Executive Officer, The Law  
Society of Ontario



**Binah Nathan**



**David R. Oliver**  
President and CEO, BRJO  
Investments Ltd.



**Mark Surchin**



**Mark D. Tamminga**  
Partner, Gowling WLG



**Anne-Marie Vanier**

FCA denotes Fellow  
Chartered Accountant

FCPA denotes Fellow Chartered  
Professional Accountant

# Management

As at December 31, 2023



**Daniel E. Pinnington**  
President & CEO



**Stephen R. Freedman**  
Executive Vice President and  
General Counsel



**Krista Franklin**  
Chief Financial Officer



**Domenic Bellacicco**  
Vice President, Claims



**Victoria Crewe-Nelson**  
Vice President, Underwriting &  
Customer Service and Secretary



**Naomi Dummett**  
Director of Communications



**Mark Huttram**  
Vice Presiden, TitlePLUS



**Ray Leclair**  
Vice President Public Affairs



**Mike Seto**  
Chief Information Officer



**Karen Wood**  
Vice President, Human Resources  
& Administration

## Board Committees

**EXECUTIVE COMMITTEE<sup>1</sup>**  
Andrew Spurgeon,  
Chair of Board  
Frederick W. Gorbet,  
Vice Chair of Board  
Sue Armstrong  
Daniel E. Pinnington (A), CEO

**AUDIT COMMITTEE<sup>2</sup>**  
Sue Armstrong\*  
Diana C. Miles (A)  
Binah Nathan  
David R. Oliver  
Anne-Marie Vanier  
Heather Hansen

**CONDUCT REVIEW COMMITTEE<sup>2</sup>**  
Binah Nathan\*  
Sue Armstrong  
David R. Oliver  
Anne-Marie Vanier

**INVESTMENT COMMITTEE**  
Rita Hoff\*  
Binah Nathan  
David R. Oliver  
Sue Armstrong  
Mark Surchin  
Mark Tamminga

**GOVERNANCE COMMITTEE**  
Clare A. Brunetta\*  
Sue Armstrong  
Susan Forbes  
Rita Hoff  
Mark Surchin

**RISK COMMITTEE**  
Anne-Marie Vanier\*  
Clare A. Brunetta  
Susan Forbes  
Rita Hoff  
Rebecca Durcan  
Mark D. Tamminga

<sup>1</sup> The Prudent Portfolio Governance Policy provides that a quorum of Executive Committee requires at least one member of the Committee who is not affiliated with LAWPRO.

<sup>2</sup> The Audit and Conduct Review Committees must have at least three director-members and a majority must be non-affiliated directors. Officers or employees of LAWPRO cannot be members of the Committees.

\* Committee Chair  
(A) Affiliated Director within meaning of Ontario *Insurance Act*

N.B. The Chair and Vice-Chair of LAWPRO are ex-officio members of all committees, by resolution of the Board.

# Corporate Governance

The Board of Directors, either directly or through its committees, bears responsibility for the stewardship of the Company. To discharge that responsibility, the Board supervises the management of the business and the affairs of the Company, including the oversight or monitoring of all significant aspects of the operation, so that the Company effectively and efficiently fulfills its mission, vision and values.

The Company's corporate governance framework, processes, structures and information are designed to strengthen the ability of the Board to oversee management, and to enhance long-term policyholder value. Every director has a duty to guide the Company's affairs in a manner that achieves the Company's objectives.

The corporate governance processes and mandate are derived, in part, from the Ontario *Insurance Act* and regulatory "best practices," and are expressed in the Company's corporate governance framework.

## Board Independence

Demonstrable evidence of independence is at the heart of effective governance. Independence is normally a matter of a board demonstrating its ability to act independently of management when appropriate. Currently, only the chief executive officers of LAWPRO and the Law Society of Ontario are "affiliated" to the Company within the meaning of applicable legislation. A minority of directors are Benchers or employees of the Law Society of Ontario.

## Board Composition

Annually, the Board reviews its composition to determine whether or not the Board is optimally structured to ensure the achievement of the corporate strategy and business plan. Also important is a regular assessment of the skills, experience and independence of those on the Board.

## Board Responsibilities

The basic oversight responsibilities of the Board are described in its corporate governance framework, and include:

- **Corporate performance oversight:** The Board ensures that corporate management continuously and effectively strives to meet the two opposing goals of minimizing premiums and achieving a satisfactory financial result, taking account of risk.
- **Appointment of CEO and related human resources issues:** The Board appoints the CEO and approves the CEO's objectives, assesses their performance and determines compensation of the CEO. As well, the Board approves key appointments reporting to the CEO, reviews key executive performance and approves compensation policy and succession plans.



- **Strategic direction and policy:** The Board reviews and approves management's proposed strategic direction and policy matters, and ensures that policies on key issues, including exposure to various risks, are in place, are appropriate and are reviewed to ensure compliance with same.
- **Budgeting and planning:** The Board approves the Company's proposed budgets and other performance goals, reviews performance against goals and recommends corrective actions.
- **Risk Management:** The Board monitors all categories of risk affecting the Company's operations, approves risk management strategies and assesses risk management performance, including the Company's audit universe and its Own Risk and Solvency Assessment (ORSA).
- **Regulatory compliance and financial monitoring:** Through an independent audit committee, the Board requires and monitors regulatory compliance, appoints the auditor, oversees the audit process and reviews and approves financial reports. The Board also ensures that financial systems produce accurate and timely information, and that appropriate controls are in place.
- **Ensuring its own effectiveness:** The Board establishes committee structures that assist the effective operations of the Board, and enable a review and assessment of the Board's own performance.
- **Setting an appropriate cultural tone:** Through its support for the corporation's vision, mission and values and corporate social responsibility statement and its adherence to the Code of Business Conduct, the Board promotes a culture of integrity, exemplary business conduct, and due regard for the fair treatment of customers while acting in a commercially reasonable manner.

## Board Committees

The members of the Board are assisted in fulfilling the responsibilities explained above through the following committees:

### Audit committee

The audit committee assists the Board in monitoring:

- the integrity of the Company's financial reporting process;
- the financial and solvency risks that the Company is exposed to;
- the controls for managing those risks, including the internal audit function; and
- the independence and performance of the Company's external auditor and actuary.

## Conduct review committee

The conduct review committee oversees the Company's compliance with the related party provisions of the Ontario insurance legislation.

## Executive committee

The executive committee has the authority of the Board, subject to the limitations of law and those set forth in the Company's bylaws, to consider urgent matters that require action prior to the next Board meeting. Actions taken by the executive committee are reported to the full Board at the next meeting.

## Governance committee

The governance committee:

- assists the Board in its oversight role with respect to: a) the development of the Company's corporate governance policies, practices and processes; and b) the effectiveness of the Board and its committees;
- identifies individuals qualified and suitable to become Board members and recommends the director nominees to each annual meeting of the shareholder;
- assists the Board in its oversight role with respect to: a) the Company's human resources strategy, policies and programs; and b) all matters relating to proper utilization of human resources within the Company, with special focus on management succession, development and compensation;
- oversees procedures for resolving conflicts of interest; and
- assists the Board in liaising with the shareholder.

## Investment committee

The investment committee:

- assists the Board and management in managing the invested assets of the Company;
- develops and monitors investment policies and guidelines;
- provides recommendations to the Board in connection with the hiring of external investment managers; and
- meets with and monitors the performance of external investment managers.

## Risk committee

The risk committee assists the Board in monitoring all risks (other than financial and solvency risks) to which the Company is subject and overseeing the development and implementation of appropriate risk management policies and programs.



Risk management  
practicepro.ca



Additional professional  
liability insurance  
lawpro.ca/excess



Title insurance  
titleplus.ca



AvoidAClaim.com



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TitlePLUS Home Buying Guide – Canada



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# FOR INFORMATION

## LiRN INC. – Audited Financial Statements for the year ended December 31, 2023

LiRN Inc. (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.

The audited Annual Financial Statements for LiRN for the year ended December 31, 2023 are presented to the Audit and Finance Committee and to Convocation, for information.

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's operating budget is funded by the Law Society through the lawyer's annual fee. The actual grant to LiRN is determined and approved as part of the Law Society annual budget process. LiRN's 2023 approved budget of \$9.57 million was funded through the County Libraries Fund component of the annual fee of \$200 per lawyer.

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 LiRN component of the annual fee in the future 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.

In addition to Law Society funding, in 2023, LiRN also received a grant from the Law Foundation of Ontario to support a special project to foster innovation and promote equity of access to legal resources in the province.

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 control deficiencies identified.



Legal Information and Resource Network

## MANAGEMENT DISCUSSION AND ANALYSIS

DECEMBER 31, 2023

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### Results of Operations

The financial results of LiRN Inc. (LiRN) were more favourable than anticipated with an excess of revenues over expenses of \$291,000 (2022 – \$167,000). Multiple factors contributed to the positive results of 2023: reduced expenses with some continued virtual interactions, lower insurance and benefit costs, and high interest rates leading to notable investment income.

The grant from the Law Society of Ontario (Law Society) for LiRN operations was \$9.6 million. This grant supported an overall increase in funding to the county and district law libraries of \$500,000, or 7%, in comparison to 2022, and allowed LiRN to maintain the expanded e-LiRN suite of digital legal resources that is accessible to the legal professions through the network of county and district law libraries.

Following extensive consultation and discussion with Ontario law associations and library staff, LiRN launched a comprehensive role description matrix that sets out the duties required to operate a courthouse library and organizes them into several role categories. This matrix may be used as a tool to manage and recruit employees as well as ensure the job descriptions they use are accurate.

Also in 2023, LiRN secured funding of \$1.4 million from the Law Foundation of Ontario (LFO) to begin work on the two-year Innovation and Equity of Access in Ontario Courthouse Libraries Project (Innovation Project). With the LFO's generous funding commitment, through this project, LiRN will continue to move forward with its objectives of further fostering innovation and promoting equity of access to legal resources across Ontario. The Innovation Project will:

- give libraries across the network an opportunity to experiment with and pilot new technologies, equipment, and service models and
- will continue LiRN's efforts to address discrepancies in the print and digital collection legal resources available through the 48 county libraries.

LiRN's approved 2024 budget maintains the level of funding required to sustain support of the county law library network while we seek to increase the accessibility of legal information resources across the province and to continue to invest in evolving and modernizing the delivery of legal information services through the Innovation Project.

## **Statement of Revenues and Expenses**

### ***Revenues***

LiRN's primary source of revenue, the Law Society grant, totalled \$9.6 million (2022 - \$9.3 million).

LiRN received \$700,000 of the anticipated grant from the LFO in 2023. This funding is solely designated for expenses incurred in relation to the Innovation Project and is only recognized as revenue when project expenses are incurred. Since the project launch in the second quarter of 2023, project revenues total \$25,551 to offset related expenses.

### ***Expenses***

Head office administration expenses for 2023 of \$465,000 (2022 - \$360,000) increased in comparison to 2022 with operations more fully resuming post-pandemic, the impact of inflation and augmented resourcing to support LiRN's operations.

With the continuation of expanded centralized digital legal resources through e-LiRN, and annual service contract inflationary increases, expenses for electronic products and services for 2023 increased to \$1.07 million (2022 - \$947,000).

County and district law library grants of \$7.7 million (2022 - \$7.2 million) are detailed by county in the notes to the financial statements and include the annual grants approved as part of the 2023 budget. As noted above, county and district law library annual grants increased on average by 7% in 2023.

## **Statement of Financial Position**

Deferred funding of \$674,000 is a notable addition to the Statement of Financial Position. This is the balance of the LFO grant received and remaining in 2023 with expenses anticipated in future periods. Receipt of the LFO grant is also the primary contributor to the significant increase in cash holdings.

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 \$291,000 to \$608,000.

LiRN's Board of Directors approved the establishment of a Capital Fund to fund capital expenses or investment in assets for the benefit of the law library network, initially funded by a \$50,000 interfund transfer from the General Fund.

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



## Independent auditor's report

To the Board of Directors of LiRN Inc.

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### Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of LiRN Inc. (the entity) as at December 31, 2023 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 entity's financial statements comprise:

- the statement of financial position as at December 31, 2023;
- 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.

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### 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 entity 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.

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### Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

PricewaterhouseCoopers LLP  
PwC Tower, 18 York Street, Suite 2500, Toronto, Ontario, Canada M5J 0B2  
T: +1 416 863 1133, F: +1 416 365 8215, ca\_toronto\_18\_york\_fax@pwc.com

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.





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

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.

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### **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 entity'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 entity or to cease operations, or has no realistic alternative but to do so.

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

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### **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 entity'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 entity'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 entity 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 28, 2024

# LiRN

Legal Information and Resource Network

## STATEMENT OF FINANCIAL POSITION

Stated in dollars

As at December 31, 2023

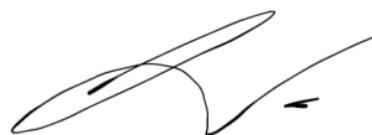
	2023	2022
<b>Assets</b>		
<b>Current Assets</b>		
Cash	1,903,724	967,092
Accounts receivable	38,103	31,680
Prepaid expenses	40,026	42,358
<b>Total Assets</b>	<b>1,981,853</b>	<b>1,041,130</b>
<b>Liabilities, Share Capital &amp; Fund Balances</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (notes 4 and 7)	154,484	178,739
Deferred funding (notes 2 and 5)	674,449	-
<b>Total Liabilities</b>	<b>828,933</b>	<b>178,739</b>
<b>Share Capital &amp; Fund Balances</b>		
Share capital (notes 1 and 6)	200	200
General fund (note 2)	608,117	362,191
Capital fund (note 2)	44,603	-
Reserve fund (note 2)	500,000	500,000
<b>Total Share Capital &amp; Fund Balances</b>	<b>1,152,920</b>	<b>862,391</b>
<b>Total Liabilities, Share Capital &amp; Fund Balances</b>	<b>1,981,853</b>	<b>1,041,130</b>

*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



Legal Information and Resource Network

## STATEMENT OF REVENUES AND EXPENSES

*Stated in dollars*

*For the year ended December 31, 2023*

	2023	2022
<b>Revenues</b>		
Law Society of Ontario grant (note 7)	9,572,427	9,270,630
Law Foundation of Ontario grant (notes 2 and 5)	25,551	-
Interest income	58,122	19,644
<b>Total Revenues</b>	<b>9,656,100</b>	<b>9,290,274</b>
<b>Expenses</b>		
<b>Head Office / Administration</b>		
Administration	362,821	309,285
Professional fees	60,784	22,326
Other (note 8)	41,229	28,394
<b>Total Head Office / Administration Expenses</b>	<b>464,834</b>	<b>360,005</b>
<b>Law Libraries - Centralized Purchases</b>		
Electronic products and services (note 7)	1,065,114	947,431
Group benefits and insurance	364,131	338,417
Group benefits premiums refund (note 9)	(100,567)	-
IT Infrastructure	2,965	161,949
Other (notes 7 and 10)	106,886	97,949
<b>Total Law Libraries - Centralized Purchases</b>	<b>1,438,529</b>	<b>1,545,746</b>
County and district law libraries grants (note 12)	7,706,939	7,217,130
<b>Total County and District Law Libraries Expenses</b>	<b>7,706,939</b>	<b>7,217,130</b>
<b>Total Expenses</b>	<b>9,610,302</b>	<b>9,122,881</b>
<b>Excess of Revenues over Expenses from Operations</b>	<b>45,798</b>	<b>167,393</b>
<b>Recovery of Excess Prior Year County Libraries Grant Funding</b>	<b>244,731</b>	<b>-</b>
<b>Excess of Revenues over Expenses</b>	<b>290,529</b>	<b>167,393</b>

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



Legal Information and Resource Network

## STATEMENT OF CHANGES IN FUND BALANCES

*Stated in dollars*

*For the year ended December 31, 2023*

	2023			2022	
	General Fund	Capital Fund	Reserve Fund	Total	
Balance, beginning of year	362,191	-	500,000	<b>862,191</b>	694,798
Excess of revenues over expenses (expenses over revenues)	295,926	(5,397)	-	<b>290,529</b>	167,393
Interfund transfers (note 11)	(50,000)	50,000	-	-	-
<b>Balance, end of year</b>	<b>608,117</b>	<b>44,603</b>	<b>500,000</b>	<b>1,152,720</b>	862,191

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



Legal Information and Resource Network

## STATEMENT OF CASH FLOWS

*Stated in dollars*

*For the year ended December 31, 2023*

	2023	2022
<b>Net inflow (outflow) of cash related to the following activities</b>		
<b>Excess of revenues over expenses for the year</b>	<b>290,529</b>	167,393
Net change in non-cash operating working capital items:		
Accounts receivable	(6,422)	(8,829)
Prepaid expenses	2,331	(4,918)
Accounts payable and accrued liabilities	(24,255)	85,624
Deferred revenue	674,449	-
<b>Cash sourced in operating activities</b>	<b>936,632</b>	239,270
<b>Net (outflow) inflow of Cash during the year</b>	<b>936,632</b>	239,270
Cash, beginning of year	967,092	727,822
<b>Cash, end of year</b>	<b>1,903,724</b>	967,092

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



Legal Information and Resource Network

## **LiRN Inc.**

### **NOTES TO THE FINANCIAL STATEMENTS**

*For the year ending December 31, 2023*

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#### **1. General**

LiRN Inc. 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 (Law Society). In early 2020, the name of the corporation was changed from LibraryCo Inc. to LiRN Inc. (LiRN).

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 support services 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, Capital and Reserve Funds***

LiRN follows the restricted fund method.

The General Fund accounts for the delivery, management and administration of library services. The Capital Fund is maintained for capital expenses or investment

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in assets for the benefit of the county law library system. 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.

**Deferred Funding**

Deferred funding consists of externally restricted grant funding received that will fund expenses to be incurred in future periods. Deferred funding is recognized as revenue under the deferral method in the year expenses are incurred.

**Revenue Recognition**

Unrestricted grants are recorded as revenue in the General Fund in the fiscal year in which they are received or receivable.

Restricted grants are recognized as revenue in the General Fund in the fiscal year the related expenses are incurred.

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:

<b>Asset / Liability</b>	<b>Measurement</b>
Cash	Fair value
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

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#### 4. Accounts Payable and Accrued Liabilities

There are no amounts payable for government remittances.

#### 5. Deferred Funding

In 2023, LiRN received a grant from the Law Foundation of Ontario for the Innovation and Equity of Access in Ontario Court Libraries project. The deferred funding balance is:

	<b>2023</b>
Deferred funding, beginning of year	\$ -
Total restricted grants received	<b>700,000</b>
Total expenses incurred	<b>(25,551)</b>
Deferred funding, end of year	<b>\$674,449</b>

#### 6. Share Capital

##### Authorized:

Unlimited number of Common shares  
Unlimited number of Special shares

##### Issued:

	<b>2023</b>	2022
100 Common shares	<b>\$100</b>	\$100
100 Special shares	<b>100</b>	100
<b>Total</b>	<b>\$200</b>	\$200

#### 7. Related Party Transactions

The Law Society provided LiRN with a grant of \$9,572,000 (2022 - \$9,271,000) during the year.

The Law Society provides certain support services to LiRN (note 1) as well as other services and publications. The total amount billed by the Law Society for 2023 was

\$33,447 (2022 - \$25,973). Included in accounts payable and accrued liabilities are amounts due to the Law Society of \$4,149 (2022 - \$848).

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 2023 or 2022.

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

#### **8. Other Expenses – Head Office/Administration**

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

#### **9. Group Benefits Premiums Refund**

This reduction relates to a refund of premiums paid in prior periods in excess of the requirements for the plan's Claims Fluctuation Reserve.

#### **10. Other Expenses – County and District Law Libraries – Centralized Purchases**

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

#### **11. Interfund Transfers**

During the year, LiRN's Board approved an interfund transfer of \$50,000 from the General Fund to the Capital Fund for the purpose of establishing the Capital Fund.

#### **12. County and District Law Libraries Grants**

These grants represent the quarterly distribution of funds to the 48 County and District Law Libraries and any capital and special needs grants. The grants are distributed in accordance with policies and procedures established by LiRN's Board of Directors. The following page contains individual law library grants that were distributed by the LiRN during 2023 and 2022.

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### County and District Law Libraries Grants

Law Association	2023	2022	Law Association	2023	2022
Algoma	\$166,794	\$158,852	Middlesex	458,828	436,979
Brant	116,977	112,494	Muskoka	85,590	74,848
Bruce	67,716	64,491	Nipissing	98,694	98,694
Carleton	652,670	621,592	Norfolk	118,788	88,287
Cochrane	56,024	56,024	Northumberland	102,786	98,499
Dufferin	51,100	50,108	Oxford	79,700	78,138
Durham	202,533	190,043	Parry Sound	60,240	50,705
Elgin	95,016	91,365	Peel	326,599	280,846
Essex	355,868	324,921	Perth	72,916	63,188
Frontenac	154,383	159,056	Peterborough	163,099	152,951
Grey	77,150	75,637	Prescott & Russell	22,551	16,039
Haldimand	58,654	37,477	Rainy River	35,000	33,105
Halton	160,000	156,000	Renfrew	162,421	144,589
Hamilton	547,848	512,966	Simcoe	206,568	196,732
Hastings	98,876	94,815	Stormont Dundas & Glengarry	90,000	89,460
Huron	88,218	87,518	Sudbury	199,233	185,201
Kenora	95,500	94,000	Temiskaming	48,514	46,514
Kent	83,129	80,519	Thunder Bay	212,703	201,146
Lambton	117,655	91,255	Toronto	617,252	582,314
Lanark	47,600	45,000	Victoria-Haliburton	117,124	111,547
Leeds & Grenville	65,959	79,666	Waterloo	315,776	287,739
Lennox & Addington	35,800	31,411	Welland	133,231	116,984
Lincoln	214,008	207,775	Wellington	87,348	87,348
Manitoulin	-	-	York	282,500	272,295
				<b>\$7,706,939</b>	<b>\$7,217,130</b>