LET RIGHT PREVAIL

Law Society of Ontario | Barreau de l'Ontario

TAB 2

Report to Convocation
April 26, 2018

Audit & Finance Committee

Committee Members
Chris Bredt (Chair)
Suzanne Clément (Vice-Chair)
Teresa Donnelly (Vice-Chair)
Peter Beach
Paul Cooper
Janis Criger
Seymour Epstein
Michelle Haigh
David Howell
Vern Krishna
Jan Richardson
Cathy Strosberg
Tanya Walker
Heather Zordel

Prepared by the Finance Department
Wendy Tysall, Chief Financial Officer, 416-947-3322 or wtysall@lsuc.on.ca

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COMMITTEE PROCESS

1. The Audit & Finance Committee ("the Committee") met on April 11, 2018.

2. Committee members in attendance were Chris Bredt (Chair), Suzanne Clément (Vice-Chair), Teresa Donnelly (Vice-Chair), Peter Beach, Paul Cooper (phone), Janis Criger, Seymour Epstein, Michelle Haigh (phone), David Howell, Vern Krishna, Jan Richardson, Cathy Strosberg and Heather Zordel.

3. Law Society staff in attendance: Diana Miles, Wendy Tysall, Fred Grady, Brenda Albuquerque-Boutilier and Andrew Cawse.

4. Also in attendance: Michael Hawtin (PwC), Dan Pinnington (LAWPRO), Steve Jorgensen (LAWPRO), Alodie Brew (PwC), and Tanya Bishop (AON).

TAB 2.1

FOR DECISION

LAW SOCIETY OF UPPER CANADA, DRAFT AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

Motion:

5. **That Convocation approve the audited Annual Financial Statements for the Law Society for the financial year ended December 31, 2017, including the interfund transfers listed in Note 13 of the financial statements.**

6. A representative from the Law Society's auditor, PricewaterhouseCoopers LLP (PwC), Michael Hawtin will be in attendance.

Restricted Fund Transfers

7. The financial statements present the financial position and operations of the 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 but in brief:
   - The Compensation Fund is restricted by the Law Society Act
   - The Errors & Omissions Insurance Fund (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 are restricted by Convocation.

8. Inter-fund transfers are listed in Note 13 to the Annual Financial Statements. As the funds are restricted by Convocation, the following transfers between funds are requested to be reviewed by Convocation as part of the approval of the financial statements:
   - $3,528,000 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;
   - $600,000 from the E&O Fund to the lawyer General Fund as provided in the 2017 budget representing accumulated investment income, surplus to the needs of the E&O Fund;
   - $100,000 from the lawyer General Fund to the Repayable Allowance Fund, as provided in the 2017 budget to fund the Repayable Allowance Program in the Licensing Process;
   - $342,000 from the lawyer General Fund to the Special Projects Fund;
   - $259,000 from the lawyer General Fund to the Capital Allocation Fund;
   - $10,000 from the County Libraries Fund to the lawyer General Fund.

Summary

9. The financial statements are accompanied by an unmodified opinion from the auditor.

10. The Law Society of Ontario's ("The Society") lawyer and paralegal General Funds, which account for the Society's program delivery and administrative activities, are reporting a combined operating deficit of $860,000 (2016 - $3.8 million surplus). The 2017 budget incorporated $4.8 million of the lawyer General Fund Balance to mitigate fee increases and also incorporated $600,000 in funding from surplus investment income in the Errors & Omissions Insurance Fund. The 2017 budget also projected a deficit in the Paralegal General Fund of $1 million with the use of the accumulated balance, so operating results are better than budgeted.

11. All the major revenue and expense categories were better than budget with the exception of reorganization related costs which, together with an increase in professional development & competence and corporate services expenses, was also the reason for the increase in expenses from the prior year. In comparing 2017 results to 2016 results, apart from departmental reorganizations, the size and nature of operations were substantially similar.

12. The Society's restricted funds are reporting a combined deficit of $7.9 million in 2017 (2016 - $2.7 million deficit). The primary factors in the performance of the restricted funds are:
    - The Lawyer Compensation Fund experienced an adverse claims experience, resulting in a deficit of $9.5 million (2016 - $2.1 million deficit).
    - The Errors & Omissions Insurance Fund is reporting a surplus of $732,000 (2016 - $1.2 million).
    - The Capital Allocation Fund experienced a surplus of $3.4 million (2016 – $1.4 million) dependent on the capitalization of projects during the year.
    - Amortization in the Invested in Capital and Intangible Assets Fund of $2.4 million (2016 - $3.1 million) was a contributor to the restricted funds deficit in the current year.

13. Results for the year means the lawyer General Fund has decreased slightly to $23.2 million which is still at the top end of the range required by Convocation's fund balance policy which requires a minimum of two months and a maximum of three months operating expenses be maintained in the lawyer General Fund balance.

14. The lawyer Compensation Fund deficit for the year reduced the Compensation Fund balance for lawyers to $3.3 million or below the minimum of a one-in-two-hundred-year event equivalent to $13 million. In the 2018 budget, $5 million will be raised to assist in restoring the balance over three fiscal periods.

15. Further information can be found in the Management Discussion and Analysis forming part or the Annual Financial Statements. In addition to the Management Discussion & Analysis, supplementary information is set out below along with unaudited, supplementary schedules attached at the end of the statements.

Supplementary Management Discussion & Analysis - Contingent Liabilities

16. In 2017, the Law Society received a Statement of Claim on the DeMerchant and Sukonick matter alleging malfeasance in public office, negligent investigation, abuse of process, malicious prosecution and libel. The two plaintiffs each claim a total of $22 million (a combined total of $44 million) in general, special, aggravated and punitive damages. The Law Society's insurers have been put on notice.

17. The Groia and TWU matters were heard by the Supreme Court of Canada in 2017 and decisions on these matters are still awaited. In the event of decisions against the Society there is potential for adverse cost awards. In compliance with generally accepted accounting principles, there is insufficient certainty for any related accruals at this time.

Supplementary Management Discussion & Analysis – Actual to Budget

18. The primary Professional Development & Competence revenues in 2017 are analyzed below:

	BUDGET	ACTUAL
Licensing Process	$12,931,000	$13,885,000
Continuing Professional Development	$8,516,000	$7,993,000
TOTAL	$21,447,000	$21,878,000

CPD course registrations were under budget by $859,000, slightly offset by a positive variance in on-line revenue of $260,000.

19. Total Professional Regulation, Tribunals and Compliance expenses were under budget by $1.8 million. The reorganization of the Professional Regulation department resulted in staffing vacancies but increased severance costs.

20. Although total Professional Development & Competence expenditures of $29 million were under budget by $312,000, the increased number of candidates in the licensing processes combined with the continuing significant increases in accommodation requests resulted in a negative variance of nearly $1 million in this area, offset by positive variances in other areas of PD&C.

21. Total Corporate Services expenses of $25.6 million are slightly over budget by $72,000 because of severance costs.

22. Total Convocation, Policy and Outreach expenses of $7.2 million are under budget by $2.9 million. Bencher remuneration, expense reimbursements and particularly functions

were all less than projected and the 2018 budget for bencher related expenses was adjusted to reflect this. There were also staff vacancies in the Policy, Equity and outreach departments.

THE LAW SOCIETY OF UPPER CANADA
2017 ANNUAL REPORT

Financial Statements

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THE LAW SOCIETY OF UPPER CANADA
2017 ANNUAL FINANCIAL STATEMENTS

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of Financial Performance

The Law Society of Upper Canada's ("The Society") lawyer and paralegal General Funds, which account for the Society's program delivery and administrative activities, are reporting a combined operating deficit of $860,000 (2016 - $3.8 million surplus). The 2017 budget incorporated $4.8 million of the lawyer General Fund Balance to mitigate fee increases and also incorporated $600,000 in funding from surplus investment income in the Errors & Omissions Insurance Fund. The 2017 budget also projected a deficit in the Paralegal General Fund of $1 million with the use of the accumulated balance, so operating results are better than budgeted.

All the major revenue and expense categories were better than budget with the exception of reorganization related costs and, as budgeted, typically increased from the prior year. In comparing 2017 results to 2016 results, apart from departmental reorganizations, the size and nature of operations were substantially similar.

The Society's restricted funds are reporting a combined deficit of $7.9 million in 2017 (2016 - $2.7 million deficit). The primary factors in the performance of the restricted funds are:

- The Lawyer Compensation Fund experienced an adverse claims experience, resulting in a deficit of $9.5 million (2016 - $2.1 million deficit).
- The Errors & Omissions Insurance Fund is reporting a surplus of $732,000 (2016 - $1.2 million).
- The Capital Allocation Fund experienced a surplus of $3.4 million (2016 – $1.4 million) dependant on the capitalization of projects during the year.
- Amortization in the Invested in Capital and Intangible Assets Fund of $2.4 million (2016 - $3.1 million) was a contributor to the restricted funds deficit in the current year.

Statement of Revenues and Expenses and Change in Fund Balances

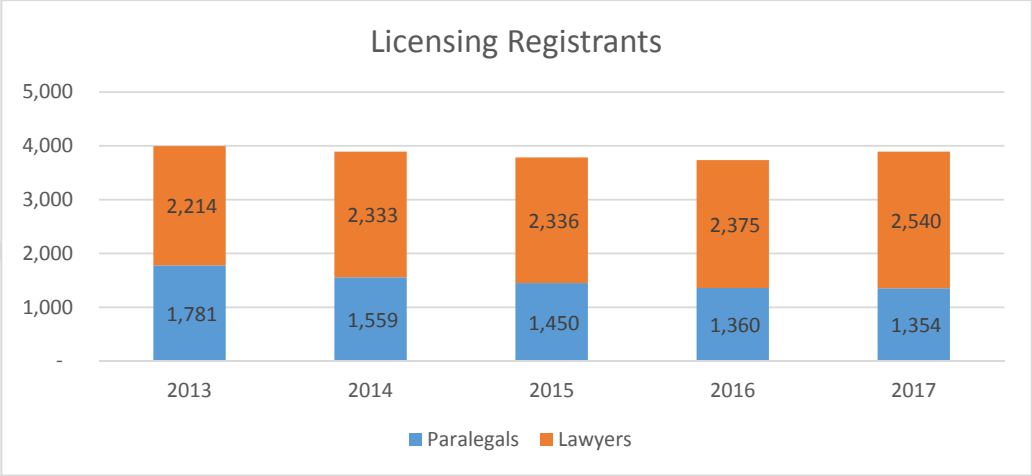
Revenues

Annual Fees
Total annual fee revenues have increased to $82.3 million (2016 - $77.7 million) due to an increase in the number of licensees billed and the total annual fee per lawyer and paralegal both increasing by $50 from 2016.

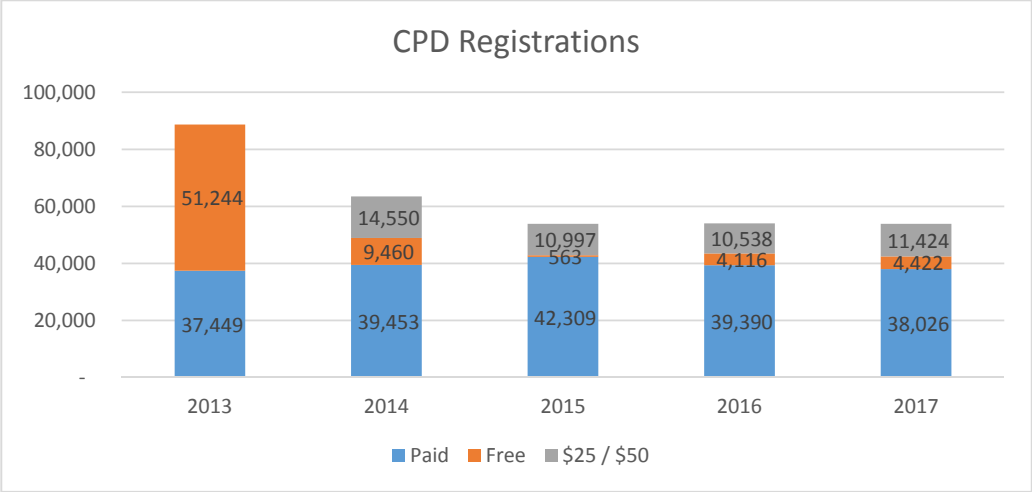
Insurance Premiums and Levies
The Errors & Omissions Insurance Fund accounts for insurance related transactions between LAWPRO, the Society and insured lawyers. The E&O Fund collects premiums and levies from lawyers and remits these amounts to LAWPRO. Insurance premiums and levies decreased to $103.2 million in 2017 (2016 - $110.6 million). The base premium for professional liability insurance coverage for Ontario lawyers was $2,950 in 2017, down $400 from the 2016 premium. The professional liability insurance program was essentially the same, year on year.
Professional Development & Competence ("PD&C")

PD&C revenue comprises licensing process and continuing professional development revenue. Total PD&C revenues are in line with the previous year at $21.9 million (2016 - $21.7 million).

Licensing Process revenues from lawyer ($11.7 million) and paralegal candidates ($2.2 million) have increased to a total of $13.9 million (2016 - $13.2 million), in excess of budget. The underlying tuition fees charged to candidates did not change. The annual revenues from candidates comes from all active candidates in the system, some of whom will be from a previous licensing year whose related activities, such as exam rewrites, have increased. The five year pilot Law Practice Program (LPP) which commenced in the fall of 2014, provides lawyer licensing candidates the option of either articling or completing the LPP. A comparison of licensing registrants is set out below:



Total Continuing Professional Development ("CPD") revenues from lawyers ($7.2 million) and paralegals ($820,000) is less than 2016 and budget (both $8.5 million). The shift toward online learning continues with more registrants viewing programs by live webcast or on demand. Starting in 2017, CPD is paperless for live programs and hardcopies of material are only published for select programs. Registrations are analyzed below:



Other Revenue
Other Revenue of $7.8 million (2016 - $8.8 million) primarily comprises income from Ontario Reports, administrative fees, monitoring and enforcement recoveries and catering. The decrease from 2016 is due to a reduction in ordered costs and a change in funding for The Action Group for access to justice whose mandate is still being completed.

Expenses

Professional Regulation, Tribunals and Compliance
Total regulatory expenses are relatively static at $28.6 million (2016 - $28.6 million) but are less than budget due to staff vacancies associated with the department's reorganization during 2017. There has been an increased use of outside counsel as a measure to counter the staff vacancies and recruiting continues. The budgeted increase in resources was primarily to assist paper and electronic data management and file processing. The processing of files through the Intake and Enforcement departments comprise a significant part of regulatory resources. Complaint trends have fluctuated in a fairly narrow band in recent years although typical investigations are requiring increased resources.

Professional Development & Competence
Total PD&C expenses have increased to $29 million (2016 - $27.1 million) and were nominally under budget. Staff were added for initiatives such as the implementation of the Coach & Advisor Network and other practice supports. With the high number of candidates, licensing process administrative expenses such as invigilation and facilities rental are higher than budgeted. Significant resources continue to be devoted to candidate's special needs and accommodation requirements. In the last five years, requests for accommodations have doubled for lawyers and tripled for paralegals. The movement toward online CPD program delivery and materials provision noted in the revenue discussion also provides savings in program expenses, including catering costs, course materials and venue rentals although these savings have been slightly offset by general cost increases in other areas.

Corporate Services
Corporate Services expenses, primarily comprising the Client Service Centre, Information Technology, Facilities, Finance and Human Resources, were $25.6 million (2016 - $21.9 million) and slightly exceeded budget with less staff vacancies, increased space costs, improved technology resources and reorganization costs.

Convocation, Policy and Outreach
Convocation, policy and outreach expenses primarily comprises Policy, Equity and External Relations & Communications and bencher expenses decreased to $7.2 million (2016 - $8.3 million) and were under budget. Included in Convocation, policy and outreach expenses are payments to benchers during the year. In respect of remuneration, these payments totalled $1,036,000 (2016 – $948,000). The total expense reimbursements of the elected, ex-officio benchers and lay benchers during the year was $488,000 (2016 – $506,000).

Changes in Fund Balances

General Fund
Results for the year means the lawyer General Fund has decreased from $23.6 million to $23.2 million. Convocation's fund balance policy requires a minimum of two months and a maximum of three months operating expenses be maintained in the lawyer General Fund balance or between $17 million and $26 million.

Results for the year means the paralegal General Fund has decreased by $588,000 to $4.5 million. Because of the relatively short history of paralegal regulation and lower balances there is no formal fund balance policy for the paralegal General Fund.

Restricted Funds
In 2017, the lawyer Compensation Fund deficit for the year amounted to $9.5 million reducing the Compensation Fund balance for lawyers to $3.3 million. The Society's policy is to maintain the Lawyer Compensation Fund balance at an amount sufficient to provide for a minimum of one 99.5th percentile aggregate claim scenarios (one-in-two-hundred-year event) and a maximum of four 99th percentile aggregate claim scenarios (one-in-one-hundred year event) or between $13 million and $47 million. In the 2018 budget, $5 million will be raised to assist in restoring the balance over three fiscal periods.

In 2017, the Compensation Fund balance for paralegals increased to $717,000 after the surplus for the year of $120,000. Because of the relatively short history of paralegal regulation and lower balances there is no formal fund balance policy for the paralegal Compensation Fund.

LAWPRO billed the Society $103,222,000 (2016 – $110,617,000) for premiums during the year. The base premium for professional liability insurance coverage for Ontario lawyers was $2,950 in 2017, down $400 from the 2016 premium.

Balance Sheet

Investment in Subsidiaries
Investment in subsidiaries comprises the Society's investments in LibraryCo and LAWPRO recorded at cost. The Society owns all the common shares of LibraryCo at a cost of $100. The LAWPRO investment is made up of two parts: the cost of the acquired share capital of $5 million plus contributed capital of $30,642,000.

Portfolio Investments
Portfolio investments are shown at fair value of $63.6 million (2016 - $68.1 million) reduced because of a $5 million capital transfer from the Compensation Fund portfolio to fund claim payments. Investments comprise Canadian equities (30%) and Canadian fixed income investments (70%).

Provision for Unpaid Grants
The Compensation Fund liability for unpaid grants has increased to $27.6 million (2016 - $23 million). The provision for unpaid grants in the Compensation Fund represents the estimate for unpaid claims and inquiries against the Compensation Fund, supplemented by the costs for processing these claims. The relatively large provision compared to much of the historical data continues to be attributable to higher claim volumes and some large alleged defalcations on the part of certain licensees. Many of these claims are still being evaluated and in

some instances related investigations are still ongoing. The lawyer Compensation Fund balance has fallen below the minimum established by the Fund Balance Management Policy. Refinancing measures have been taken in the 2018 budget to absorb the potential exposure. The paralegal Compensation Fund provision for unpaid grants comprises $249,000 (2016 – $197,000) of the total Compensation Fund provision for unpaid grants.

Unclaimed Trust Funds
Unclaimed trust funds total $5 million (2016 - $5.1 million). These are trust monies turned over to the Society by lawyers who are unable to locate or identify the clients to whom the monies are owed.

Conclusion

The Law Society's strategic plan is built on the Law Society's mission, mandate and principles for governance found in the Law Society Act. The priorities established are to:

- Lead as a professional regulator;
- Prioritize life-long competence for lawyers and paralegals;
- Enhance access to justice across Ontario;
- Engage stakeholders and the public with responsive communications and
- Increase organizational effectiveness.

The Society is in a financially sound position to implement this strategic plan, has a strategy to address the Compensation Fund claims experience and is well placed for the future.

DRAFT

April @@, 2018

Independent Auditor's Report

To the Members of
The Law Society of Upper Canada

We have audited the accompanying financial statements of The Law Society of Upper Canada, which comprise the balance sheet as at December 31, 2017, the statements of revenues and expenses and change in fund balances and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these 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.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of The Law Society of Upper Canada as at December 31, 2017 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.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

THE LAW SOCIETY OF UPPER CANADA
Balance Sheet
Stated in thousands of dollars
As at December 31

		2017	2016
	Assets		
	Current Assets		
1	Cash	**11,394**	27,174
2	Short-term investments	**41,870**	26,706
3	Accounts receivable (notes 4 and 8)	**10,820**	10,222
4	Prepaid expenses	**2,529**	2,573
5	**Total current assets**	**66,613**	66,675
6	Investment in subsidiaries (note 4)	**35,642**	35,642
7	Portfolio investments (note 6)	**63,619**	68,136
8	Capital assets (note 7)	**9,523**	8,982
9	Intangible assets (note 7)	**1,315**	729
10	**Total Assets**	**176,712**	180,164
	Liabilities and Fund Balances		
	Current Liabilities		
11	Accounts payable and accrued liabilities (notes 5 and 8)	**13,101**	13,423
12	Deferred revenue	**17,682**	15,783
13	Due to LawPRO (note 4)	**6,977**	7,962
14	**Total current liabilities**	**37,760**	37,168
15	Provision for unpaid grants/claims	**27,623**	22,994
16	Unclaimed trust funds (note 9)	**5,037**	5,121
17	Lease obligations	**201**	-
18	**Total Liabilities**	**70,621**	65,283
	Fund Balances		
	General funds		
19	Lawyers	**23,239**	23,602
20	Paralegals	**4,477**	5,065
	Restricted funds (note 18)		
21	Compensation – lawyers	**3,285**	12,825
22	Compensation – paralegals	**717**	597
23	Errors and omissions insurance	**55,716**	55,584
24	Capital allocation	**6,684**	6,529
25	Invested in capital and intangible assets	**10,838**	9,711
26	Other	**1,135**	968
27	**Total Fund Balances**	**106,091**	114,881
28	**Total Liabilities and Fund Balances**	**176,712**	180,164

See accompanying notes
On behalf of Convocation
Treasurer ***Chair, Audit & Finance Committee***

THE LAW SOCIETY OF UPPER CANADA
Statement of Revenues and Expenses and Change in Fund Balances
Stated in thousands of dollars
For the year ended December 31

		2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
		General Fund Lawyer		**General Fund Paralegal**		**Restricted Funds (note 18)**		**Total**	
	Revenues								
1	Annual fees	**52,778**	52,889	**4,356**	4,249	**25,111**	20,540	**82,245**	77,678
2	Insurance premiums and levies	**-**	-	**-**	-	**103,222**	110,617	**103,222**	110,617
3	Professional development and competence	**18,837**	18,563	**3,041**	3,150	**-**	-	**21,878**	21,713
4	Investment income	**626**	560	**70**	53	**1,248**	1,272	**1,944**	1,885
5	Change in fair value of investments	**194**	470	**22**	44	**680**	1,701	**896**	2,215
6	Other (note 11)	**6,593**	7,254	**931**	834	**290**	673	**7,814**	8,761
7	**Total revenues**	**79,028**	79,736	**8,420**	8,330	**130,551**	134,803	**217,999**	222,869
	Expenses								
8	Professional regulation, tribunals and compliance	**25,662**	26,167	**2,907**	2,478	**-**	-	**28,569**	28,645
9	Professional development and competence	**25,873**	24,800	**3,156**	2,343	**-**	-	**29,029**	27,143
10	Corporate services	**22,962**	19,981	**2,597**	1,903	**-**	-	**25,559**	21,884
11	Convocation, policy and outreach (note 12)	**6,592**	7,715	**614**	626	**-**	-	**7,206**	8,341
12	Services to members and public	**6,018**	5,870	**471**	408	**-**	-	**6,489**	6,278
13	Allocated to Compensation Fund	**(7,807)**	(7,401)	**(737)**	(627)	**-**	-	**(8,544)**	(8,028)
14	Restricted (note 18)	**-**	-	**-**	-	**138,481**	137,486	**138,481**	137,486
15	**Total expenses**	**79,300**	77,132	**9,008**	7,131	**138,481**	137,486	**226,789**	221,749
16	**(Deficit) Surplus**	**(272)**	2,604	**(588)**	1,199	**(7,930)**	(2,683)	**(8,790)**	1,120
17	**Fund balances, beginning of year**	**23,602**	21,407	**5,065**	3,866	**86,214**	88,488	**114,881**	113,761
18	**Interfund transfers (notes 2 and 13)**	**(91)**	(409)	**-**	-	**91**	409	**-**	-
19	**Fund balances, end of year**	**23,239**	23,602	**4,477**	5,065	**78,375**	86,214	**106,091**	114,881

See accompanying notes

THE LAW SOCIETY OF UPPER CANADA
Statement of Cash Flows
Stated in thousands of dollars
For the year ended December 31

		2017	2016
	Net inflow of cash related to the following activities		
	Operating		
1	(Deficit) Surplus	**(8,790)**	1,120
	Items not affecting cash:		
2	Increase in provision for unpaid grants	**4,629**	3,342
3	Amortization of capital assets	**1,875**	2,357
4	Amortization of intangible assets	**526**	696
5	Loss on disposal of capital assets	**-**	57
6	Lease obligations	**201**	-
		(1,559)	7,572
	Net change in non-cash operating items:		
7	Accounts receivable	**(598)**	(1,927)
8	Prepaid expenses	**44**	(615)
9	Accounts payable and accrued liabilities	**(322)**	1,879
10	Due to LawPRO	**(985)**	393
11	Deferred revenue	**1,899**	512
12	Fund contribution - unclaimed trusts	**(84)**	895
13	**Cash (used in) from operating activities**	**(1,605)**	8,709
	Investing		
14	Portfolio investments - net	**4,517**	(2,115)
15	Short-term investments - net	**(15,164)**	(3,716)
16	Capital and intangible asset additions	**(3,528)**	(1,636)
17	**Cash used in investing activities**	**(14,175)**	(7,467)
18	**Net (outflow) inflow of cash, during the year**	**(15,780)**	1,242
19	Cash, beginning of year	**27,174**	25,932
20	**Cash, end of year**	**11,394**	27,174

See accompanying notes

THE LAW SOCIETY OF UPPER CANADA
Notes to Financial Statements, December 31, 2017
Stated in whole dollars except where indicated

1. Background

The Law Society of Upper Canada (the "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 members 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.

At December 31, 2017, lawyers and paralegals entitled to provide legal services in Ontario numbered 52,000 and 9,000 respectively. The primary sources of revenues are member annual fees and insurance premiums and levies, set by Convocation, based on the financial requirements of the Society.

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 Fund and a number of special purpose funds restricted by the Law Society Act or Convocation.

Subsidiaries and Related Corporation
The Society has two wholly-owned subsidiaries: Lawyers' Professional Indemnity Company ("LAWPRO"), and LibraryCo Inc. ("LibraryCo") and a related corporation, the Law Society Foundation. These entities have not

been consolidated or included in the Society's financial statements apart from the information in Notes 4 and 5. The audited annual financial statements for these three entities are available separately.

General Fund

The General Fund accounts for the Society's program delivery and administrative activities related to the regulation and licensing of lawyers and paralegals. This fund reports unrestricted resources. At December 31, 2017, the lawyer fund balance was $23,239,000 (2016 – $23,602,000). The paralegal fund balance was $4,477,000 (2016 – 5,065,000).

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

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

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

If the General Fund balance is less than two months of budgeted 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 periods.

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

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

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 member, in connection with the member's professional business or in connection with any trust of which the member was a trustee. The Compensation Fund is restricted in use by the Law Society Act.

Pursuant to the Law Society Act, the Compensation Fund is supported by members' annual fees, investment income and recoveries. The Compensation Fund accounts for program delivery, administration and payment of grants and has separate fund balances for lawyer members and paralegal members.

The Society's policy is to maintain the Lawyer Compensation Fund balance at an amount sufficient to provide for a minimum of one 99.5th percentile aggregate claim scenario (one-in-two-hundred-year event) and a maximum of four 99th percentile aggregate claim scenarios (one-in-one-hundred year event). The estimated amount of aggregate claims is to be actuarially reviewed at least every three years.

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

- Mitigation of the Lawyer Compensation Fund levy for the next fiscal year or;
- Annual mitigation of the Lawyer Compensation Fund levy shall continue such that within the next three fiscal years, the maximum benchmark shall be achieved.

If the Lawyer Compensation Fund balance is less than a one one-in-two-hundred-year event, Convocation shall budget for an annual surplus to restore the fund balance to its minimum policy objective. The minimum policy benchmark should be restored within three fiscal periods. The Lawyer Compensation Fund balance is currently $3.3 million compared to the minimum policy objective of approximately $13 million. In the 2018 budget, $5 million will be raised to assist in restoring the balance over three fiscal periods.

If the Lawyer Compensation Fund balance is more than a one one-in-two-hundred-year event and less than four one-in-one-hundred-year events Convocation may:

- Mitigate the Lawyer Compensation Fund levy for the next fiscal year or;
- Budget for a surplus sufficient to increase the fund balance to its maximum policy objective of four one-in-one-hundred-year events or;
- Leave the fund balance at its current balance for the upcoming fiscal year.

The General Fund allocates the full cost of its spot audit program, 25% of investigation expenses and 6% of discipline expenses to the Compensation Fund. In addition, administrative expenses are allocated from the General Fund in proportion to the Fund`s operating budget. In 2017, the total allocated costs amounted to $8,544,000 (2016 – $8,028,000).

At December 31, 2017, the lawyer share of the fund balance was $3,285,000 (2016 – $12,825,000) and the paralegal share of the fund balance was $717,000 (2016 – $597,000).

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.

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.

There is a retrospective premium provision under the insurance policy between the Society and LAWPRO. To the extent underwriting results vary from the approved program, additional premiums are charged. Under these provisions, LAWPRO made no retrospective premium assessment in 2017 and 2016.

In 2017, $600,000 (2016 - nil) was transferred from the E&O Fund to the lawyer General Fund as provided in the 2017 budget representing accumulated investment income, surplus to the needs of the E&O Fund.

At December 31, 2017, the E&O Fund balance was $55,716,000 (2016 – $55,584,000) of which $35,642,000 (2016 – $35,642,000) comprises the Society's investment in LAWPRO.

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. These include 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. At December 31, 2017, the balance was $6,684,000 (2016 – $6,529,000).

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. At December 31, 2017, the balance was $10,838,000 (2016 – $9,711,000), 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 funds for county library purposes which are remitted to LibraryCo. The fund balance at December 31, 2017 and 2016 was $nil.

Other Restricted Funds

The Repayable Allowance Fund provides loans for tuition and living expenses to candidates in the lawyer licensing process. At December 31, 2017, the balance was $79,000 (2016 – $94,000).

The Special Projects Fund is maintained to ensure that financing is available for ongoing special projects approved by Convocation. The balance at December 31, 2017 was $759,000 (2016 – $417,000).

The Parental Leave Assistance Fund accounts for the delivery of the Parental Leave Assistance Program ("PLAP") and is funded by lawyers' fees. The PLAP provides financial assistance to lawyers in firms of five lawyers or fewer who 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 the program, 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. At December 31, 2017, the Fund balance was $297,000 (2016 – $457,000).

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.

Financial instruments

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

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

Investments in subsidiaries are reported at cost.

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

There has been no change in risk exposures from the previous period.

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 5 years. The Society has no 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 equities meeting specified quality requirements.

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 and short and long-term fixed income investments was $95,382,000 (2016 – $108,714,000). 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 $10,820,000 (2016 – $10,222,000). 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 software are presented at cost net of accumulated amortization. Amortization is charged to expenses on a straight-line basis over three years.

Revenue recognition

Annual member 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 balance sheet 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 income/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 balance sheet, net of any required 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, administrative expenses and expenses allocated from the General Fund.

Provisions for unpaid grants are recorded as liabilities on the balance sheet. 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 1.98% (2016 – 1.44%).

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, have ex-officio status by virtue of their office or past service as elected benchers or Treasurers, or qualify as emeritus benchers.

Elected and ex-officio benchers are only eligible for remuneration after contributing 26 days of voluntary time. 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 liabilities, unpaid grants and unpaid claims anticipates the combined outcomes of events that are yet to occur. There is uncertainty inherent in any such estimation and therefore a limitation upon the accuracy of these valuations. Future loss emergence may deviate from these estimates.

4. Investment in Subsidiaries

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

	2017	2016
LAWPRO	**35,642,000**	35,642,000
LibraryCo	**100**	100
Total investment in subsidiaries	**35,642,100**	35,642,100

LAWPRO

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

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

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

The $5,000,000 in capital stock of LAWPRO comprises 30,000 common shares of par value of $100 each and 20,000 6% non-cumulative, redeemable, non-voting preferred shares of par value of $100 each and $30,642,000 in capitalization funding.

Summarized balance sheet of LAWPRO:

($000s)	**2017**	2016
Total assets	**743,449**	730,717
Total liabilities	**489,771**	477,251
Total shareholder's equity	**253,678**	253,466
Total liabilities and shareholder's equity	**743,449**	730,717

Summarized statement of income of LAWPRO for the year ended December 31:

($000s)	**2017**	2016
Revenue	**130,477**	134,906
Expenses	**129,956**	123,428
Income before taxes	**521**	11,478
Income tax expense	**(95)**	2,839
Net income	**616**	8,639
Other comprehensive (loss) income net of tax	**(404)**	6,774
Comprehensive income	**212**	15,413

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

($000s)	**2017**	2016
Net cash inflow from operating activities	**13,032**	18,619
Net cash outflow from investing activities	**(8,698)**	(25,305)
Cash and cash equivalents, beginning of year	**15,911**	22,597
Cash and cash equivalents, end of year	**20,245**	15,911

LAWPRO administers the operations of the E&O Fund at no charge, under an administrative services agreement. LAWPRO billed the Society $103,222,000 (2016 – $110,617,000) for premiums during the year. LAWPRO contributed $185,000 primarily to a wellness program provided by the Society to its members (2016 – $219,000). These transactions are entered in the ordinary course of business and are measured at fair value. Included in the Society's financial statements are amounts due to LAWPRO of $6,977,000 (2016 – $7,962,000).

LibraryCo

LibraryCo, 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. LibraryCo was incorporated under the Business Corporations Act (Ontario) in 2001. The Society holds all of the 100 common shares. Of the 100 special shares, 25 are held by the Toronto Lawyers Association ("TLA") and 75 are held by the Federation of Ontario Law Associations ("FOLA"). The Society may appoint up to four directors, FOLA may appoint up to three directors and TLA may appoint one director.

The Society levies and collects funds for county and district law library purposes and transfers these funds to LibraryCo. 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 balance sheet of LibraryCo:

($000s)	**2017**	2016
Total assets	**794**	775
Total liabilities	**22**	96
Total share capital and fund balances	**772**	679
Total liabilities, share capital and fund balances	**794**	775

Summarized statement of income of LibraryCo for the year ended December 31:

($000s)	**2017**	2016
Total revenue	**7,822**	7,667
Total expenses	**7,729**	7,741
Surplus (Deficit)	**93**	(74)

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

($000s)	**2017**	2016
Net cash inflow (outflow) from operating activities	**(2)**	(7)
Cash, beginning of year	**321**	328
Cash, end of year	**319**	321

The Society provided LibraryCo with a grant of $7,815,000 (2016 - $7,662,000) during the year. The Society provides administrative services to LibraryCo as well as certain other services and publications. The total amount billed by the Society for 2017 was $358,000 (2016 – $402,000). These transactions are entered in the ordinary course of business and are measured at fair value. Included in accounts receivables are amounts due from LibraryCo of $9,000 (2016 – $11,000).

5. Related Corporation

The Law Society Foundation ("LSF") is regarded as a related corporation, 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, receive donations and maintain funds for the relief of poverty by providing meals to persons in need.

The Society provides facilities, administration, accounting, security and certain other 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 payable (receivable) are amounts due to the LSF of $14,000 (2016 – ($1,000)).

6. Portfolio Investments

($000s)	**2017**	2016
Debt securities	**42,118**	54,833
Canadian equities	**21,501**	13,303
Total portfolio investments	**63,619**	68,136

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

	2017	2016
Effective interest rates (%)	**1.1 – 3.1**	0.5 – 2.8
Maturity dates (years)	**1 – 8**	1 - 6

7. Capital Assets and Intangible Assets

Capital Assets ($000s)	**2017**			2016
	Cost	**Accumulated Amortization**	**Net**	Net
Land and buildings	**25,395**	**23,275**	**2,120**	2,671
Building and leasehold improvements	**27,645**	**20,571**	**7,074**	6,122
Furniture, equipment and computer hardware	**3,618**	**3,289**	**329**	189
Total capital assets	**56,658**	**47,135**	**9,523**	8,982

Intangible Assets ($000s)	**2017**			2016
	Cost	**Accumulated Amortization**	**Net**	Net
Computer software	**7,724**	**6,409**	**1,315**	729
Total intangible assets	**7,724**	**6,409**	**1,315**	729

8. Accounts Payable and Accrued Liabilities and Accounts Receivable

Included in accounts payable is $589,000 in government remittances, primarily sales taxes (2016 – $427,000).

The accounts receivable balance comprises:

($000s)	**2017**	2016
Accounts receivable	**27,295**	25,165
Allowance for doubtful accounts	**16,475**	14,943
Accounts receivable – net	**10,820**	10,222

The allowance for doubtful accounts mainly relates to annual fees, monitoring and enforcement and the licensing process.

9. Unclaimed Trust Funds

Section 59.6 of the Law Society Act permits a member 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 Act enabling the Society to recover its expenses associated with maintaining these funds, net income from the money held in trust shall be paid to the Law Foundation of Ontario. Unclaimed money held in trust amounts to $5,037,000 (2016 – $5,121,000).

10. Other Trust Funds

The Society administers client funds for members under voluntary or court-ordered trusteeships. These funds and matching liabilities are not reflected on the Balance Sheet. Money paid to the Society is held in trust until it is repaid to the clients or transferred to the Unclaimed Trust Funds. At December 31, 2017, total funds held in trust amount to $3,214,000 (2016 – $4,378,000).

11. Other Revenues

Other Revenues primarily comprise income from *Ontario Reports* royalties, administrative fees, monitoring and enforcement recoveries and catering.

12. Other Expenses

Included in Convocation, policy and outreach expenses are payments for the remuneration of elected, ex-officio benchers and lay benchers during the year of $847,000 (2016 – $756,000). The total expense reimbursements of the elected, ex-officio benchers and lay benchers during the year was $488,000 (2016 – $506,000). The Treasurers' honorarium expense for the year was $189,000 (2016 – $192,000).

13. Interfund Transfers

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

- $3,528,000 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;
- $600,000 from the E&O Fund to the lawyer General Fund as provided in the 2017 budget representing accumulated investment income, surplus to the needs of the E&O Fund;
- $100,000 from the lawyer General Fund to the Repayable Allowance Fund, as provided in the 2017 budget to fund the Repayable Allowance Program in the Licensing Process;
- $342,000 from the lawyer General Fund to the Special Projects Fund;
- $259,000 from the lawyer General Fund to the Capital Allocation Fund;
- $10,000 from the County Libraries Fund to the lawyer General Fund.

14. 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 2017 amounted to $2,629,000 (2016 – $2,572,000).

15. Commitments

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

2018	$1,785,000
2019	$2,189,000
2020	$2,220,000
2021	$2,348,000
2022	$2,464,000
Thereafter	$14,385,000
Total	$25,391,000

In 2016, Convocation approved the Society's support for the Law Commission of Ontario's mandate for a third five year period (2017 - 2021). The Society's contribution will be $148,000 in 2018, increasing by 2% per annum for the next three years.

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. is a software company that operates online information delivery products, primarily for CanLII. CanLII purchased all the shares of Lexum in February 2018. In December 2017, Convocation approved the Society's support of this transaction. 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 February 2018. This loan has an annual interest rate of 4.74%, compounded semi-annually and will mature in full five years from the date of closing.

16. 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.

17. Comparative figures

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

18. Restricted Funds

A schedule of Restricted Funds is set out below.

		2017								2016
		Compensation Fund		Errors and omissions insurance	Capital allocation	Invested in capital and intangible assets	County libraries	Other restricted	Total Restricted funds	Total
		Lawyer	Paralegal							
1	**Fund balances, beginning of year**	**12,825**	**597**	**55,584**	**6,529**	**9,711**	**-**	**968**	**86,214**	88,488
	Revenues									
2	Annual fees	**11,656**	**851**	**-**	**4,779**	**-**	**7,825**	**-**	**25,111**	20,540
3	Insurance premiums and levies	**-**	**-**	**103,222**	**-**	**-**	**-**	**-**	**103,222**	110,617
4	Investment income	**727**	**81**	**440**	**-**	**-**	**-**	**-**	**1,248**	1,272
5	Change in fair value of investments	**372**	**41**	**267**	**-**	**-**	**-**	**-**	**680**	1,701
6	Other	**178**	**-**	**-**	**112**	**-**	**-**	**-**	**290**	673
7	**Total revenues**	**12,933**	**973**	**103,929**	**4,891**	**-**	**7,825**	**-**	**130,551**	134,803
	Expenses									
8	Allocated expenses	**7,807**	**737**	**-**	**-**	**-**	**-**	**-**	**8,544**	8,028
9	Direct expenses	**14,666**	**116**	**103,197**	**1,467**	**2,401**	**7,815**	**275**	**129,937**	129,458
10	**Total expenses**	**22,473**	**853**	**103,197**	**1,467**	**2,401**	**7,815**	**275**	**138,481**	137,486
11	**(Deficit) Surplus**	**(9,540)**	**120**	**732**	**3,424**	**(2,401)**	**10**	**(275)**	**(7,930)**	(2,683)
12	**Interfund transfers**	**-**	**-**	**(600)**	**(3,269)**	**3,528**	**(10)**	**442**	**91**	409
13	**Fund balances, end of year**	**3,285**	**717**	**55,716**	**6,684**	**10,838**	**-**	**1,135**	**78,375**	86,214

SUPPLEMENTARY SCHEDULES

UNAUDITED

THE LAW SOCIETY OF UPPER CANADA
Lawyers and Paralegals General Fund
Schedule of Revenues and Expenses

Stated in thousands of dollars
For the year ended December 31

		2016 Actual	2017 Actual	Budget YTD	Variance
	REVENUES				
1	Annual fees	57,138	**57,134**	**56,806**	**328**
2	Professional development and competence	21,713	**21,878**	**21,447**	**431**
3	Investment income	613	**696**	**776**	**(80)**
4	Change in fair value of investments	514	**216**	**-**	**216**
5	Other	8,088	**7,524**	**7,400**	**124**
6	**Total revenues**	88,066	**87,448**	**86,429**	**1,019**
	EXPENSES				
7	Professional regulation, tribunals and compliance	28,645	**28,569**	**30,396**	**1,827**
8	Professional development and competence	27,143	**29,029**	**29,341**	**312**
9	Corporate services	21,884	**25,559**	**25,487**	**(72)**
10	Convocation, policy and outreach	8,341	**7,206**	**10,147**	**2,941**
11	Services to members and public	6,278	**6,489**	**6,671**	**182**
12	Allocated to Compensation Fund	(8,028)	**(8,544)**	**(9,131)**	**(587)**
13	**Total expenses**	84,263	**88,308**	**92,911**	**4,603**
14	**(Deficit) Surplus**	**3,803**	**(860)**	**(6,482)**	**5,622**

THE LAW SOCIETY OF UPPER CANADA
General Fund - Lawyers
Schedule of Revenues and Expenses

Stated in thousands of dollars
For the year ended December 31

		2016 Actual	2017 Actual	Budget YTD	Variance
	REVENUES				
1	Annual fees	52,889	**52,778**	**52,484**	**294**
2	Professional development and competence	18,563	**18,837**	**18,468**	**369**
3	Investment income	560	**626**	**698**	**(72)**
4	Change in fair value of investments	470	**194**	**-**	**194**
5	Other	7,254	**6,593**	**6,584**	**9**
6	**Total revenues**	79,736	**79,028**	**78,234**	**794**
	EXPENSES				
7	Professional regulation, tribunals and compliance	26,167	**25,662**	**27,327**	**1,665**
8	Professional development and competence	24,800	**25,873**	**26,376**	**503**
9	Corporate services	19,981	**22,962**	**22,875**	**(87)**
10	Convocation, policy and outreach	7,715	**6,592**	**9,220**	**2,628**
11	Services to members and public	5,870	**6,018**	**6,170**	**152**
12	Allocated to Compensation Fund	(7,401)	**(7,807)**	**(8,296)**	**(489)**
13	**Total expenses**	77,132	**79,300**	**83,672**	**4,372**
14	**(Deficit) Surplus**	**2,604**	**(272)**	**(5,438)**	**5,166**

THE LAW SOCIETY OF UPPER CANADA
General Fund - Paralegals
Schedule of Revenues and Expenses

Stated in thousands of dollars
For the year ended December 31

		2016 Actual	2017 Actual	Budget YTD	Variance
	REVENUES				
1	Annual fees	4,249	**4,356**	**4,322**	**34**
2	Professional development and competence	3,150	**3,041**	**2,979**	**62**
3	Investment income	53	**70**	**78**	**(8)**
4	Change in fair value of investments	44	**22**	**-**	**22**
5	Other	834	**931**	**816**	**115**
6	**Total revenues**	8,330	**8,420**	**8,195**	**225**
	EXPENSES				
7	Professional regulation, tribunals and compliance	2,478	**2,907**	**3,069**	**162**
8	Professional development and competence	2,343	**3,156**	**2,965**	**(191)**
9	Corporate services	1,903	**2,597**	**2,612**	**15**
10	Convocation, policy and outreach	626	**614**	**927**	**313**
11	Services to members and public	408	**471**	**501**	**30**
12	Allocated to Compensation Fund	(627)	**(737)**	**(835)**	**(98)**
13	**Total expenses**	7,131	**9,008**	**9,239**	**231**
14	**(Deficit) Surplus**	1,199	**(588)**	**(1,044)**	**456**

THE LAW SOCIETY OF UPPER CANADA
Compensation Fund
Schedule of Revenues and Expenses and Change in Fund Balances

	Stated in thousands of dollars	2017			2016		
	For the year ended December 31	**Lawyers**	**Paralegals**	**Total**	**Lawyers**	**Paralegals**	**Total**
	Revenues						
1	Annual fees	**11,656**	**851**	**12,507**	9,939	726	10,665
2	Investment income	**727**	**81**	**808**	731	69	800
3	Change in fair value of investments	**372**	**41**	**413**	916	87	1,003
4	Recoveries	**178**	**-**	**178**	548	52	600
5	**Total Revenues**	**12,933**	**973**	**13,906**	12,134	934	13,068
	Expenses						
6	Provision for unpaid grants	**14,352**	**82**	**14,434**	6,242	97	6,339
7	Spot audit	**3,936**	**437**	**4,373**	3,837	363	4,200
8	Share of investigation and discipline	**2,001**	**111**	**2,112**	2,028	112	2,140
9	Administrative	**1,911**	**223**	**2,134**	1,574	206	1,780
10	Salaries and benefits	**273**	**-**	**273**	533	-	533
11	**Total Expenses**	**22,473**	**853**	**23,326**	14,214	778	14,992
12	**(Deficit) Surplus**	**(9,540)**	**120**	**(9,420)**	(2,080)	156	(1,924)
13	Fund balances, beginning of year	**12,825**	**597**	**13,422**	14,905	441	15,346
14	**Fund Balances, end of year**	**3,285**	**717**	**4,002**	12,825	597	13,422

THE LAW SOCIETY OF UPPER CANADA
Errors and Omissions Insurance Fund
Schedule of Revenues and Expenses and Change in Fund Balance

Stated in thousands of dollars
For the year ended December 31

		2017 Actual	2016 Actual
	REVENUES		
1	Insurance premiums and levies	**103,222**	110,617
2	Investment income	**440**	472
3	Change in fair value of investments	**267**	698
4	Other income	**-**	-
5	**Total revenues**	**103,929**	111,787
	EXPENSES		
6	Administrative	**-**	-
7	Claims	**(25)**	(72)
8	Insurance	**103,222**	110,617
9	**Total expenses**	**103,197**	110,545
10	**Surplus**	**732**	1,242
10	Interfund transfers	**(600)**	-
11	Change in fund balance	**132**	1,242
12	Fund balance, beginning of year	**55,584**	54,342
13	Fund balance, end of year	**55,716**	55,584

TAB 2.5

FOR DECISION

INVESTMENT POLICY

Motion:

35. **That Convocation approve the updated Investment Policy.**

36. A draft, red-lined and clean version of the Investment Policy follows.

37. In the "Accountabilities and Responsibilities" section of the Investment Policy it states that "Convocation shall…. review the administration of the Portfolios in the context of this policy". The Policy notes that this shall be done on at least an annual basis.

38. The Investment Policy governs the investment portfolios of the General, Compensation and Errors & Omissions Insurance ("E&O") Funds. At December 31, 2017, excluding cash and short-term investments, these investments had a total market value of $63.6 million comprising $42.1 million in fixed income investments and $21.5 million in equity investments.

39. The General Fund is the Law Society's operating fund, accounting for the Law Society's program delivery and administrative activities related to the regulation and licensing of members. The Law 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 member. The E&O Fund accounts for insurance-related transactions between LAWPRO, the Society and insured lawyers.

40. The current investment policy was last comprehensively reviewed with input from the Portfolio Manager and AON using tools such as an Asset Mix Study in early 2017. The equity component was increased from 15% Canadian equities to 30% Canadian equities, reducing the fixed income component by 15%. The only current changes proposed staff are housekeeping-type edits, such as updating balances at December 31, 2017.

41. A further comprehensive review is not being suggested at this time. The Committee intends to review the asset mix prior to the Investment Policy's next annual review. Some other issues typically considered in assessing the Investment Policy are:
    a) The Law Society has an ability to adopt a higher level of risk, however the Law Society's willingness to adopt a higher level of risk is very low. The current Investment Policy is generally in line with the Law Society's nature, goals and purpose.

b) The relatively small scale of the Law Society's investments argues against foreign exposure. Managing the currency risk and foreign withholding tax implications can be expensive, reducing net investment returns.

c) In the current low investment return environment, the Law Society currently benefits from relatively low investment management fees.

d) In May 2017, the Committee considered the incorporation of explicit ethical investing principles into the Law Society's Investment Policy. As reported to Convocation in May, this review included a memorandum from the current Portfolio Manager confirming that Environmental, Social and Governance factors have been integrated into their investment grade rating for a number of years. The Committee concluded not to make any changes to the Investment Policy.

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Subject: Investment Policy	
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Purpose

1. The Law Society, has adopted the following Investment Policy governing the management of the General Fund Long-Term Funds, the Compensation Fund Long-Term Funds and the Errors & Omissions Insurance Fund Long-Term Funds ("the Portfolios") and short-term investments. The Portfolios comprise the funds not required to finance the short-term obligations of the Law Society's operations. Descriptions of these Funds can be found in the Law Society's Annual Financial Statements.

Accountabilities and Responsibilities

2. Convocation

Convocation shall:

- review and approve the Investment Policy
- approve investment performance objectives
- approve the appointment and continuing retention of the Portfolio Manager and Custodian
- review the Portfolios' investment returns, and the administration of the Portfolios in the context of this policy. This shall be done on at least an annual basis

3. **Audit & Finance Committee**

The Audit & Finance Committee shall:

- review and recommend approval of the Investment Policy to Convocation
- review the Portfolios and monitor their performance
- review and recommend the appointment and continuing retention of the Portfolio Manager and Custodian
- review and recommend investment performance objectives
- periodically report to Convocation on the investment returns of the Portfolios, and the administration of the Portfolios. This shall be done on at least an annual basis.

4. **Law Society Management**

Law Society management, supplemented by professional assistance when required, has overall responsibility for:

- preparing and recommending changes to the Policy

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- recommending the selection of the Portfolio Manager and Custodian
- recommending investment performance objectives

- monitoring the Portfolios to ensure compliance with legislative requirements and this policy
- periodically evaluating the Portfolio Manager and Custodian
- accounting for transactions in the Portfolios
- reviewing the Portfolios' investment returns and the administration of the Portfolios in the context of this policy. This shall be done on at least a quarterly basis.
- periodically report to Audit & Finance Committee on the investment returns of the Portfolios, and the administration of the Portfolios. This shall be done on at least an annual basis

5. **Portfolio Manager**

The Portfolio Manager directs the business of the Portfolios' purchases and sales, has full investment discretion subject to the Investment Policy, and has responsibility for:

- Managing the Portfolios in terms of this Investment Policy, and in the best interests of the Law Society
- Providing written notification to management of the Law Society of any violations of this Investment Policy
- Adhering to the best standards of industry practice
- Required communications as described in Section 35

6. **Custodian**

The Custodian shall:

- store and protect all ownership documentation for the Portfolios
- execute all transactions for the Portfolios as directed by the Portfolio Manager
- collect all income of the Portfolios
- provide monthly statements to the Law Society
- make all required filings to government, regulatory, taxation or other authorities

and shall be one of the following:

- A bank listed in Schedule I or II of the Bank Act (Canada)
- A trust company that is incorporated under the laws of Canada, and that has shareholders' equity of not less than $10,000,000

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- A company that is incorporated under the laws of Canada and that is an affiliate of a bank or trust company referred to above and has shareholders' equity, of not less than $10,000,000

Philosophy

7. The Law Society is of the belief that:
    - superior rates of return over longer time periods will be achieved through active management of a broadly diversified portfolio of high quality securities
    - high-risk securities, which could lead to excessive volatility and the possibility of a reduction in the capital value of the Portfolios in a depressed market, are to be avoided
    - extreme positions in either individual securities or in an asset class are to be avoided

Business Characteristics

8. In order to establish an appropriate Investment Policy for the Portfolios, the following characteristics of the Law Society, relevant to the Portfolios, are noted.
    - The Law Society is the governing body of Ontario's legal profession
    - Governance of the Law Society is regulated by *The Law Society Act*
    - The Law Society is a not-for-profit corporation and is not subject to income or capital taxes
    - The primary revenue source for both the General Fund and the Compensation Fund is member fees, mainly received between December and April of each year
    - The primary revenue source for the E&O Fund is premiums and levies from members received in the period November to January and then in quarterly increments
    - Total revenue for the Law Society for the year ended December 31, 2015~~7~~ was $218 million
    - The General Fund finances the day-to-day operation of the Law Society.
    - The Compensation Fund is maintained to mitigate losses sustained by clients because of the dishonesty of a member. It is a discretionary fund, and claim payments have a maximum of $150,000 for claims incurred before September 22, 2016 and $500,000 thereafter
    - The Errors & Omissions Insurance Fund accounts for insurance related transactions between Lawyers' Professional Insurance Company, the Law Society and insured lawyers
    - Balances for investments at 31 December 2015~~7~~ were:

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CATEGORY	2015~~7~~ ($mill)
Total Cash and Short-Term Investments	~~49~~53.3~~9~~
Errors & Omissions Insurance Fund - Long-Term Investments	2~~1~~0.~~5~~0
General Fund – Long-Term Investments	1~~5~~6.~~1~~4
Compensation Fund – Long-Term Investments	~~29.4~~27.2
TOTAL	11~~5~~6.9

- Withdrawals from the Portfolios will depend on operating conditions and capital requirements and therefore the Portfolios should be sensitive to short-term volatility.

Objectives

9. The primary objective is to preserve and enhance the real capital base of the Portfolios.

10. The secondary objective is to generate investment returns to assist the Law Society in funding its programs.

11. Even with the guidelines outlined in this Policy, the investment returns from the Portfolios will vary from year to year, reflecting market and economic conditions, levels of inflation, government policies and many other factors which are beyond the control of the Portfolio Manager. These outside factors should not deter the Portfolio Manager from exercising due diligence and using its best efforts to achieve the long-term primary investment objective for the Portfolios as set out above, and the following benchmarks:

    - By asset class
      - to outperform the appropriate market index return
    - By benchmark portfolio
      - To outperform the benchmark asset mix noted below (i.e., a portfolio consisting of 85% of the FTSE TMX Short-Term Bond Index total return, and 15% of the total return of the S&P/TSX Composite Index, over a four year moving average or complete market cycle)

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Portfolio Manager

12. To achieve these objectives the Law Society will retain the services of a firm registered as Investment Counsel and Portfolio Manager with the Ontario Securities Commission to manage the investment Portfolios on a discretionary basis within the constraints outlined in this document. The Portfolio Manager is to be guided by the following:

Asset Mix

13. The following asset mix guidelines, based on market values, constitute the acceptable range of exposure for the various asset classes, which comprise each Portfolio:

	% of Total Fund		
	Minimum	***Benchmark Asset Mix***	Maximum
Cash and Short-Term	0%	0%	15%
Bonds	45%	70%	80%
Total Fixed Income	**60%**	**70%**	**80%**
Canadian Equity	**20%**	**30%**	**40%**

Diversification

14. The investment risk of the Portfolios shall be reduced by maintaining a diversified selection of industries and companies which places primary emphasis on value, long-term growth, and safety of capital. All percentages are based on market values, except where indicated.

Short-Term Investments

15. Short-term investments with a maximum term to maturity at purchase of 364 days may be held in the Portfolios when appropriate as an alternative to bond and equity investments. Appropriate short-term investments are:
    (a) Treasury bills issued by the Government of Canada and provincial governments and their agencies
    (b) Obligations of trust companies and Canadian and foreign banks chartered to operate in Canada, including bankers' acceptances

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(c) Commercial paper issued by Canadian corporations with a rating of "R1" or better as established by The Dominion Bond Rating Service or equivalent rating by another recognized bond rating service, at the time of purchase.

16. No more than 8% of each of the portfolios may be invested in the securities of any one single issuer permitted in 15(b) and (c) above.

17. Where the Portfolio Manager operates a pooled money market fund, which meets the requirements set out in 15(a), (b) and (c), this pooled money market fund may be used as an alternative in order to achieve better rates and liquidity.

Bonds

18. Investment instruments allowed include:
    - bonds, debentures, notes, non-convertible preferred stock, term deposits and guaranteed investment certificates
    - bonds of foreign issuers denominated in Canadian dollars
    - NHA-insured mortgage-backed securities or collateralized mortgage-backed securities
    - Marketable private placements of bonds.

19. Each bond portfolio may be invested within the following parameters:

Bond Holdings	Asset Mix		
	Maximum	**Target**	**Minimum**
Federal and Federally Guaranteed Bonds	100%	46%	26%
Provincials, Provincially Guarantees and Municipals	38%	18%	0%
Total Corporate Issues	56%	36%	0%
Total BBB Issues with Corporate issues	18%	8%	0%
Cash or Money Market	5%	0%	0%

20. Investment in any one security or issuer shall not exceed 10% of each Bond portfolio with the exception of Government of Canada and provincial government bonds and their guarantees.

21. In line with the benchmark portfolio of the FTSE TMX Short Term Bond Index, the normal Duration range for the bond portfolio administered under this policy should be between 1

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and 5 years. The Duration of a portfolio is a measure of the portfolio's sensitivity to changes in the general level of interest rates (Duration multiplied by change in interest rates gives change in value of bond portfolio).

22. The emphasis within the bond portfolio will be on quality, with a minimum rating "BBB" for bonds and debentures or "P2" for preferred shares by The Dominion Bond Rating Service or equivalent rating by another recognized bond rating service, at the time of purchase.

23. In the event of a downgrade below "BBB" for bonds and debentures, "P2" for preferred shares or "R-1" for short-term investments, the Portfolio Manager will advise of an appropriate course of action.

24. In cases where the recognized bond rating agencies do not agree on the credit rating, the bond will be classified according to the methodology used by FTSE TMX, which states:
    - If two agencies rate a security, use the lower of the two ratings
    - If three agencies rate a security, use the most common; and
    - If all three agencies disagree, use the middle rating.

25. In the event that an individual bond, debenture, short-term investment or preferred share is no longer rated by a recognized bond rating agency, that security will no longer be considered to be investment grade and the Portfolio Manager will place the asset on a watch list subject to monthly review by the Portfolio Manager with the Law Society until such time as the security matures, is sold or until it is upgraded to a level consistent with the purchase quality standards as expressed in the guidelines listed above. The Manager may not infer a rating for an individual unrated security from ratings of other securities issued by the same issuer.

Equities

26. The intent is to provide a diversified selection of Canadian common stocks, also allowing any of the following, provided that they are listed on a recognized stock exchange:
    - Convertible preferred stock and convertible debentures
    - Real estate investment trusts ("REITs").

27. The market value of any one issuer cannot represent more than 10% of the market value of the total Portfolios, or that equity's weight in the S&P/TSX Composite Index, whichever is greater.

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Other Investments

28. Investments in open or closed-ended pooled or mutual funds are permitted provided that the assets of such funds are permissible investments under this Policy.

29. Deposit accounts of the custodian or Schedule 1 banks can be used to invest surplus cash holdings.

30. With the exception of rights, warrants and special warrants or instruments used for exposure purposes, no derivative investments will be permitted without the prior written approval of the Audit & Finance Committee.

31. No venture capital financing or non-conventional investments will be permitted without the prior written approval of the Audit & Finance Committee.

32. In the event any investment has no active market, the Portfolio Manager will advise of an appropriate course of action for the valuation of that investment.

Discretion

33. The Portfolio Manager is to have full discretion in the management of the assets of the Portfolios, selecting the appropriate asset mix, and the individual securities, within the guidelines set out herein.

Delegation of Voting Rights

34. The Portfolio Manager has been delegated the responsibility of exercising all voting rights acquired through the Portfolios' investments. The Portfolio Manager will exercise acquired voting rights with the intent of fulfilling the investment policies and objectives of the Fund. The Portfolio Manager is expected to act in good faith and to exercise the voting rights in a prudent manner that will maximize returns for the Portfolios, and to act against any proposal which will increase the risk level or reduce the investment value of the relevant security.

Communications

35. The Communications process between the Portfolio Manager and Law Society Management is flexible, but at a minimum will include the following:
    - monthly transaction statements

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- a quarterly written summary listing of all portfolio transactions from the Portfolio Manager
- a complete quarterly portfolio listing
- a quarterly written assessment of the North American economies and the financial markets, and impact on the Portfolios
- annual investment meetings with the Portfolio Manager. The agenda at these meetings would include an overview of the economy and the outlook for the financial markets, the current investment strategy, and a review of the performance results
- an annual review of the Investment Policy and the Portfolios' quality and diversification guidelines.
- immediate notification of change with respect to the organization, investment professionals or investment process.

36. Any time that the Portfolio Manager is not in compliance with this policy, they are required to advise the Chief Financial Officer of the Law Society immediately, detailing the breach and recommending a course of action to remedy the situation.

Standard of Professional Conduct

37. All investment activities of the Portfolio Manager and their employees shall be conducted in accordance with the Code of Ethics and Standards of Professional Conduct of the CFA Institute.

    The Portfolio Manager will manage the Portfolios with the care, diligence and skill that a Portfolio Manager of ordinary prudence would use in dealing with institutional assets. The Portfolio Manager will also use all relevant knowledge and skill that it possesses or ought to possess as a prudent expert in investment management.

Securities Lending

38. No lending of securities is permitted.

Borrowing

39. The Portfolios shall not borrow money.

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Conflicts of Interest – Investment Policy

40. Conflict of interest standards apply to all members of Convocation, Law Society management and the Portfolio Manager, as well as to all Agents employed by the Law Society, in the execution of their fiduciary responsibilities.

41. An 'Agent' is defined to mean a company, organization, association or individual, as well as its employees, retained by the Law Society to provide specific services with respect to the administration and management of the Law Society's investment assets.

42. In carrying out their fiduciary responsibilities, these parties must act at all times in the best interests, and for the benefit, of the Law Society. All parties must act in the manner that a "prudent person" would in matters related to the investment strategy and portfolio management.

43. No affected person shall accept a gift or gratuity or other personal favour, other than one of nominal value, from an individual with whom the person deals in the course of performance of his or her duties and responsibilities.

44. In the execution of their duties, all of the parties listed in Section 40 above shall disclose any material conflict of interest relating to them, or any material ownership of securities, which could impair their ability to render unbiased decisions, as it relates to the administration of the investment assets.

45. Further, it is expected that none of the parties listed in Section 40 above shall make any personal financial gain (direct or indirect) because of their fiduciary position. However, normal and reasonable fees and expenses incurred in the discharge of their responsibilities are permitted if documented and approved by the Law Society.

46. It is incumbent on any party affected by this Policy who believes that he/she may have a material conflict of interest, or who is aware of any conflict of interest, to notify the CEO or the CFO of the Law Society. Disclosure should be made promptly after the affected person becomes aware of the conflict. The CEO or CFO, in turn, will decide what action is appropriate under the circumstances but, at a minimum, will table the matter at the next regular meeting of the Audit & Finance Committee.

47. No affected person who has or is required to make a disclosure as contemplated in this Policy shall participate in any discussion, decision or vote relating to any proposed

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investment or transaction in respect of which he or she has made or is required to make disclosure.

Changes to Policy

48. This Investment Policy may only be changed by Convocation on the specific recommendation of the Audit & Finance Committee.

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Purpose

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Accountabilities and Responsibilities

2. Convocation

Convocation shall:

- review and approve the Investment Policy
- approve investment performance objectives
- approve the appointment and continuing retention of the Portfolio Manager and Custodian
- review the Portfolios' investment returns, and the administration of the Portfolios in the context of this policy. This shall be done on at least an annual basis

3. **Audit & Finance Committee**

The Audit & Finance Committee shall:

- review and recommend approval of the Investment Policy to Convocation
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- recommending the selection of the Portfolio Manager and Custodian
- recommending investment performance objectives
- monitoring the Portfolios to ensure compliance with legislative requirements and this policy
- periodically evaluating the Portfolio Manager and Custodian
- accounting for transactions in the Portfolios
- reviewing the Portfolios' investment returns and the administration of the Portfolios in the context of this policy. This shall be done on at least a quarterly basis.
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- Providing written notification to management of the Law Society of any violations of this Investment Policy
- Adhering to the best standards of industry practice
- Required communications as described in Section 35

6. **Custodian**

The Custodian shall:

- store and protect all ownership documentation for the Portfolios
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- collect all income of the Portfolios
- provide monthly statements to the Law Society
- make all required filings to government, regulatory, taxation or other authorities

and shall be one of the following:

- A bank listed in Schedule I or II of the Bank Act (Canada)
- A trust company that is incorporated under the laws of Canada, and that has shareholders' equity of not less than $10,000,000

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- A company that is incorporated under the laws of Canada and that is an affiliate of a bank or trust company referred to above and has shareholders' equity, of not less than $10,000,000

Philosophy

7. The Law Society is of the belief that:
    - superior rates of return over longer time periods will be achieved through active management of a broadly diversified portfolio of high quality securities
    - high-risk securities, which could lead to excessive volatility and the possibility of a reduction in the capital value of the Portfolios in a depressed market, are to be avoided
    - extreme positions in either individual securities or in an asset class are to be avoided

Business Characteristics

8. In order to establish an appropriate Investment Policy for the Portfolios, the following characteristics of the Law Society, relevant to the Portfolios, are noted.
    - The Law Society is the governing body of Ontario's legal profession
    - Governance of the Law Society is regulated by *The Law Society Act*
    - The Law Society is a not-for-profit corporation and is not subject to income or capital taxes
    - The primary revenue source for both the General Fund and the Compensation Fund is member fees, mainly received between December and April of each year
    - The primary revenue source for the E&O Fund is premiums and levies from members received in the period November to January and then in quarterly increments
    - Total revenue for the Law Society for the year ended December 31, 2017 was $218 million
    - The General Fund finances the day-to-day operation of the Law Society.
    - The Compensation Fund is maintained to mitigate losses sustained by clients because of the dishonesty of a member. It is a discretionary fund, and claim payments have a maximum of $150,000 for claims incurred before September 22, 2016 and $500,000 thereafter
    - The Errors & Omissions Insurance Fund accounts for insurance related transactions between Lawyers' Professional Insurance Company, the Law Society and insured lawyers
    - Balances for investments at 31 December 2017 were:

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CATEGORY	2017 ($mill)
Total Cash and Short-Term Investments	53.3
Errors & Omissions Insurance Fund - Long-Term Investments	20.0
General Fund – Long-Term Investments	16.4
Compensation Fund – Long-Term Investments	27.2
TOTAL	116.9

- Withdrawals from the Portfolios will depend on operating conditions and capital requirements and therefore the Portfolios should be sensitive to short-term volatility.

Objectives

9. The primary objective is to preserve and enhance the real capital base of the Portfolios.

10. The secondary objective is to generate investment returns to assist the Law Society in funding its programs.

11. Even with the guidelines outlined in this Policy, the investment returns from the Portfolios will vary from year to year, reflecting market and economic conditions, levels of inflation, government policies and many other factors which are beyond the control of the Portfolio Manager. These outside factors should not deter the Portfolio Manager from exercising due diligence and using its best efforts to achieve the long-term primary investment objective for the Portfolios as set out above, and the following benchmarks:

    - By asset class
      - to outperform the appropriate market index return
    - By benchmark portfolio
      - To outperform the benchmark asset mix noted below (i.e., a portfolio consisting of 85% of the FTSE TMX Short-Term Bond Index total return, and 15% of the total return of the S&P/TSX Composite Index, over a four year moving average or complete market cycle)

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Portfolio Manager

12. To achieve these objectives the Law Society will retain the services of a firm registered as Investment Counsel and Portfolio Manager with the Ontario Securities Commission to manage the investment Portfolios on a discretionary basis within the constraints outlined in this document. The Portfolio Manager is to be guided by the following:

Asset Mix

13. The following asset mix guidelines, based on market values, constitute the acceptable range of exposure for the various asset classes, which comprise each Portfolio:

	% of Total Fund		
	Minimum	***Benchmark Asset Mix***	Maximum
Cash and Short-Term	0%	0%	15%
Bonds	45%	70%	80%
Total Fixed Income	**60%**	**70%**	**80%**
Canadian Equity	**20%**	**30%**	**40%**

Diversification

14. The investment risk of the Portfolios shall be reduced by maintaining a diversified selection of industries and companies which places primary emphasis on value, long-term growth, and safety of capital. All percentages are based on market values, except where indicated.

Short-Term Investments

15. Short-term investments with a maximum term to maturity at purchase of 364 days may be held in the Portfolios when appropriate as an alternative to bond and equity investments. Appropriate short-term investments are:
    (a) Treasury bills issued by the Government of Canada and provincial governments and their agencies
    (b) Obligations of trust companies and Canadian and foreign banks chartered to operate in Canada, including bankers' acceptances

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(c) Commercial paper issued by Canadian corporations with a rating of "R1" or better as established by The Dominion Bond Rating Service or equivalent rating by another recognized bond rating service, at the time of purchase.

16. No more than 8% of each of the portfolios may be invested in the securities of any one single issuer permitted in 15(b) and (c) above.

17. Where the Portfolio Manager operates a pooled money market fund, which meets the requirements set out in 15(a), (b) and (c), this pooled money market fund may be used as an alternative in order to achieve better rates and liquidity.

Bonds

18. Investment instruments allowed include:
    - bonds, debentures, notes, non-convertible preferred stock, term deposits and guaranteed investment certificates
    - bonds of foreign issuers denominated in Canadian dollars
    - NHA-insured mortgage-backed securities or collateralized mortgage-backed securities
    - Marketable private placements of bonds.

19. Each bond portfolio may be invested within the following parameters:

Bond Holdings	Asset Mix		
	Maximum	**Target**	**Minimum**
Federal and Federally Guaranteed Bonds	100%	46%	26%
Provincials, Provincially Guarantees and Municipals	38%	18%	0%
Total Corporate Issues	56%	36%	0%
Total BBB Issues with Corporate issues	18%	8%	0%
Cash or Money Market	5%	0%	0%

20. Investment in any one security or issuer shall not exceed 10% of each Bond portfolio with the exception of Government of Canada and provincial government bonds and their guarantees.

21. In line with the benchmark portfolio of the FTSE TMX Short Term Bond Index, the normal Duration range for the bond portfolio administered under this policy should be between 1

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and 5 years. The Duration of a portfolio is a measure of the portfolio's sensitivity to changes in the general level of interest rates (Duration multiplied by change in interest rates gives change in value of bond portfolio).

22. The emphasis within the bond portfolio will be on quality, with a minimum rating "BBB" for bonds and debentures or "P2" for preferred shares by The Dominion Bond Rating Service or equivalent rating by another recognized bond rating service, at the time of purchase.

23. In the event of a downgrade below "BBB" for bonds and debentures, "P2" for preferred shares or "R-1" for short-term investments, the Portfolio Manager will advise of an appropriate course of action.

24. In cases where the recognized bond rating agencies do not agree on the credit rating, the bond will be classified according to the methodology used by FTSE TMX, which states:
    - If two agencies rate a security, use the lower of the two ratings
    - If three agencies rate a security, use the most common; and
    - If all three agencies disagree, use the middle rating.

25. In the event that an individual bond, debenture, short-term investment or preferred share is no longer rated by a recognized bond rating agency, that security will no longer be considered to be investment grade and the Portfolio Manager will place the asset on a watch list subject to monthly review by the Portfolio Manager with the Law Society until such time as the security matures, is sold or until it is upgraded to a level consistent with the purchase quality standards as expressed in the guidelines listed above. The Manager may not infer a rating for an individual unrated security from ratings of other securities issued by the same issuer.

Equities

26. The intent is to provide a diversified selection of Canadian common stocks, also allowing any of the following, provided that they are listed on a recognized stock exchange:
    - Convertible preferred stock and convertible debentures
    - Real estate investment trusts ("REITs").

27. The market value of any one issuer cannot represent more than 10% of the market value of the total Portfolios, or that equity's weight in the S&P/TSX Composite Index, whichever is greater.

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Other Investments

28. Investments in open or closed-ended pooled or mutual funds are permitted provided that the assets of such funds are permissible investments under this Policy.

29. Deposit accounts of the custodian or Schedule 1 banks can be used to invest surplus cash holdings.

30. With the exception of rights, warrants and special warrants or instruments used for exposure purposes, no derivative investments will be permitted without the prior written approval of the Audit & Finance Committee.

31. No venture capital financing or non-conventional investments will be permitted without the prior written approval of the Audit & Finance Committee.

32. In the event any investment has no active market, the Portfolio Manager will advise of an appropriate course of action for the valuation of that investment.

Discretion

33. The Portfolio Manager is to have full discretion in the management of the assets of the Portfolios, selecting the appropriate asset mix, and the individual securities, within the guidelines set out herein.

Delegation of Voting Rights

34. The Portfolio Manager has been delegated the responsibility of exercising all voting rights acquired through the Portfolios' investments. The Portfolio Manager will exercise acquired voting rights with the intent of fulfilling the investment policies and objectives of the Fund. The Portfolio Manager is expected to act in good faith and to exercise the voting rights in a prudent manner that will maximize returns for the Portfolios, and to act against any proposal which will increase the risk level or reduce the investment value of the relevant security.

Communications

35. The Communications process between the Portfolio Manager and Law Society Management is flexible, but at a minimum will include the following:
    - monthly transaction statements

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- a quarterly written summary listing of all portfolio transactions from the Portfolio Manager
- a complete quarterly portfolio listing
- a quarterly written assessment of the North American economies and the financial markets, and impact on the Portfolios
- annual investment meetings with the Portfolio Manager. The agenda at these meetings would include an overview of the economy and the outlook for the financial markets, the current investment strategy, and a review of the performance results
- an annual review of the Investment Policy and the Portfolios' quality and diversification guidelines.
- immediate notification of change with respect to the organization, investment professionals or investment process.

36. Any time that the Portfolio Manager is not in compliance with this policy, they are required to advise the Chief Financial Officer of the Law Society immediately, detailing the breach and recommending a course of action to remedy the situation.

Standard of Professional Conduct

37. All investment activities of the Portfolio Manager and their employees shall be conducted in accordance with the Code of Ethics and Standards of Professional Conduct of the CFA Institute.

    The Portfolio Manager will manage the Portfolios with the care, diligence and skill that a Portfolio Manager of ordinary prudence would use in dealing with institutional assets. The Portfolio Manager will also use all relevant knowledge and skill that it possesses or ought to possess as a prudent expert in investment management.

Securities Lending

38. No lending of securities is permitted.

Borrowing

39. The Portfolios shall not borrow money.

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Conflicts of Interest – Investment Policy

40. Conflict of interest standards apply to all members of Convocation, Law Society management and the Portfolio Manager, as well as to all Agents employed by the Law Society, in the execution of their fiduciary responsibilities.

41. An 'Agent' is defined to mean a company, organization, association or individual, as well as its employees, retained by the Law Society to provide specific services with respect to the administration and management of the Law Society's investment assets.

42. In carrying out their fiduciary responsibilities, these parties must act at all times in the best interests, and for the benefit, of the Law Society. All parties must act in the manner that a "prudent person" would in matters related to the investment strategy and portfolio management.

43. No affected person shall accept a gift or gratuity or other personal favour, other than one of nominal value, from an individual with whom the person deals in the course of performance of his or her duties and responsibilities.

44. In the execution of their duties, all of the parties listed in Section 40 above shall disclose any material conflict of interest relating to them, or any material ownership of securities, which could impair their ability to render unbiased decisions, as it relates to the administration of the investment assets.

45. Further, it is expected that none of the parties listed in Section 40 above shall make any personal financial gain (direct or indirect) because of their fiduciary position. However, normal and reasonable fees and expenses incurred in the discharge of their responsibilities are permitted if documented and approved by the Law Society.

46. It is incumbent on any party affected by this Policy who believes that he/she may have a material conflict of interest, or who is aware of any conflict of interest, to notify the CEO or the CFO of the Law Society. Disclosure should be made promptly after the affected person becomes aware of the conflict. The CEO or CFO, in turn, will decide what action is appropriate under the circumstances but, at a minimum, will table the matter at the next regular meeting of the Audit & Finance Committee.

47. No affected person who has or is required to make a disclosure as contemplated in this Policy shall participate in any discussion, decision or vote relating to any proposed

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investment or transaction in respect of which he or she has made or is required to make disclosure.

Changes to Policy

48. This Investment Policy may only be changed by Convocation on the specific recommendation of the Audit & Finance Committee.

TAB 2.6

REPORTS FOR INFORMATION

TAB 2.6.2

FOR INFORMATION

ANNUAL FINANCIAL STATEMENTS OF THE LAWYERS' PROFESSIONAL INDEMNITY COMPANY FOR THE YEAR ENDED DECEMBER 31, 2017

43. **The audited financial statements for the Lawyers' Professional Indemnity Company ("LAWPRO") for the year ended December 31, 2017 are attached for information.**

44. The Law Society provides mandatory professional liability insurance to lawyers through LAWPRO, a provincially licensed insurer and wholly owned subsidiary of the Society. The financial statements have been approved by LAWPRO's board.

45. The financial statements have been approved by LAWPRO's board.

LawPRO®

Lawyers' Professional Indemnity Company
Assurance LawPRO®

Report to the Audit and Finance Committee of the Law Society of Ontario

April 11, 2018

LawPRO®
Lawyers' Professional Indemnity Company
Assurance LawPRO®

Report to the Audit and Finance Committee – Law Society

April 11, 2018

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Key Point Summary

- *The 2017 financial statements of LAWPRO received an **unqualified opinion** from its external auditor.*

- *The financial statements in this report were prepared in accordance with both new and revised International Financial Reporting Standards. For more details regarding the accounting policies the Company has established under these accounting standards, see note 2 of the financial statements.*

- *LAWPRO's **net income for the year ended December 31, 2017 was $0.6 million** compared to an income of $8.6 million in 2016. Net premiums earned decreased by $7.7 million to $115.7 million in 2017. **Investment income for 2017 was $20.5 million**, an increase of $3.1 million from 2016.*

- *Investment income for 2017 was impacted by **$8.2 million of realized gains** from regular trading during the year, a **$3.2 million decrease in unrealized gains** on the Company's asset-liability matched portfolio and a **$1.7 million impairment expense** relating to some equities that have experienced a significant or prolonged decline in value, compared to $5.5 million in realized gains, a $5.2 million decrease in unrealized gains, and a $0.9 million impairment expense in 2016.*

- *In 2017, LAWPRO earned a **comprehensive total income of $0.2 million** which includes a **decrease in unrealized gains on its surplus investments of $0.3 million** and a **remeasurement loss on its defined benefit pension plan of $0.1 million**, compared to a comprehensive income of $15.4 million during 2016 which included an increase in unrealized gains on its surplus investments of $6.7 million and a remeasurement gain on its defined benefit pension plan of $0.1 million.*

- *As a result of its comprehensive income, the Company **increased its shareholder's equity by $0.2 million** in 2017 compared to an increase of $15.4 million in 2016.*

- *LAWPRO is in compliance with all regulatory requirements regarding solvency and filing of financial information. A summary of LAWPRO's position with respect to insurance ratios at year-end is included on page 64.*

- *Assets recorded in LAWPRO's financial statements are sufficient to discharge its claim liabilities at December 31, 2017. **Investment assets, inclusive of cash and cash equivalent holdings and investment income due and accrued, total $679.6 million.** These funds have been invested in accordance with the Company's investment policy. Investment managers have submitted letters of compliance with investment policies (pages 65 and 66).*

- *There were **26,702 full-time equivalent lawyers** covered under the Ontario Mandatory Professional Liability Program as at December 31, 2017, an increase of approximately 2.6% over 2016. The **base annual premium per lawyer dropped from $3,350 to $2,950 effective 2017**. Revenues for the Program's **transaction levies and claims history surcharge levies amounted to $30.3 million** in 2017, compared to $30.7 million in 2016. Similar to 2016, there was no premium contribution from the Errors & Omissions Insurance Fund in 2017.*

- *The **number of claims reported on the Ontario mandatory errors and omissions insurance program during 2017 was 2,757**, 141 higher than the level experienced in 2016, bringing the number of open claim files to 3,874. Claims relating to prior years developed favourably in the aggregate, resulting in a reduction in previously established net claims liabilities of $10.4 million for LAWPRO in 2017.*

- *With the largely anticipated results in 2017, LAWPRO may expect to undergo the regulatory and accounting changes anticipated in the next few years with an adequate margin for absorption. In particular, changes to various accounting standards for insurance contracts under the next phase of IFRS, as well as the accounting for investments and leases, will likely have an adverse impact on the Company's financial position and/or regulatory capital. Having the small increase in shareholder's equity effective December 31, 2017 is positive in assisting with both of these issues.*

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, 2017, in comparison with the year ended December 31, 2016. These comments should be read in conjunction with the corresponding audited financial statements, including the accompanying notes.

Financial highlights

Statement of profit or loss

During 2017 the Company generated a net income of $0.6 million, a decrease in earnings of $8.0 million over 2016, and earned comprehensive income of $0.2 million compared to $15.4 million during the prior year.

Net premiums earned

Premiums earned, net of reinsurance ceded, increased by $7.3 million to $108.5 million in 2017. Premiums from the mandatory Ontario errors and omissions ("E&O") insurance program were $7.3 million lower than 2016 results, driven by the Company's conscious decision to lower its base premium rate from $3,350 to $2,950 effective the 2017 program. The optional excess insurance program and TitlePLUS premiums remained relatively steady in the year.

Net claims and adjustment expenses

Incurred claims and adjustment expenses in 2017, net of reinsurance recoveries, increased by $5.5 million from 2016. The 2017 results benefitted from a $10.4 million net reduction to the E&O program's reserves due to favourable development of prior Fund Years' loss experience, compared to $18.0 million in 2016, as well as $2.5 million of income relating to the effect of the increase in the market interest yields during the year on reserve discounting, compared with a $1.8 million income in 2016.

Reinsurance

Similar to recent years, the Company purchased 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. The Company also renewed its second layer of clash coverage. However, effective 2016 the class action proceedings requirement was removed. Furthermore, the Company maintained its 10 per cent retention in the optional excess program, whereas prior to 2011 the program was fully reinsured. The high level of reinsurance significantly mitigates exposure to the Company from claims in this program.

General expenses

LawPRO's general expenses in 2017 were $1.3 million higher than 2016, though $0.4 under budget, primarily due to general inflationary pressures on the operating costs utilized in the Company's day-to-day operations.

Commissions earned

The Company earned reinsurance commissions of $1.5 million on premium ceded in respect of its 2017 optional excess insurance program, a similar result to 2016. In addition, the Company also earned $0.1 million of profit commissions for favourable claims development on the quota share reinsurance arrangements that it had prior to January 1, 2003, down slightly from $0.2 million in 2016. As claims estimates become more certain with time, there is generally less potential for favourable development on claims relating to older fund years, resulting in a tendency towards lower profit commissions.

Management Discussion and Analysis

Investment income

Income generated from investments increased by $3.1 million to $20.5 million in 2017, a result lower than budget by $0.8 million. Investment income from interest and dividend receipts decreased by $0.6 million to $18.7 million, primarily due to the overall drop in interest rates the Company received in recent years on the renewal of its maturing longer-term fixed income securities. As a result of the higher market yields during 2017, the Company experienced a $3.2 million decrease in net unrealized gains on its fixed income security portfolio used to match its claims liabilities, compared to a decrease of $4.8 million in 2016. The 2017 results also included net capital gains of $8.2 million realized on disposition of investments, compared to $5.5 million in 2016. In addition, during 2017 the Company recognized $1.7 million of unrealized losses as an impairment due to the significant or prolonged decline of some of its equity securities, compared to $0.9 million in 2016.

Statement of comprehensive income

Other comprehensive loss

During 2017, LawPRO experienced other comprehensive loss of $0.4 million, primarily due to an increase in net unrealized losses on its surplus investments generated in the fixed income security markets. These results compare to the other comprehensive income of $6.8 million income experienced during 2016.

Statement of financial position

Overall, the Company ended the year of 2017 in a favourable position, with shareholder's equity up by $0.2 million year over year, as the net income achieved during the year was only slightly offset by the other comprehensive loss experienced during the same period.

Investments

As at December 31, 2017, the market value of the Company's investment portfolio exceeded its cost by $44.1 million, compared to 2016 where the market value exceeded cost by $43.7 million. Investment assets, inclusive of cash and cash equivalents and investment income due and accrued, increased by $14.9 million to $679.7 million as at December 31, 2017. The increase was primarily the result of the positive cash flow provided by operations and investment income generated by the portfolio.

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.

Provision for unpaid claims and adjustment expenses and reinsurers' share thereof

The provision for unpaid claims represents the amount required to satisfy all of the Company's obligations to claimants prior to reinsurance recoveries. This balance has increased by $12.9 million. Reinsurance recoverables have decreased by $4.3 million and accordingly the increase in the net provision is $17.2 million. This increase is attributable to the fact that the reductions to the claims provision from both the settlement of previously existing claims during 2017 and the net favourable development of prior years' reserves experienced during the year were more than offset by the claims expense relating to the additional risk associated with underwriting the 2017 program.

Management Discussion and Analysis

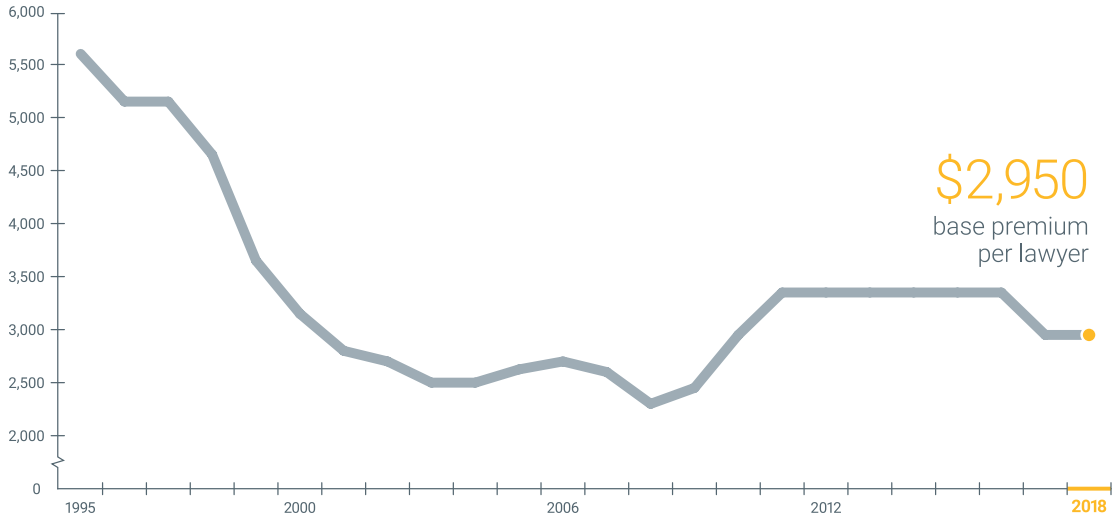
Report on LawPRO operations

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 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.

The mandatory E&O insurance program

In each of the last two years, the number of lawyers insured under the LawPRO program has increased by approximately two per cent. In 2017, the Company provided E&O coverage to just over 26,700 lawyers, up from about 26,000 in 2016. The E&O base premium has varied since the Company assumed active responsibility for the Law Society's insurance operations in 1995 (see graph 1), depending on the outlook of key factors such as claims costs and investment income. In order to address rising claims trends, the base premium was increased by $400 to $3,350 per lawyer in 2011. For 2012 through 2016, the base premium was held at $3,350 per lawyer – a level selected with a view to the longer-term stability and sustainability of the program. Given LawPRO's solid capital level as at December 31, 2016, the Company was well-positioned to lower the base premium to $2,950 for the 2017 program. LawPRO's 2017 results have supported the Company's ability to maintain this rate for the 2018 program.

Graph 1 – Base premium per lawyer



One of the hallmarks of the mandatory LawPRO E&O insurance program is its flexibility. Lawyers have a number of 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 chart on the next page shows the number of lawyers availing themselves of these options continues to increase. LawPRO's sustainability initiative, combined with its program of encouraging lawyers to use its comprehensive website to access information and complete insurance-related filings, also continues to yield solid results. At renewal, an impressive 95 per cent of lawyers – 25,750 – filed their insurance applications online for the 2017 insurance program; 83 per cent of them did so in time to qualify for the $25 per lawyer e-filing discount. For the 2018 program renewal, the proportion of lawyers e-filing remained impressively high, with approximately 94 per cent of lawyers choosing to e-file applications.

Management Discussion and Analysis

COVERAGE OPTION	FEATURE	NO. OF LAWYERS PARTICIPATING AS OF JAN. 31, 2017	NO. OF LAWYERS PARTICIPATING AS OF JAN. 31, 2018
New call discount	20 to 50 per cent base premium discount for those called in the last one to four years	5,028	5,090
Part-time practice	50 per cent base premium discount for eligible lawyer	1,922	2,072
Restricted area of practice option	50 per cent base premium discount for immigration/criminal law practitioners	1,611	1,649
Innocent Party buy-up	Increase in Innocent Party sublimits up to as much as $1 million per claim/aggregate	3,432 (based on $249/lawyer)	3,508 (based on $125/lawyer)
Run-Off buy-up	Increase limits for past services from $250,000 per claim/aggregate to as much as $1 million per claim/$2 million aggregate	1,182	1,326
Real Estate Practice Coverage	Required for all lawyers practising real estate law in Ontario. Sublimit coverage of $250,000 per claim/$1 million aggregate	8,132	8,356

E&O claims

THE NUMBERS

The 2017 claim figures reflect a concerning ongoing trend – elevated claims counts and costs. The number of claims reported to LawPRO during the calendar has exceeded 2,500 for the six straight year, and now has even broken through the 2,700 level (see graph 2). Looking more closely at the underlying cause of claims by policy year, we are seeing historically high levels in types such as failure to either know or apply the law and inadequate investigation (see graph 3). Despite a concerted and successful effort on the part of the Company's claims group to close more files than the previous year, the number of open files managed by the claims team now stands at almost 3,900 – a higher level than it generally has been in recent years (see graph 4).

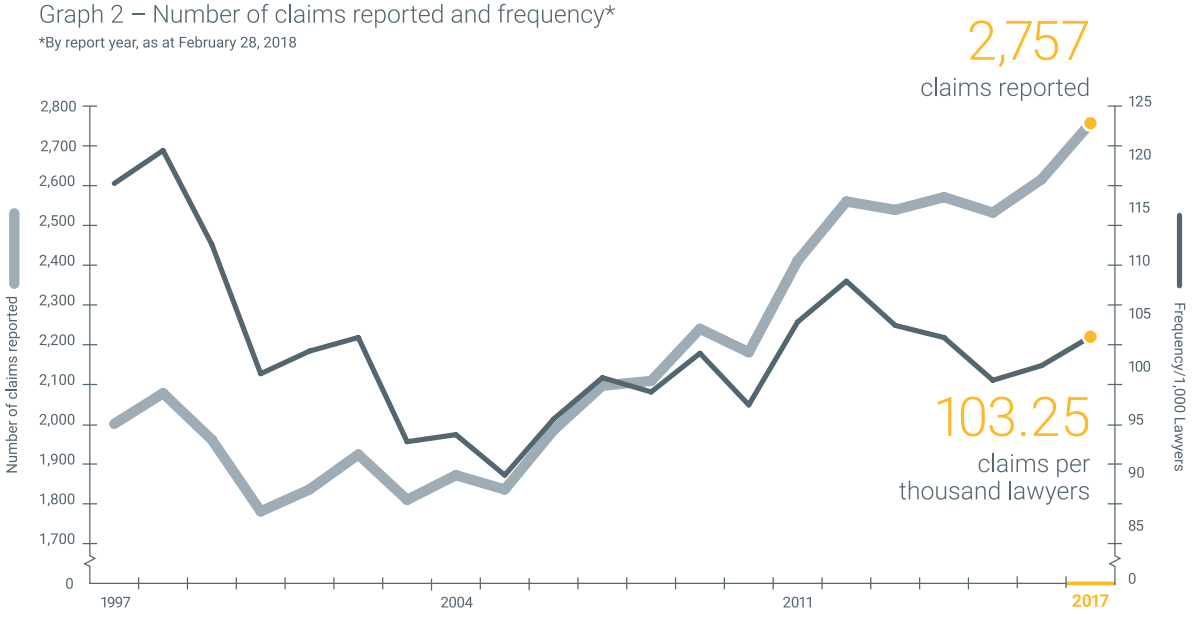
A very important measure is to compare the average cost of claims for each policy year at a specific point in time: As graph 5 shows, the average severity (i.e., the average cost per claim) continues to rise towards $40,000, compared to an average severity at the beginning of the millennium of under $30,000. These figures have been affected by the growing number of large claims received by the Company, which continues to exceed 200 per annum (see graph 6). As a result of these pressures, since 2007 the annual programs are typically costing in the $80 to $90 million range in claims expenses; the 2017 program's ultimate cost is projected to significantly exceed this range.

Although the estimated costs attached to 2017 claims are still relatively new at this point, a clear trend is evident. As in the past, real estate and litigation claims continue to account for the bulk of claims costs, with real estate claims representing well over 25 per cent of claims costs, on average, for the past decade. The rise in the cost of real estate claims is a reflection of both the more complex practice environment and the high underlying values associated with alleged errors in these areas (see graph 7).

Management Discussion and Analysis

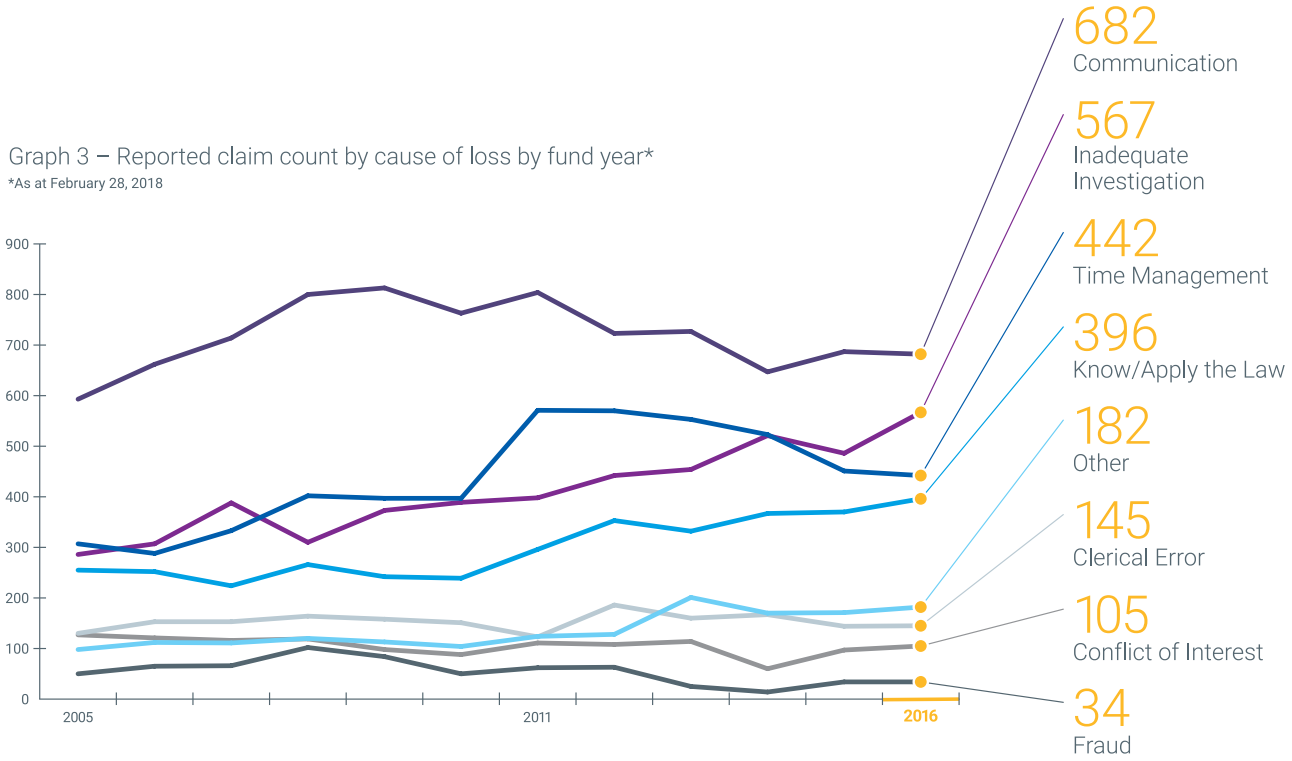
Graph 2 – Number of claims reported and frequency*

*By report year, as at February 28, 2018



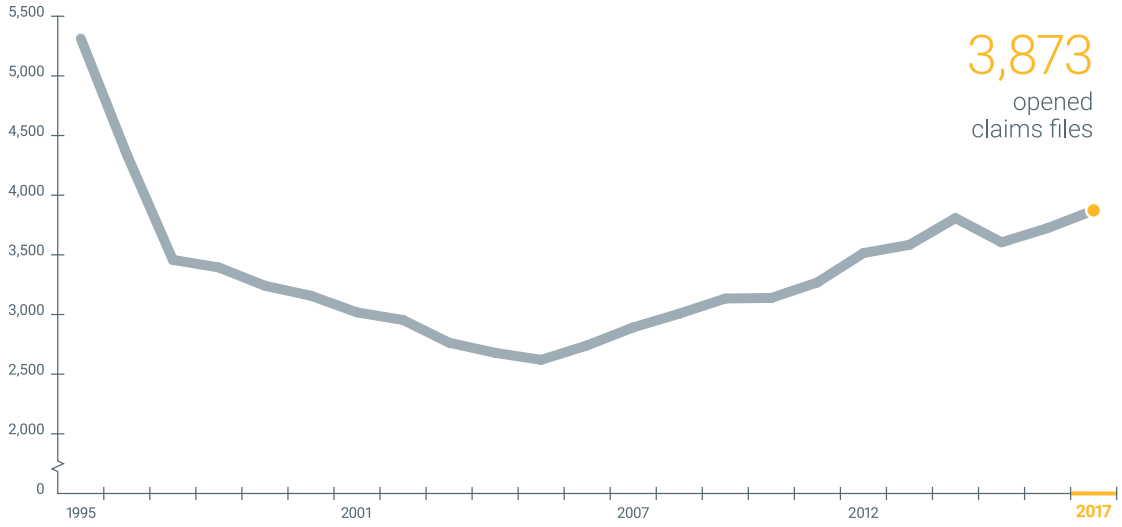
Graph 3 – Reported claim count by cause of loss by fund year*

*As at February 28, 2018



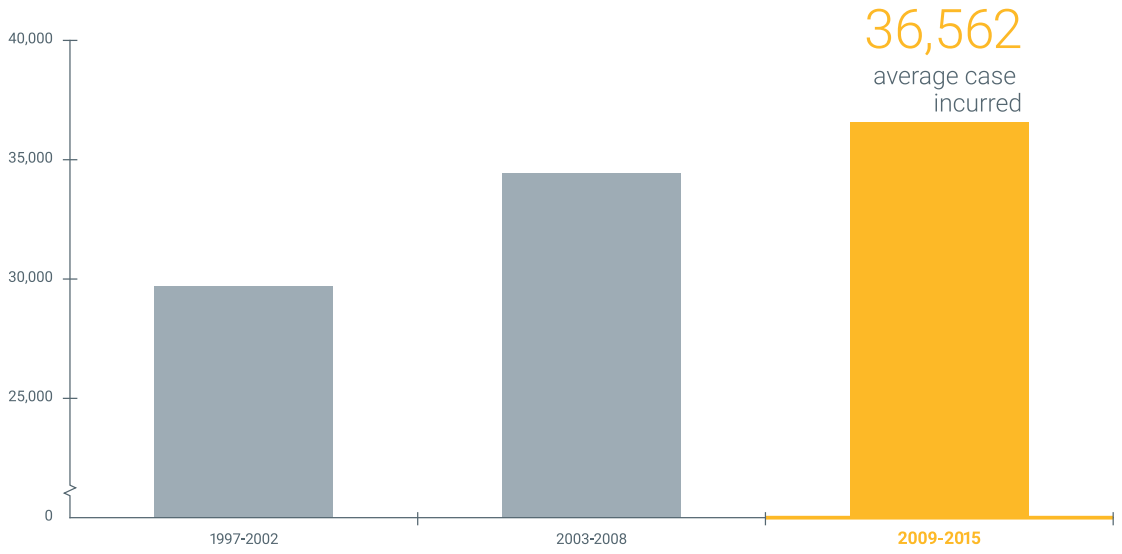
Management Discussion and Analysis

Graph 4 – Number of open claims files



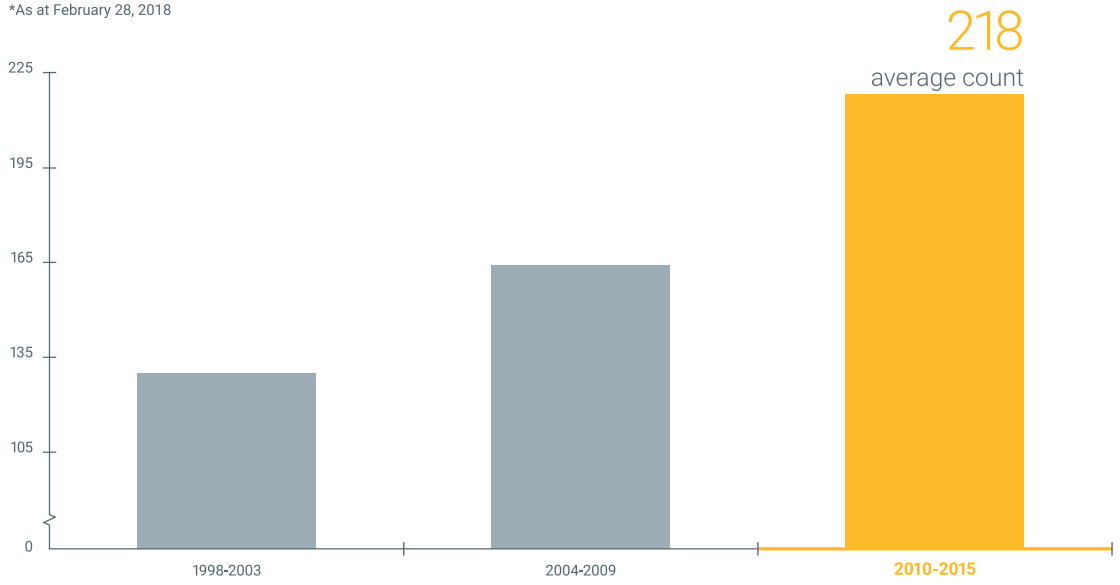
Graph 5 – Average cost per claim at 38 months after start of year in which claim was reported*

*As at February 28, 2018

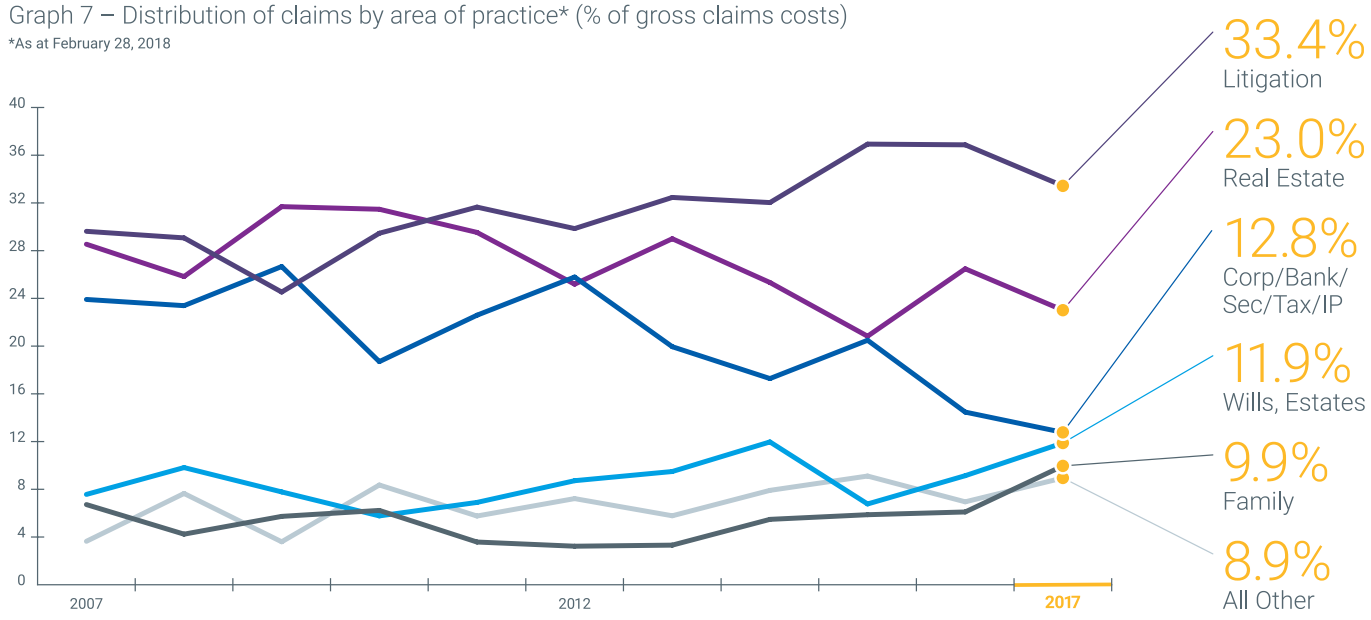


Management Discussion and Analysis

Graph 6 – Number of claims reported with a value greater than $100,000*
*As at February 28, 2018



Graph 7 – Distribution of claims by area of practice* (% of gross claims costs)
*As at February 28, 2018



Management Discussion and Analysis

MANAGING COSTS

LawPRO's focused claims management philosophy – which sees us resolve claims quickly in situations where there is liability, defend vigorously if the claim has no merit and avoid economic settlements – yielded solid results.

In 2017, LawPRO won two out of three matters that the Company took to trial and on which a decision was rendered; was also successful on two out of three appeal decisions; won 22 of 28 summary judgment applications; and won four of the six summary judgment appeal decisions.

Another important tool – and a measure of success – is feedback the Company receives from lawyers. A survey conducted of insured lawyers with a closed claim demonstrates that the Company is meeting lawyers' needs and expectations.

HELPING LAWYERS AVOID CLAIMS

An important focus for LawPRO is to help lawyers avoid claims before they happen. LawPRO's practicePRO risk management initiative has become a widely-recognized and well-respected provider of tools and resources to help members of the practising bar identify practice risks and take steps to minimize their claims exposure.

Monitoring administrative dismissal claims under the new Rule 48 continued through 2017. LawPRO promoted the Rule 48 Transition Toolkit which offers practical advice to help lawyers keep their files moving and transition to the new Rule. The Company had reminded and encouraged lawyers to deal with pre-2012 files before they were automatically dismissed on January 1, 2017, and as a result a potential wave of claims appears to have been avoided.

A principal tool to communicate risk management content is *LawPRO Magazine*, which was distributed to all practising insured lawyers five times in 2017. The February and August issues of *LawPRO Magazine*, entitled "Right Decision/Wrong Decision" and "Managing Change" respectively addressed issues that are important to the legal community and Canadian society. The student edition, "Not your mother's law career" focused on making the transition from student to lawyer.

Throughout the year, representatives of LawPRO visited many regions of Ontario, completing 103 presentations about risk management and claims prevention at Continuing Professional Development programs, law association events and law firms. Special effort was made to address cyber risks and how to avoid them.

Complementing the printed magazine were extensive web-based materials, electronic webzines and email alerts on topics including active frauds, evolving risks, and insurance program-related information. The Company created and distributed several Claims Fact Sheets. These two-page resources include claims statistics, common claims scenarios, and tips for avoiding claims in a specific area of law. When the government surprised the real estate industry with new regulation as part of its attempt to deal with the escalating market, LawPRO acted swiftly to make the real estate bar aware of changes to the Land Transfer Tax and the introduction of new Non-Resident Speculation Tax. The practicepro.ca website was refreshed in 2017 to make our articles and practice resources easier to find, read, and share online.

Our insureds' reliance on the practicePRO program as a key source of risk management information is evidenced by the growth, each year, in the program's online reach and influence. In 2017, the practicePRO website averaged nearly 1,300 visits per day and more than 230,000 copies of articles and other resources were downloaded.

LawPRO survey results

The annual survey of LawPRO E&O insureds with a closed claim indicated the following:

- 96 per cent said that they were satisfied with how LawPRO handled the claim;
- 86 per cent said they were satisfied with our selection of counsel;
- 87 per cent said they would have the defence counsel firm represent them again; and
- 85 per cent said LawPRO received good value for defence monies spent.

Management Discussion and Analysis

The AvoidAClaim blog provides lawyers with tips and insights into risk and practice issues as they develop, including real-time warnings on active frauds targeting lawyers. In 2017, the blog posted 52 fraud-related articles arising from almost 1,500 emails from lawyers and continues to be the go-to site for fraud prevention, and helps Ontario lawyers avoid being duped by bad cheque frauds, real estate fraud and other scams.

LawPRO also worked behind the scenes to ensure the risk management message was being heard. The LawPRO Risk Management Credit encourages Continuing Professional Development providers to include a significant risk management component in their programs. For the 2018 policy year, LawPRO approved 350 programs attended by more than 52,000 lawyers, paralegals and law office staff. LawPRO also promoted the Homewood Human Solutions e-learning courses offered through the Law Society's Member Assistance Plan.

The LawPRO Excess program

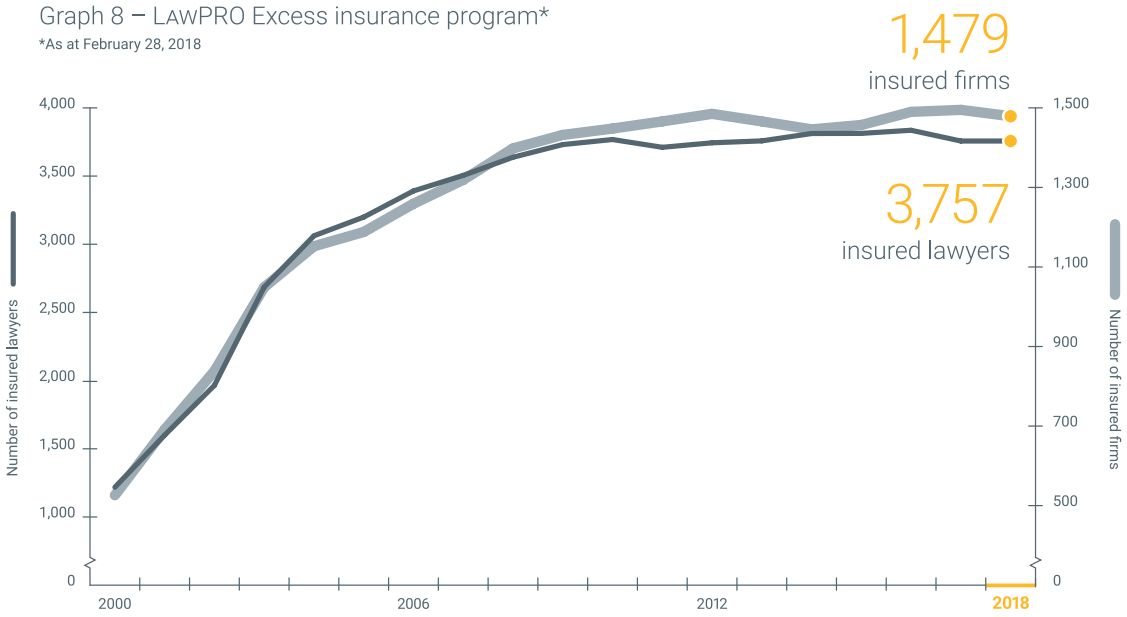
Since it was established in 1997, LawPRO's optional Excess Insurance program has posted consistent annual growth in revenues and numbers of law firms (and lawyers) insured under the program. An impressive 1,495 firms representing 3,757 lawyers elected LawPRO as their excess insurance provider for 2017 (see graph 8); 178 firms chose the maximum $9 million limit option.

To date, the Company has experienced a slight moderation in the 2018 program, with the number of firms insured under the LawPRO Excess program for 2018 decreasing slightly to 1,479, and the number of lawyers being represented remaining flat at 3,757. Of the 22 new firms opting to buy excess coverage from LawPRO for 2018, all of them did not already carry excess coverage. The Company's retention rate on excess business was an impressive 97 per cent, a clear indication that this program meets the needs of the market it is aimed at – small and medium-sized firms of fewer than 50 lawyers. LawPRO's Excess program insures, on average, 15 per cent of the lawyers employed in firms of 50 or fewer lawyers.

Excess claims

As of December 31, 2017, the Company has paid only six indemnity amounts under its Excess program, a reflection of LawPRO's ability to generally manage costs within the insurance program's primary limits. Prudent underwriting and solid claims management have helped ensure that our Excess program is a profitable line of business for LawPRO.

Graph 8 – LawPRO Excess insurance program*
*As at February 28, 2018



Management Discussion and Analysis

The TitlePLUS program

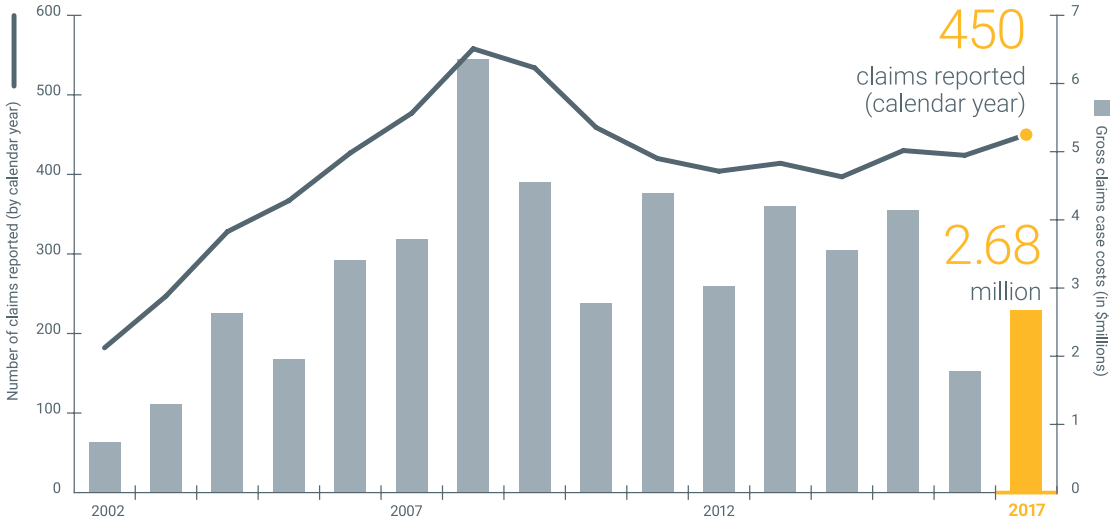
For 2017, the TitlePLUS title insurance program was able to maintain the gross written premiums level established in 2016. In addition, sales momentum was strong, as there was a marked increase in policy sales in the second half of 2017. The TitlePLUS subscriber base at December 31, 2017, remained solid at about 2,700 lawyers and Quebec notaries, with new applications continuing to be received, and the Company issuing TitlePLUS policies for over 1,200 lenders across Canada. These results indicate that the TitlePLUS vision of real estate practice resonates with legal professionals and the lending community. The higher level of legal expertise and professionalism that LawPRO expects from both lawyer/notary subscribers and its TitlePLUS staff sets it apart from other providers.

TitlePLUS claims

The legal expertise and experience of the TitlePLUS team referenced earlier not only helped alert lawyers to potential claims issues, but also supports its stringent underwriting measures. The result: approximately 90 per cent of TitlePLUS claims are minor with total costs of less than $10,000, and the average indemnity payment on a TitlePLUS claim is approximately $5,800 (based on claims closed as of December 31, 2017).

Building compliance-related claims continue to have a significant impact on the program. For policies sold in the years since 2000, the TitlePLUS program has had 1,623 building compliance-related claims, costing a total of $26.2 million (payments plus reserves on claims in progress). So, although only 25 per cent of the TitlePLUS claims by count arise from this area of coverage, 50 per cent of the claims costs reside here. However, the significant pressures that these trends placed on the program's claims costs have been appreciably mitigated through various underwriting and risk management programs (see graph 9). The TitlePLUS underwriting team continues to work on methods to better detect building compliance risks before a policy is approved. Also, the TitlePLUS claims team is focusing additional efforts on recovery initiatives where a past property owner should be bearing responsibility for the problem, as well as on salvage opportunities.

Graph 9 – TitlePLUS claims*
*As at February 28, 2018



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 27, 2018

K. Waters
Kathleen A. Waters
President & CEO

Steve Jorgensen
Steven W. Jorgensen
Chief Financial Officer

Independent Auditor's Report

February 27, 2018

To the Shareholder of Lawyers' Professional Indemnity Company

We have audited the accompanying financial statements of Lawyers' Professional Indemnity Company, which comprise the statement of financial position as at December 31, 2017 and the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lawyers' Professional Indemnity Company as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

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

Appointed Actuary's Report

Eckler Ltd.
800 René-Lévesque Boulevard West, Suite 2200
Montréal, Québec
H3B 1X9

February 27, 2018

I have valued the policy liabilities including reinsurance recoverables of Lawyers' Professional Indemnity Company for its statement of financial position at 31 December 2017 and their changes in its statement of profit or loss for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

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

Montreal, Quebec

Louis-Christian Dupuis
Fellow, Canadian Institute of Actuaries

Statement of Financial Position

2017
Annual Report

Stated in thousands of Canadian dollars

Lawyers' Professional Indemnity Company

AS AT		DECEMBER 31, 2017	DECEMBER 31, 2016
Assets			
Cash and cash equivalents	$	20,245	15,911
Investments (note 5)		656,551	646,413
Investment income due and accrued		2,852	2,434
Due from reinsurers		309	503
Due from insureds		1,882	2,288
Due from the Law Society (note 12)		6,998	8,024
Reinsurers' share of provision for unpaid claims and adjustment expenses (note 9)		39,495	43,794
Other receivables		3,167	1,766
Other assets		2,097	2,487
Property and equipment (note 7)		1,764	984
Intangible asset (note 8)		658	877
Income taxes recoverable		1,825	-
Deferred income tax asset (note 14)		5,606	5,236
Total assets		**743,449**	**730,717**
Liabilities			
Provision for unpaid claims and adjustment expenses (note 9)	$	485,088	472,168
Unearned premiums (note 10)		1,068	1,027
Due to reinsurers		720	673
Due to insureds		220	280
Expenses due and accrued		2,217	1,456
Income taxes due and accrued		-	1,181
Other taxes due and accrued		458	466
	$	**489,771**	**477,251**
Equity			
Capital stock (note 17)	$	5,000	5,000
Contributed surplus (note 17)		30,645	30,645
Retained earnings		182,716	182,222
Accumulated other comprehensive income		35,317	35,599
		253,678	**253,466**
Total liabilities and equity	**$**	**743,449**	**730,717**

Accompanying notes are an integral part of the financial statements.

On behalf of the Board

Susan T. McGrath
Director

Kathleen A. Waters
Director

Statement of Profit or Loss

Stated in thousands of Canadian dollars

2017
Annual Report

Lawyers' Professional Indemnity Company

FOR THE YEAR ENDED DECEMBER 31		2017	2016
Income			
Gross written premiums	$	115,655	123,329
Premiums ceded to reinsurers (note 11)		(7,150)	(7,386)
Net written premiums		108,505	115,943
(Increase) decrease in unearned premiums (note 10)		(41)	(167)
Net premiums earned		**108,464**	**115,776**
Net investment income (note 5)		20,470	17,409
Ceded commissions		1,543	1,721
	$	**130,477**	**134,906**
Expenses			
Gross claims and adjustment expenses (note 9)	$	102,080	101,707
Reinsurers' share of claims and adjustment expenses (note 9)		4,090	(995)
Net claims and adjustment expenses		106,170	100,712
Operating expenses (note 15)		20,315	19,015
Premium taxes		3,471	3,701
		129,956	**123,428**
Profit (loss) before income taxes	**$**	**521**	**11,478**
Income tax expense (recovery) (note 14)			
Current		230	2,852
Deferred		(325)	(13)
		(95)	**2,839**
Profit (loss)	**$**	**616**	**8,639**

Accompanying notes are an integral part of the financial statements.

Statement of Comprehensive Income

Stated in thousands of Canadian dollars

FOR THE YEAR ENDED DECEMBER 31		2017	2016
Profit (loss)	**$**	**616**	**8,639**
Other comprehensive income (loss), net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit obligation, net of income tax expense (recovery) of ($44) [2016: $36] (note 13)		(122)	99
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale assets			
Net changes unrealized gains (losses), net of income tax expense (recovery) of $1,693 (2016: $3,834)		4694	10,632
Reclassification adjustment for (gains) losses recognized in profit or loss, net of income tax (expense) recovery of ($2,256) [2016: ($1,663)]		(6,256)	(4,612)
Reclassification adjustment for impairments, recognized in profit or loss, net of income tax expense of $461 (2016: $236) (note 5)		1,280	655
Other comprehensive income (loss)	**$**	**(404)**	**6,774**
Comprehensive income	**$**	**212**	**15,413**

Accompanying notes are an integral part of the financial statements.

Statement of Changes in Equity

Stated in thousands of Canadian dollars

	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Equity
Balance at December 31, 2015	**$ 5,000**	**30,645**	**173,484**	**28,924**	**238,053**
Total comprehensive income for the year	-	-	8,639	6,774	15,413
Transfer of defined benefit remeasurements from OCI to retained earnings	-	-	99	(99)	-
Balance at December 31, 2016	**5,000**	**30,645**	**182,222**	**35,599**	**253,466**
Total comprehensive income for the year	-	-	616	(404)	212
Transfer of defined benefit remeasurements from OCI to retained earnings	-	-	(122)	122	-
Balance at December 31, 2017	**$ 5,000**	**30,645**	**182,716**	**35,317**	**253,678**

The aggregate of retained earnings and accumulated other comprehensive income as at December 31, 2017 is $218,033 (December 31, 2016: $217,821).

Accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

Stated in thousands of Canadian dollars

FOR THE YEAR ENDED DECEMBER 31		2017	2016
Operating Activities			
Profit (loss)	$	616	8,639
Items not affecting cash:			
Deferred income taxes		(325)	(13)
Amortization of property and equipment		680	654
Amortization of intangible asset		219	220
Realized (gains) losses on disposition or impairment		(6,905)	(4,556)
Amortization of premiums and discounts on bonds		395	606
Changes in unrealized (gains) losses		3,226	4,817
		(2,094)	10,367
Changes in non-cash working capital balances:			
Investment income due and accrued		(418)	(172)
Due from reinsurers		241	51
Due from insureds		346	(240)
Due from the Law Society		1,026	(455)
Reinsurers' share of provision for unpaid claims and adjustment expenses		4,299	263
Other receivables		(1,401)	(39)
Other assets		223	(1,135)
Income taxes due and accrued (recoverable)		(2,904)	(1,526)
Provision for unpaid claims and adjustment expenses		12,920	12,022
Unearned premiums		41	167
Expenses due and accrued		761	(631)
Other taxes due and accrued		(8)	(53)
Net cash inflow from operating activities	**$**	**13,032**	**18,619**
Investing Activities			
Purchases of property and equipment		(1,460)	(164)
Purchases of investments		(251,187)	(269,840)
Proceeds from sales and maturities of investments		243,949	244,699
Net cash outflow from investing activities	$	(8,698)	(25,305)
Net change in cash and cash equivalents during the year		4,334	(6,686)
Cash and cash equivalents, beginning of year		15,911	22,597
Cash and cash equivalents, end of year	**$**	**20,245**	**15,911**
Cash and cash equivalents at end of year consists of:			
Cash		10,128	15,322
Cash equivalents		10,117	589
	$	**20,245**	**15,911**
Supplemental disclosure of cash flow information:			
Income taxes paid (operating activity)		3,134	4,378
Interest received (investing activity)		14,919	16,354
Dividends received (investing activity)		3,719	3,352

Accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

1. Nature of Operations

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

2. Basis of Preparation and Significant Accounting Policies

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

These financial statements have been prepared in accordance with accounting standards issued and effective on or before December 31, 2017. None of the accounting requirements of FSCO represent exceptions to IFRS. These financial statements were authorized for issuance by the Company's Board of Directors on February 27, 2018.

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

Basis of measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability that market participants would likely take into account when pricing the asset or liability at the measurement date. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for example, lease transactions that are within the scope of IAS 17 "*Leases*", and measurements that have some similarities to fair value but are not fair value, such as 'value in use' in IAS 36 "*Impairment of Assets*".

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 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 provision for unpaid claims and adjustment expenses, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given for goods and services.

The Company utilizes a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value, which prioritizes these inputs into three broad levels. The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is

significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. The three levels of the fair value hierarchy are:

Level 1 - Quoted market prices in active markets

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

Level 2 – Modelled with significant observable market inputs

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

Level 3 - Modelled with significant unobservable market inputs

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

Use of estimates and judgments made by management

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

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

Impairment	Note 5c
Fair value measurements	Note 6
Property and equipment	Note 7
Intangible asset	Note 8
Unpaid claims and adjustment expenses	Note 9
Employee future benefits	Note 13
Income taxes	Note 14

Financial instruments – recognition and measurement

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

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

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

The effective interest method is used to calculate amortization/accretion of premiums or discounts on fixed income securities over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the fixed income security, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets at fair value through profit or loss

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

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

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

Available-for-sale financial assets

Financial assets classified as available-for-sale are measured at fair value in the statement of financial position. Net interest income, including amortization of premiums and the accretion of discounts, are recorded in investment income in profit or loss. Dividend income on common and preferred shares is included in investment income on the ex-dividend date. Changes in fair value of available-for-sale fixed income securities resulting from changes to foreign exchange rates are recognized in net investment income as incurred. Changes in the fair value of available-for-sale fixed income securities related to the underlying investment in its issued currency, as well as all elements of fair value changes of available-for-sale equity securities, are recorded to unrealized gains and losses in accumulated other comprehensive income ("AOCI") until disposition or impairment is recognized, at which time the cumulative gain or loss is reclassified to net investment income in profit or loss. When a reliable estimate of fair value cannot be determined for equity securities that do not have quoted market prices in an active market, the security is valued at cost.

Financial assets in the Company's surplus portfolio (consisting of all investments outside the cash-flow matched portfolio), including fixed income securities and equities, are designated as available-for-sale.

Other financial assets and liabilities

The Company has not designated any financial assets as held to maturity. Loans and receivables and other financial liabilities are carried at amortized cost using the effective interest rate method. Given the short term nature of other financial assets and other financial liabilities, amortized cost approximates fair value.

Property and equipment

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

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

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

Intangible assets

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

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

Impairment

Financial assets

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

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

Non-financial assets

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

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

Foreign currency translation

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

Premium-related balances

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

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

Premiums receivable are recorded in the statement of financial position as amounts due from insureds, net of any required provision for doubtful amounts. Premiums received from insureds in advance of the effective date of the insurance policy are recorded as amounts due to insureds in the statement of financial position.

The Company defers policy acquisition expenses, primarily premium taxes on its written professional liability insurance premiums, to the extent these costs are considered recoverable. These costs are expensed on the same basis that the related premiums are earned. The method to determine recoverability of deferred policy acquisition expenses takes into consideration future claims and adjustment expenses to be incurred as premiums are earned and anticipated net investment income. Deferred policy acquisition expenses are not material at year-end, and therefore the Company's policy is to not recognize an asset on the statement of financial position.

Unpaid claims and adjustment expenses

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

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

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

Reinsurance

In the normal course of business, the Company enters into per claim and excess of loss reinsurance contracts with other insurers in order to limit its net exposure to significant losses. Amounts relating to reinsurance in respect of the premiums and claims-related balances in the statements of financial position and profit or loss

are recorded separately. Premiums ceded to reinsurers are presented before deduction of broker commission and any premium-based taxes or duty. Amounts recoverable from reinsurers are estimated and recognized in a manner consistent with the Company's method of determining the underlying provision for unpaid claims and adjustment expenses covered by the reinsurance contract. Amounts recoverable from reinsurers are assessed for indicators of impairment at the end of each reporting period. An impairment loss is recognized and the amount recoverable from reinsurers is reduced by the amount by which the carrying value exceeds the expected recoverable amount under the impairment analysis.

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

Income taxes

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

Deferred tax assets are generally recognized for all deductible temporary income tax differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax 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 manner in which 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 for its employees as well as a supplemental defined benefit pension plan for certain designated employees, which provides benefits in excess of the benefits provided by the Company's defined contribution pension plan. For the supplemental defined benefit pension plan, 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.

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

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

3. Application of New and Revised IFRSs Relevant to the Company

In the current year, the Company has applied the following revised IFRSs issued by the IASB that are mandatorily effective for an accounting period that begins on or after January 1, 2017.

a) Amendments to IAS 7 "*Statement of Cash Flows*" – Disclosure Initiative

These amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows (eg. drawdowns and repayments of borrowings) and non-cash changes, such as acquisitions, disposals, accretion of interest and unrealized exchange differences. Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities, which could be the case, for example, for assets that hedge liabilities arising from financing liabilities. The adoption of these amendments did not have a significant impact on the Company's financial statements.

b) Amendments to IAS 12 "*Income Taxes*" – Recognition of Deferred Tax Assets for Unrealized Losses

These amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value, including how to assess a deductible timing difference and calculate future taxable profit for the recognition test. Specifically, the amendments confirm that: a temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period; an entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit; where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type; and tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets. The adoption of these amendments did not have significant impact on the Company's financial statements.

c) Annual Improvements to IFRSs 2014-2016

The amendments clarify that the disclosure requirements of IFRS 12 "*Disclosure of Interests in Other Entities*" apply to interests in entities that are classified as held for sale, except for the summarised financial information. The adoption of these amendments did not have significant impact on the Company's financial statements.

4. New and Revised IFRSs Issued but Not Yet Effective

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

a) IFRS 15 "*Revenues from Contracts with Customers*"

In May 2014, the IASB issued a new revenue recognition standard, IFRS 15, which supersedes IAS 18 "*Revenue*", IAS 11 "*Construction Contracts*", and a number of revenue-related interpretations. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue can be recognized: i) identify contracts with customers; ii) identify the separate performance obligation; iii) determine the transaction price of the contract; iv) allocate the transaction price to each of the separate performance obligations; and v) recognize the revenue as each performance obligation is satisfied. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract

price must generally be allocated to the separate elements. This standard is effective for annual reporting periods beginning on or after January 1, 2018. The adoption of these amendments is not expected to have a significant impact on the Company's financial statements.

b) IFRS 16 "*Leases*"

In January 2016, the IASB issued a new leases standard, IFRS 16, which replaces the previous leases standard, IAS 17 "*Leases*", IFRIC 4 "*Determining Whether an Arrangement Contains a Lease*", SIC-15 "*Operating Leases – Incentives*" and SIC 27 "*Evaluating the Substance of Transactions Involving the Legal Form of a Lease*", and completes the IASB's project to improve the financial reporting of leases.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). Subject to optional exemptions for short-term and low-value leases, lessees will be required to capitalize all leases, by recognizing the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment, and its obligation to make future lease payments as a financial liability. The statement of profit or loss will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation. Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows. The standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently assessing the impact on its financial statements.

c) IFRS 9 "*Financial Instruments*"

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

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

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

With regards to debt securities measured at amortized cost or FVOCI, IFRS 9 requires an expected credit loss model for determining impairment, as opposed to an incurred credit loss model under IAS 39. The expected

credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before impairment losses are recognized. Under IFRS 9, impairment is not considered for equity securities.

IFRS 9 as revised (2014) is effective for annual periods beginning on or after January 1, 2018. In September 2016, the IASB published amendments to IFRS 4 "*Insurance Contracts*", which provides two options for entities that issue insurance contracts: a) recognize in OCI, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is effective (the 'overlay approach') and b) if the entity's activities are predominantly connected with insurance it may exercise a temporary exemption to continue applying IAS 39 instead of IFRS 9 until January 1, 2021 (the 'deferral approach'). The Company qualifies for, and has elected to apply, the deferral option. The Company anticipates that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Company's financial assets. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Company completes its detailed review.

d) IFRS 17 "*Insurance Contracts*"

In May 2017, the IASB published IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 and introduces consistent accounting for all insurance contracts. IFRS 17 provides a general model for the recognition of insurance contracts, as well as a simplified model (premium allocation approach) for short-duration contracts, which will be applicable to most property and casualty insurance 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 the simplified new accounting model for property and casualty insurance contracts are as follows:

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

The standard applies to annual periods beginning on or after January 1, 2021. Retrospective application is required, but, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. The Company plans to adopt the new standard on the required effective date together with IFRS 9 (see note 4c above). The Company has been performing a high-level impact assessment of IFRS 17. The Company expects that the new standard will result in significant changes to accounting policies for insurance contract liabilities, but the impact has not yet been determined.

e) IFRIC 23 "*Uncertainty over Income Tax Treatments*"

In June 2017, the IASB issued IFRIC 23, an interpretation that specifies that, if an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the tax result consistently with the tax treatment used or planned to be used in its income tax filing. If it is not probable, the entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either of the following methods, depending on which one the entity expects to better predict the resolution of the uncertainty: the most likely amount, representing the single most likely amount in a range of possible outcomes; or the expected value, representing the sum of the probability-weighted amounts in a range of possible outcomes.

An entity shall apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. The Company is currently assessing the impact of this guidance.

f) Amendments to IAS 12 "*Income Taxes*" – Income Tax Consequences of Payments on Financial Instruments Classified as Equity

In December 2017, the IASB issued amendments to IAS 12 to clarify that an entity should account for the income tax on dividends in profit or loss, OCI or equity, depending on where the entity recognized the originating transaction or event that generated the distributable profits giving rise to the dividend. The amendments apply to annual periods beginning on or after January 1, 2019. The Company is currently assessing the impact of these amendments.

5. Investments

a) Summary

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

	DECEMBER 31, 2017			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale				
Fixed income securities	$ 174,501	1,618	(746)	175,373
Common equities	83,371	44,684	(3,654)	124,401
	$ 257,872	46,302	(4,400)	299,774
Designated as FVTPL				
Fixed income securities	$ 354,004	5,101	(2,798)	356,307
Preferred equities	615	-	(145)	470
	354,619	5,101	(2,943)	356,777
Total	**$ 612,491**	**51,403**	**(7,343)**	**656,551**
Reconciled in aggregate to asset classes as follows:				
Fixed income securities	$ 528,505	6,719	(3,544)	531,680
Equities	83,986	44,684	(3,799)	124,871
Total	**$ 612,491**	**51,403**	**(7,343)**	**656,551**

Notes to Financial Statements

	DECEMBER 31, 2016			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale				
Fixed income securities	$ 170,397	3,368	(231)	173,534
Common equities	80,908	40,935	(2,818)	119,025
	$ 251,305	44,303	(3,049)	292,559
Designated as FVTPL				
Fixed income securities	$ 350,802	6,915	(4,236)	353,481
Preferred equities	615	-	(242)	373
	351,417	6,915	(4,478)	353,854
Total	**$ 602,722**	**51,218**	**(7,527)**	**646,413**
Reconciled in aggregate to asset classes as follows:				
Fixed income securities	$ 521,199	10,283	(4,467)	527,015
Equities	81,523	40,935	(3,060)	119,398
Total	**$ 602,722**	**51,218**	**(7,527)**	**646,413**

In the above tables, the gross unrealized figures for common equities securities includes recognized impairments. As at December 31, 2017, of the total cumulative impairments of $6,660,917 (December 31, 2016: $7,682,462) an amount of $4,030,843 is included in gross unrealized losses (December 31, 2016: $5,177,018) and an amount of $2,630,074 is included in gross unrealized gains (December 31, 2016: $2,505,444). For additional details, see note 5c.

Notes to Financial Statements

b) Maturity profile of fixed income securities

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

	DECEMBER 31, 2017			
	Within 1 year	1 to 5 years	Over 5 years	**Total**
Available-for-sale				
Issued or guaranteed by:				
Canadian federal government	$ 3,035	22,570	290	**25,895**
Canadian provincial and municipal governments	39,291	83,743	2,811	**125,845**
Corporate debt	3,050	18,062	2,521	**23,633**
	$ 45,376	124,375	5,622	**175,373**
Designated as FVTPL				
Issued or guaranteed by:				
Canadian federal government	$ 25,405	28,039	1,038	**54,482**
Canadian provincial and municipal governments	9,940	35,060	52,266	**97,266**
Mortgage backed securities	-	987	-	**987**
Corporate debt	19,206	46,564	137,802	**203,572**
	54,551	110,650	191,106	**356,307**
Fixed income securities	**$ 99,927**	**235,025**	**196,728**	**531,680**
Percent of total	**19%**	**44%**	**37%**	**100%**

	DECEMBER 31, 2016			
	Within 1 year	1 to 5 years	Over 5 years	**Total**
Available-for-sale				
Issued or guaranteed by:				
Canadian federal government	$ 14,640	17,359	322	**32,321**
Canadian provincial and municipal governments	16,233	80,120	21,173	**117,526**
Mortgage backed securities	1,441	-	-	**1,441**
Corporate debt	4,587	14,494	3,165	**22,246**
	$ 36,901	111,973	24,660	**173,534**
Designated as FVTPL		33,856		
Issued or guaranteed by:				
Canadian federal government	**$** 8,514		10,030	**52,400**
Canadian provincial and municipal governments	5,068	39,634	50,696	**95,398**
Mortgage backed securities	21,223	-	-	**21,223**
Corporate debt	2,698	54,667	127,095	**184,460**
	37,503	128,157	187,821	**353,481**
Fixed income securities	**$ 74,404**	**240,130**	**212,481**	**527,015**
Percent of total	**14%**	**46%**	**40%**	**100%**

The weighted average duration of fixed income securities as at December 31, 2017 is 3.10 years (December 31, 2016: 3.24 years). The effective yield on fixed income securities as at December 31, 2017 is 2.79% (December 31, 2016: 2.89%).

c) Impairment Analysis

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

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

As a result of the impairment analysis performed by management, $1,741,369 in write-downs to various equity securities were required for the year ended December 31, 2017 (2016: $890,740), which was recorded under net investment income in the statement of profit or loss.

The movements in cumulative impairment write-downs on available-for-sale investments for the years ended December 31 were as follows:

		2017	2016
Balance, as at January 1	$	7,682	7,328
Increase for the year charged to profit or loss		1,741	891
Release upon disposition		(2,762)	(537)
Balance, as at December 31	**$**	**6,661**	**7,682**

Notes to Financial Statements

d) Net investment income

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

	2017			2016		
	Designated as FVTPL	Available-for-sale	**Total**	Designated as FVTPL	Available-for-sale	**Total**
Interest	$ 11,152	3,801	**14,953**	12,253	3,628	**15,881**
Dividends	19	3,688	**3,707**	21	3,378	**3,399**
Net realized gains (losses)	(486)	8,700	**8,214**	(758)	6,275	**5,517**
Change in net unrealized gains (losses)	(3,226)	(77)	**(3,303)**	(4,817)	(395)	**(5,212)**
Impairments	-	(1,741)	**(1,741)**	-	(891)	**(891)**
	7,459	14,371	**21,830**	6,699	11,995	**18,694**
Less: Investment expenses	(396)	(964)	**(1,360)**	(391)	(894)	**(1,285)**
Net investment income	**$ 7,063**	**13,407**	**20,470**	**6,308**	**11,101**	**17,409**

e) Realized and change in unrealized gains and losses

The realized gains (losses) and increase (decrease) in the unrealized gains and losses of the Company's available-for-sale investments recorded in OCI for the year ended December 31 are as follows:

	2017					
	Net realized gains (losses)			Increase (decrease) in unrealized gains and losses		
	Gross	Tax	Net	Gross	Tax	Net
Fixed income securities	$ 124	(33)	91	(2,152)	570	(1,582)
Equities	8,388	(2,223)	6,165	8,539	(2,263)	6,276
Total	**$ 8,512**	**(2,256)**	**6,256**	**6,387**	**(1,693)**	**4,694**

	2016					
	Net realized gains (losses)			Increase (decrease) in unrealized gains and losses		
	Gross	Tax	Net	Gross	Tax	Net
Fixed income securities	$ 23	(6)	17	(1,413)	374	(1,039)
Equities	6,252	(1,657)	4,595	15,879	(4,208)	11,671
Total	**$ 6,275**	**(1,663)**	**4,612**	**14,466**	**(3,834)**	**10,632**

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6. Fair Value Measurements of Financial Assets and Liabilities

The following tables present the fair value of the Company's financial assets and liabilities categorized by either recurring or non-recurring. The items presented below include related accrued interest or dividends, as appropriate.

AS AT DECEMBER 31, 2017	CARRYING AMOUNT					FAIR VALUE			
	Designated at fair value	Loans and receivables	Available-for-sale	Other financial liabilities	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets measured at fair value (recurring basis)									
Cash and cash equivalents	$ 20,253	-	-	-	**20,253**	20,253	-	-	**20,253**
Fixed income securities	358,179	-	176,022	-	**534,201**	294,620	239,581	-	**534,201**
Common equities	-	-	124,719	-	**124,719**	124,719	-	-	**124,719**
Preferred equities	475	-	-	-	**475**	-	475	-	**475**
	378,907	-	300,741	-	**679,648**	439,592	240,056	-	**679,648**
Financial assets measured at fair value (non-recurring basis)									
Due from reinsurers	-	309	-	-	**309**	-	309	-	**309**
Due from insureds	-	1,882	-	-	**1,882**	-	1,882	-	**1,882**
Due from the Law Society	-	6,998	-	-	**6,998**	-	6,998	-	**6,998**
Other receivables	-	3,167	-	-	**3,167**	-	3,167	-	**3,167**
Other assets	-	503	-	-	**503**	-	503	-	**503**
	-	12,859	-	-	**12,859**	-	12,859	-	**12,859**
Financial liabilities measured at fair value (non-recurring basis)									
Due to reinsurers	-	-	-	720	**720**	-	720	-	**720**
Due to insureds	-	-	-	220	**220**	-	220	-	**220**
Expenses due and accrued	-	-	-	2,217	**2,217**	-	2,217	-	**2,217**
Other taxes due and accrued	-	-	-	458	**458**	-	458	-	**458**
	-	-	-	3,615	**3,615**	-	3,615	-	**3,615**
Total	**$ 378,907**	**12,859**	**300,741**	**(3,615)**	**688,892**	**439,592**	**249,300**	**-**	**688,892**

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For the year ended December 31, 2017
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AS AT DECEMBER 31, 2016	CARRYING AMOUNT					FAIR VALUE			
	Designated at fair value	Loans and receivables	Available-for-sale	Other financial liabilities	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets measured at fair value (recurring basis)									
Cash and cash equivalents	$ 15,911	-	-	-	**15,911**	15,911	-	-	**15,911**
Fixed income securities	354,972	-	174,143	-	**529,115**	286,716	242,399	-	**529,115**
Common equities	-	-	119,354	-	**119,354**	119,354	-	-	**119,354**
Preferred equities	377	-	-	-	**377**	-	377	-	**377**
	371,260	-	293,497	-	**664,757**	421,981	242,776	-	**664,757**
Financial assets measured at fair value (non-recurring basis)									
Due from reinsurers	-	503	-	-	**503**	-	503	-	**503**
Due from insureds	-	2,288	-	-	**2,288**	-	2,288	-	**2,288**
Due from the Law Society	-	8,024	-	-	**8,024**	-	8,024	-	**8,024**
Other receivables	-	1,766	-	-	**1,766**	-	1,766	-	**1,766**
Other assets	-	581	-	-	**581**	-	581	-	**581**
	-	13,162	-	-	**13,162**	-	13,162	-	**13,162**
Financial liabilities measured at fair value (non-recurring basis)									
Due to reinsurers	-	-	-	673	**673**	-	673	-	**673**
Due to insureds	-	-	-	280	**280**	-	280	-	**280**
Expenses due and accrued	-	-	-	1,456	**1,456**	-	1,456	-	**1,456**
Other taxes due and accrued	-	-	-	466	**466**	-	466	-	**466**
	-	-	-	2,875	**2,875**	-	2,875	-	**2,875**
Total	**$ 371,260**	**13,162**	**293,497**	**(2,875)**	**675,044**	**421,981**	**253,063**	**-**	**675,044**

There were no transfers between any levels during the year ended December 31, 2017 (2016: none). Note that for financial instruments, such as short term trade receivables and payables, as well as the non-recurring financial assets and liabilities, the Company believes that their carrying amounts are reasonable approximations of fair value.

Notes to Financial Statements

7. Property and Equipment

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

	Furniture and fixtures	Computer equipment	Computer software	Leasehold improvements	**Total**
January 1, 2016	$ 44	268	91	1,071	**1,474**
Additions	6	97	60	1	**164**
Amortization	(18)	(141)	(51)	(444)	**(654)**
December 31, 2016	32	224	100	628	**984**
Additions	475	280	161	544	**1,460**
Amortization	(15)	(144)	(77)	(444)	**(680)**
December 31, 2017	**$ 492**	**360**	**184**	**728**	**1,764**

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

	DECEMBER 31, 2017			**DECEMBER 31, 2016**		
	Cost	Accumulated amortization	Carrying value	Cost	Accumulated amortization	Carrying value
Furniture and fixtures	$ 1,896	(1,404)	492	1,421	(1,389)	32
Computer equipment	2,723	(2,363)	360	2,443	(2,219)	224
Computer software	990	(806)	184	829	(729)	100
Leasehold improvements	4,170	(3,442)	728	3,626	(2,998)	628
Total	**$ 9,779**	**(8,015)**	**1,764**	**8,319**	**(7,335)**	**984**

8. Intangible Asset

The Company's recognized intangible asset consists of a license. The associated software became available for use during 2015, and as a result, is being amortized over its expected useful life of 68 months. During the years ending December 31, details of the movement in the carrying values are as follows:

		2017	2016
Cost			
Balance, beginning of year	$	1,243	1,243
Additions from separate acquistions		-	-
Additions from internal developments		-	-
Disposals or classified as held for sale		-	-
Balance, end of year	$	1,243	1,243
Accumulated amortization and impairment			
Balance, beginning of year		(366)	(146)
Amortization expense	$	(219)	(220)
Disposals or classified as held for sale		-	-
Impairment losses		-	-
Balance, end of year		(585)	(366)
Carrying amount	**$**	**658**	**877**

9. Provision for Unpaid Claims and Adjustment Expenses

a) Nature of unpaid claims and adjustment expenses

The determination of the provision for unpaid claims and adjustment expenses 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 unpaid claims and adjustment expenses, product mix and concentration, claims severity and claim frequency patterns.

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

The process of establishing the provision relies on the judgment and opinions of a large 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 provision for unpaid claims and adjustment expenses, and any related recoveries for reinsurance and deductibles, involves

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

b) Methodologies and assumptions

The best estimates of future claims payments and adjustment expenses are determined based on one or more of the following actuarial methods: the Adler-Kline method, the chain ladder method, the frequency and severity method and the expected loss ratio 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 by "policy year", which is the year in which such claims are made for the Company's professional liability policies, and 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, policy years and development periods in a format known as claims development triangles.

A description of each of these methods is as follows:

i. Adler-Kline method

This is a form of frequency and severity method which involves estimation of the closing pattern for current open and estimated unreported claims, which is combined with estimates of the average severity across successive intervals of percentage claims closed, based on consideration of historical claim settlement patterns and average amounts paid on closed claims.

ii. 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.

iii. Frequency and severity method

This 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.

iv. Expected loss ratio 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.

Claims data includes external claims adjustment expenses, and for a portion of the portfolio includes internal claims adjustment expenses ("IAE"). A provision for IAE has been determined based on the Mango-Allen claim staffing technique, a transaction-based method which utilizes expected future claims handler workload per claim per handler, claims closure rates and ultimate claims count. The IAE provision is included in the IBNR balances.

The provision for unpaid claims and adjustment expenses is discounted using an interest rate based on the estimated market value based yield to maturity, inherent credit risk and related investment expense of the Company's fixed income securities supporting the provision for unpaid claims and adjustment expense as at

December 31, 2017, which was 2.67% (December 31, 2016: 2.40%). Reinsurance recoverable estimates and claims recoverable from other insurers are discounted in a manner consistent with the method used to establish the related liability. Based on published guidance from the CIA, as at December 31, 2017 the PfAD was calculated at 15% (December 31, 2016: 15%) of the net discounted claim liabilities, 1.5% (December 31, 2016: 1.5%) of the ceded discounted claim liabilities, and a 0.50% reduction to the discount rate (December 31, 2016: 0.50%).

As the provision for unpaid claims and adjustment expenses is recorded on a discounted basis and reflects the time value of money, its carrying value is expected to provide a reasonable basis for the determination of fair value. However, determination of fair value also requires the practical context of a buyer and seller, both of whom are willing and able to enter into an arm's length transaction. In the absence of such a practical context, the fair value is not readily determinable.

The following table shows unpaid claims and adjustment expenses on an undiscounted basis and a discounted basis:

	DECEMBER 31, 2017		DECEMBER 31, 2016	
	Undiscounted	Discounted	Undiscounted	Discounted
Unpaid claims and adjustment expenses	$ 452,680	485,088	436,658	472,168
Recoverable from reinsurers	(37,174)	(39,495)	(40,857)	(43,794)
Net	**$ 415,506**	**445,593**	**395,801**	**428,374**

Details of the provision for unpaid claims and adjustment expenses, by line of business, are summarized as follows:

	DECEMBER 31, 2017			DECEMBER 31, 2016		
	Gross	Ceded	**Net**	Gross	Ceded	**Net**
Professional liability	$ 468,508	(39,424)	**429,084**	456,512	(43,687)	**412,825**
Title	16,580	(71)	**16,509**	15,656	(107)	**15,549**
Total	**$ 485,088**	**(39,495)**	**445,593**	**472,168**	**(43,794)**	**428,374**

The provision for unpaid claims and adjustment expenses by case reserves and IBNR are as follows:

	DECEMBER 31, 2017			DECEMBER 31, 2016		
	Gross	Ceded	**Net**	Gross	Ceded	**Net**
Case reserves	$ 311,366	(3,503)	**307,863**	292,488	(2,486)	**290,002**
IBNR	173,722	(35,992)	**137,730**	179,680	(41,308)	**138,372**
Total	**$ 485,088**	**(39,495)**	**445,593**	**472,168**	**(43,794)**	**428,374**

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

c) Changes in methodologies or basis of selection of assumptions

Based on the Company's actuarial valuation process, at each valuation the Company's claims data is analyzed to determine whether the current methodologies and basis of selection of actuarial assumptions continue to be

appropriate for the determination of the IBNR provision. As a result, the Company revised the basis of selection of some key assumptions used in its actuarial valuation methods as at December 31, 2017 and December 31, 2016.

In 2016 and 2017, the Company updated the methodologies and basis of selection of key assumptions used in determining its provision for unpaid claims and adjustment expenses to ensure they appropriately reflect emerging experience and changes in risk profile, which resulted in a change to projected net cash outflows and, therefore, to the provision. The net impact of the 2017 changes was a $8,740,000 decrease in the provision, before reinsurance, as at December 31, 2017. This total impact relates entirely to severity assumptions and the professional liability line of business, and has been allocated by policy year as a $3,743,000 decrease related to the current year and a $4,997,000 decrease related to the prior years. The net impact of the 2016 changes was a $5,374,000 decrease in the provision, before reinsurance, as at December 31, 2016. This total impact relates entirely to severity assumptions and the professional liability line of business, and has been allocated by policy year as a $290,000 decrease related to the current year and a $5,084,000 decrease related to the prior years.

Details of the claims and adjustment expenses for the year ended December 31 are as follows:

	2017			2016		
	Gross	Ceded	**Net**	Gross	Ceded	**Net**
Claims & external adjustment expenses paid	$ 80,484	209	**80,275**	80,961	1,258	**79,703**
Change in case reserves	20,073	1,000	**19,073**	15,050	(258)	**15,308**
Change in IBNR	(4,164)	(4,683)	**519**	(3,310)	252	**(3,562)**
Discount expense	(3,102)	(616)	**(2,486)**	(2,094)	(257)	**(1,837)**
IAE paid	8,676	-	**8,676**	8,724	-	**8,724**
Change in provision for IAE	113	-	**113**	2,376	-	**2,376**
	$ 102,080	**(4,090)**	**106,170**	**101,707**	**995**	**100,712**

Changes in the provision for unpaid claims and adjustment expenses, including IAE, recorded in the statement of financial position during the year is comprised of the following:

		2017	**2016**
Provision for unpaid claims and adjustment expenses – January 1 – net	$	428,374	416,089
Change in net provision for claims and adjustment expenses due to:			
Prior years' incurred claims		(11,070)	(18,208)
Current year's incurred claims		119,726	120,757
Net claims and adjustment expenses paid in relation to:			
Prior years		(77,657)	(76,771)
Current year		(11,294)	(11,656)
Impact of discounting		(2,486)	(1,837)
Provision for unpaid claims and adjustment expenses – December 31 – net		445,593	428,374
Reinsurers' share of provisions for unpaid claims and adjustment expenses		39,495	43,794
Provision for unpaid claims and adjustment expenses – December 31 – gross	**$**	**485,088**	**472,168**

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d) Loss development tables

The tables on the following pages show the development of claims, excluding IAE, by policy year over a period of time. The first table reflects development for gross claims, which excludes any reductions for reinsurance recoverables. The second table reflects development for net claims, which is gross claims less reinsurance recoverables. The top triangle in each table shows how the estimates of total claims for each policy year develop over time as more information becomes known regarding individual claims and overall claims frequency and severity. Claims are presented on an undiscounted basis in the top triangle. The bottom triangle in each table presents the cumulative amounts paid for claims and external loss adjustment expenses for each policy year at the end of each successive year. At the bottom of each table, the provision for IAE as well as the effect of discounting and the PfAD, as at December 31, 2017, is presented based on the net amounts of the two triangles.

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

		POLICY YEAR										
	All Prior Years	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**Total**
Estimate of Ultimate Claims												
At end of Policy year	$	91,567	94,936	90,778	98,870	110,380	102,937	103,962	106,879	113,990	112,943	
One Year Later		99,776	95,781	90,585	100,573	93,630	95,423	92,844	96,377	107,475		
Two Years Later		94,086	97,708	89,394	97,841	90,749	91,649	87,845	91,393			
Three Years Later		93,942	96,541	87,128	96,265	88,237	89,307	88,634				
Four Years Later		92,322	94,258	87,341	87,906	84,248	88,060					
Five Years Later		89,566	91,157	84,680	87,930	86,065						
Six Years Later		88,292	94,402	85,491	90,765							
Seven Years Later		86,719	95,835	85,107								
Eight Years Later		87,445	94,629									
Nine Years Later		84,513										
Cumulative Claims Paid												
At end of Policy year		(5,593)	(6,726)	(4,628)	(6,868)	(4,744)	(4,167)	(5,516)	(5,896)	(7,299)	(6,969)	
One Year Later		(19,886)	(21,366)	(16,553)	(17,678)	(15,743)	(18,406)	(18,123)	(19,993)	(21,104)		
Two Years Later		(32,641)	(35,997)	(30,239)	(30,885)	(26,124)	(30,668)	(30,339)	(30,943)			
Three Years Later		(47,582)	(48,477)	(42,488)	(44,452)	(36,429)	(41,705)	(40,880)				
Four Years Later		(55,086)	(59,669)	(54,208)	(54,632)	(46,319)	(50,229)					
Five Years Later		(63,348)	(67,445)	(61,111)	(62,242)	(54,637)						
Six Years Later		(66,017)	(75,230)	(66,828)	(70,458)							
Seven Years Later		(71,895)	(80,766)	(71,672)								
Eight Years Later		(74,578)	(82,189)									
Nine Years Later		(77,786)										
Estimate of Ultimate Claims		84,513	94,629	85,107	90,765	86,065	88,060	88,634	91,393	107,475	112,943	
Cumulative Claims Paid		(77,786)	(82,189)	(71,672)	(70,458)	(54,637)	(50,229)	(40,880)	(30,943)	(21,104)	(6,969)	
Undiscounted Claims Liabilities	12,244	6,727	12,440	13,435	20,307	31,428	37,831	47,754	60,450	86,371	105,974	**434,961**
Provision for IAE	165	166	197	255	517	913	1,095	1,529	2,206	3,958	6,718	**17,719**
Discounting (including PfAD)	1,178	533	949	949	1,668	2,745	3,127	3,862	4,623	6,044	6,730	**32,408**
Present Value recognized in the Statement of Financial Position	$ 13,587	7,426	13,586	14,639	22,492	35,086	42,053	53,145	67,279	96,373	119,422	**485,088**

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

		POLICY YEAR										
	All Prior Years	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**Total**
Estimate of Ultimate Claims												
At end of Policy year	$	86,762	89,886	86,458	94,874	106,381	98,696	99,579	102,534	109,643	108,683	
One Year Later		94,971	91,732	86,265	96,577	89,631	91,183	88,460	92,032	103,128		
Two Years Later		90,242	93,660	85,075	93,845	86,750	87,409	83,462	87,047			
Three Years Later		90,098	92,492	82,808	92,269	84,238	85,066	84,251				
Four Years Later		88,478	90,209	83,022	83,910	80,249	83,819					
Five Years Later		85,722	87,108	80,361	83,934	82,066						
Six Years Later		84,448	90,353	81,172	86,769							
Seven Years Later		82,875	91,787	80,788								
Eight Years Later		83,601	90,581									
Nine Years Later		84,380										
Cumulative Claims Paid												
At end of Policy year		(5,593)	(6,726)	(4,628)	(6,868)	(4,744)	(4,167)	(5,516)	(5,896)	(7,299)	(6,969)	
One Year Later		(19,886)	(21,366)	(16,553)	(17,678)	(15,741)	(18,406)	(18,123)	(19,993)	(21,104)		
Two Years Later		(32,641)	(35,997)	(30,239)	(29,976)	(26,122)	(30,668)	(30,339)	(30,943)			
Three Years Later		(47,582)	(48,477)	(42,466)	(43,542)	(36,421)	(41,705)	(40,880)				
Four Years Later		(55,086)	(59,669)	(54,111)	(53,722)	(46,312)	(50,229)					
Five Years Later		(63,348)	(67,409)	(61,000)	(61,207)	(54,628)						
Six Years Later		(66,017)	(75,193)	(66,705)	(69,423)							
Seven Years Later		(71,895)	(79,843)	(71,545)								
Eight Years Later		(74,578)	(81,264)									
Nine Years Later		(77,654)										
Estimate of Ultimate Claims		84,380	90,581	80,788	86,769	82,066	83,819	84,251	87,047	103,128	108,683	
Cumulative Claims Paid		(77,654)	(81,264)	(71,545)	(69,423)	(54,628)	(50,229)	(40,880)	(30,943)	(21,104)	(6,969)	
Undiscounted Claims Liabilities	10,914	6,726	9,317	9,243	17,346	27,438	33,590	43,371	56,104	82,024	101,714	**397,787**
Provision for IAE	165	166	197	255	517	913	1,095	1,529	2,206	3,958	6,718	**17,719**
Discounting (including PfAD)	1,030	533	756	716	1,469	2,459	2,841	3,574	4,358	5,813	6,538	**30,087**
Present Value recognized in the Statement of Financial Position	$ 12,109	7,425	10,270	10,214	19,332	30,810	37,526	48,474	62,668	91,795	114,970	**445,593**

10. Unearned Premiums

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

		2017	2016
Balance, as at January 1	$	1,027	860
Net premiums written during the year		108,505	115,943
Less: Net premiums earned during the year		(108,464)	(115,776)
Increase (decrease) in unearned premiums		41	167
Balance, as at December 31	**$**	**1,068**	**1,027**

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

11. Reinsurance

The Company's reinsurance program consists of a 90% quota share cession on its excess professional liability policies (2016: 90%), and a $10 million in excess of $5 million per occurrence clash reinsurance arrangement which provides protection for single events that bring about multiple professional liability and/or title claims with an additional $20 million in excess of $15 million per occurrence. Reinsurance does not relieve the Company of its primary liability as the originating insurer. In the event that a reinsurer is unable to meet obligations assumed under reinsurance agreements, the Company is liable for such amounts. Reinsurance treaties typically renew annually and the terms and conditions are reviewed by senior management and reported to the Company's Board of Directors. Reinsurance agreements are negotiated with reinsurance companies that have an independent credit rating of "A-" or better and that the Company considers creditworthy. Based on current information on the financial health of the reinsurers, no provision for doubtful debts has been made in the financial statements in respect of reinsurers.

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 professional liability insurance program with the Company.

The insurance policy under the mandatory professional liability insurance program of the Law Society is written by the Company and is effective on a calendar year basis. The insurance policy is renewed effective January 1 each year subject to the Law Society's acceptance of the terms of renewal submitted by the Company. The annual policy limits for each of the years effective January 1, 1995 to December 31, 2017 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 provision for unpaid claims and adjustment expenses 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, 2017, $103,222,341 of the gross premiums written related to mandatory insurance coverage provided to the Law Society and its members (2016: $110,616,998). As at December 31, 2017, the Company had a balance due from the Law Society of $6,997,956 (December 31, 2016: $8,024,182 due from Law Society).

For the year ended December 31, 2017, the Company contributed to the Law Society $239,820 in regards to a wellness program to be made available to the insureds of the Company's primary liability policy (2016: $177,652). This expenditure is included in the 'professional fees' category of operating expenses (see note 15).

The total compensation to Company personnel classified as key management, being those having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including directors of the Company, is as follows:

		2017	2016
Short-term compensation and benefits	$	3,959	3,812
Post employment benefits		319	305
	$	**4,278**	**4,117**

13. Employee Benefits

The Company has a defined contribution pension plan 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 2017, the Company made payments of $744,969 (2016: $705,717) and recorded pension expense of $787,406 (2016: $743,285).

The Company also has a supplemental defined benefit pension plan, 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 supplemental plan commenced in 2005, with no contributions made in 2017 (2016: $970,494) and recorded pension expenses of $144,760 in 2017 (2016: $90,000). Funding requirements are reviewed annually with an actuarial valuation for funding purposes effective as at December 31. As the Company's defined benefit pension plan 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, 2017. Management's preliminary estimate is that $130,000 is the required contribution to the plan during the year ending December 31, 2018.

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

The defined benefit pension plan exposes the Company to risks such as: investment risk, interest rate risk, longevity risk and salary risk.

Investment risk — The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality mid-duration corporate bond yields; if the return on plan assets is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity and fixed income securities. Due to the long-term nature

of the plan liabilities, the Company considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities to leverage the return generated by the fund.

Interest rate risk — A decrease in the market interest rate will increase the plan obligation; however, this will be partially offset by an increase in the return of the plan's fixed income securities.

Longevity risk — The present value of the defined benefit plan obligation is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's obligation.

Salary risk — The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's obligation.

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

Defined benefit plan obligation

		2017	2016
Accrued benefit obligation			
Balance, as at January 1	$	7,933	7,676
Current service cost		207	139
Interest cost		296	297
Remeasurement (gains) losses:			
Actuarial (gains) losses – demographic assumptions		53	-
Actuarial (gains) losses – financial assumptions		364	149
Actuarial (gains) losses – experience adjustments		(52)	(55)
Benefits paid		(273)	(273)
Balance, as at December 31	**$**	**8,528**	**7,933**

Defined benefit plan assets

		2017	2016
Plan assets			
Fair value, as at January 1	$	9,838	8,565
Interest income on plan assets		359	346
Remeasurement gains (losses):			
Return on plan assets greater (less) than discount rate		198	229
Benefits paid		(273)	(273)
Employer contribution		-	971
Fair value, as at December 31	**$**	10,122	**9,838**

Notes to Financial Statements

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

	DECEMBER 31, 2017	DECEMBER 31, 2016
Equity securities	33.83%	35.56%
Fixed income securities	20.43%	19.42%
Cash and cash equivalents	2.03%	0.27%
Refundable-tax account	43.71%	44.75%
	100.00%	**100.00%**

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, 2017	DECEMBER 31, 2016
Fair value of plan assets	$	10,122	9,838
Accrued benefit obligation		(8,528)	(7,933)
Funded status surplus		1,594	1,905
Irrecoverable surplus (effect of asset ceiling)		-	-
Accrued benefit asset	**$**	**1,594**	**1,905**

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

Amounts recognized in comprehensive income in respect of the defined benefit plan in the year ended December 31:

		2017	2016
Service cost:			
Current service cost	$	207	139
Past service cost and (gain) loss from settlements		-	-
Net interest (income) expense		(63)	(49)
Components of defined benefit costs recognized in profit or loss	**$**	**144**	**90**
Remeasurement on the net defined benefit liability:			
Actuarial (gain) loss due to liability experience	$	(52)	(55)
Actuarial (gain) loss due to liability assumption changes		417	149
Actuarial (gain) loss arising during year		365	94
Return on plan assets (greater) less than discount rate		(198)	(229)
Change in irrecoverable surplus (effect of asset ceiling)		-	-
Components of defined benefit costs recognized in OCI		**167**	**(135)**
Total	**$**	**311**	**(45)**

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

	2017	2016
Discount rate	3.35%	3.70%
Rate of compensation increase	4.50%	4.50%
Mortality	CPM 2014 Priv mortality table with generational mortality improvements following Scale MI-2017; pension size adjustment factors of 0.83 for males and 0.88 for females	CPM 2014 Priv mortality table with generational mortality improvements following Scale CPM-B; 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, 2017, if the discount rate was 1% higher/(lower) the defined benefit obligation would decrease by $976,400 (increase by $1,193,000). 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 defined benefit obligation as at December 31, 2017 is as follows:

		2018	2019	2020	2021	2022	Thereafter
Expected benefit payments	$	323	469	468	466	464	2,289

The defined benefit obligation as at December 31, 2017 by participant category is as follows:

Active participants	3,770
Pensioners	4,758

14. Income Taxes

a) Income tax expense recognized in profit or loss

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

		2017	2016
Current income tax			
(Recovered) expensed during the year	$	232	2,859
Prior year adjustments		(2)	(7)
Total current income tax expense (recovery)		**230**	**2,852**
Deferred income tax			
Origination and reversal of temporary differences		(325)	(13)
Changes in statutory tax rates		-	-
Total deferred income tax expense (recovery)		**(325)**	**(325)**
Total income tax expense (recovery)	**$**	**(95)**	**2,839**

Notes to Financial Statements

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

	2017	2016
Unpaid claims and adjustment expenses	(228)	(162)
Investments	(39)	(40)
Pensions	(49)	223
Property and equipment	(9)	(34)
	(325)	**(13)**

b) Income tax expense recognized in the statement of profit or loss and other comprehensive income

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

		2017	2016
Current income tax			
Unrealized investment gains and losses on available-for-sale portfolio	$	(102)	2,407
Pensions		-	-
Total current income tax expense	**$**	**(102)**	**2,407**
Deferred income tax			
Unrealized investment gains and losses on available-for-sale portfolio		-	-
Pensions		(44)	36
Total deferred income tax expense		(44)	36
Total income tax expense in OCI	**$**	**(146)**	**2,443**

c) Income tax reconciliation

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

	2017	2016
Profit or loss before income taxes	521	11,478
Statutory income tax rate	26.50%	26.50%
Provision for (recovery of) income taxes at statutory rates	138	3,042
Increase (decrease) resulting from:		
Investments	(248)	(225)
Non-deductible meals and entertainment	17	21
Other non-deductible items	(2)	1
Provision for (recovery of) income taxes	**(95)**	**2,839**

The statutory rate applicable to the Company at December 31, 2017 is same as at December 31, 2016.

During the year, the Company made income tax payments of $3,133,713 (2016: $4,378,038) and received no income tax refunds (2016: nil) from the various taxing authorities.

d) Net deferred income tax asset

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

	DECEMBER 31, 2017	DECEMBER 31, 2016
Deferred tax assets		
Net provision for unpaid claims and adjustment expenses	$ 5,904	5,676
Property and equipment	375	366
	6,279	6,042
Deferred tax liabilities		
Investments	(314)	(353)
Pension	(359)	(453)
	(673)	(806)
Total net deferred tax assets	**$ 5,606**	**5,236**

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.

15. Operating Expenses

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

	2017	2016
Salaries and benefits	$ 12,266	$ 11,197
Professional fees	1,865	1,688
Occupancy lease	1,027	1,148
Financial processing fees	923	1,016
Directors remuneration	995	1,013
Information systems	1,241	935
Office and administrative expenses	808	855
Amortization of property and equipment	656	626
Communication	534	537
Total	**$ 20,315**	**$ 19,015**

Included in salaries and benefits are amounts for future employee benefits under a defined contribution plan of $744,969 (2016: $705,717) and a supplementary defined benefit plan of $144,760 (2016: $90,000).

16. Operating Lease Commitments

The Company entered into a lease agreement for premises at 250 Yonge Street, with an effective date of February 1, 2008 and an expiry date of May 31, 2018.

During 2016, the Company has amended the original lease agreement to include additional floor space at its current location, and the term of the lease has been extended for a period of 10 years 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.

At December 31, 2017, lease obligations on office premises were as follows:

		2018	2019	2020	2021	2022	Thereafter
Expected lease payments	$	1,655	1,677	1,677	1,677	1,677	9,082

17. Capital Stock and Contributed Surplus

Capital stock of the Company represents:

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

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

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

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

18. Statutory Insurance Information

The Company is the beneficiary of trust accounts in the amount of $1,109,969 as at December 31, 2017 (December 31, 2016: $1,119,860) which are held as security for amounts recoverable from unregistered reinsurers of $74,699 (2016: $411,126). This trust balance is not reflected in these financial statements but is considered in determining statutory capital requirements.

In accordance with licensing requirements, the Company no longer requires deposited securities with the regulatory authorities (December 31, 2016: nil).

19. Capital Management

Capital is comprised of the Company's equity. As at December 31, 2017 the Company's equity was $253,678,008 (December 31, 2016: $253,466,413). The Company's objectives when managing capital are to maintain financial strength and protect its claims paying abilities, to maintain creditworthiness and to provide a reasonable return to the shareholder over the long term. In conjunction with the Company's Board of Directors and its Audit Committee, senior management develops the capital strategy and oversees the capital management processes of the Company. Capital is managed using both regulatory capital measures and internal metrics.

FSCO, the Company's primary insurance regulator, along with other provincial insurance regulators, regulate the capital required in the Company using two key measures, i.e., Minimum Capital Test ("MCT") and the Dynamic Capital Adequacy Test ("DCAT"). FSCO mandates the MCT guideline which sets out 100% as the minimum and 150% as the supervisory target for P&C insurance companies. To ensure that it attains its objectives, the Company has established an internal target of 170% (2016: 170%) in excess of which, under normal circumstances, the Company will maintain its capital. During the year ended December 31, 2017, the Company complied with the various provincial regulators' guidelines and as at December 31, 2017, the Company has a MCT ratio of 237% (December 31, 2016: 253%). Annually, the Company's Appointed Actuary prepares a DCAT 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 DCAT report to management and the Audit Committee. The DCAT 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.

The Company may use reinsurance to manage its capital position.

20. Risk Management

By virtue of the nature of the insurance company business, financial instruments comprise the majority of the Company's statement of financial position as at both December 31, 2017 and 2016. The most significant identified risks to the Company which arise from holding financial instruments and insurance contract liabilities include insurance risk, credit risk, liquidity risk and market risk. The market risk exposure of the Company is primarily related to changes in interest rates and adverse movement in equity prices.

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

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

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

Notes to Financial Statements

a) Insurance risk

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

Pricing risk

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

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

Concentration of risk

A concentration of risk represents the exposure to increased losses associated with an inadequately diversified portfolio of policy coverage. The Company has a reinsurance program to limit its exposure to catastrophic losses from any one event or set of events. The Company has approximately 99% of its business in Ontario (2016: 99%) and 94% in professional liability (2016: 95%), and consequently is exposed to trends, inflation, judicial changes and regulatory changes affecting these segments. The geographical diversity by location of the underlying insurance risk for the year ended December 31 is summarized below:

	2017			2016		
Gross written premium	Ontario	All other provinces	**Total**	Ontario	All other provinces	**Total**
Professional liability	$ 109,181	-	**109,181**	116,822	-	**116,822**
Title	6,324	150	**6,474**	6,337	170	**6,507**
Total	**$ 115,505**	**150**	**115,655**	**123,159**	**170**	**123,329**

Reserving risk

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

Sensitivity analyses

Risks associated with property and casualty insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company considers that the provision for its unpaid claims and adjustment expenses 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 provision for unpaid claims and adjustment expenses. Given this line of business and the actuarial methods utilized to estimate the related provision for unpaid claims and adjustment expenses, the reported claims count development factors and average claim severity selections are the most critical of the assumptions used. The following table provides the estimated increase (decrease) of the net provision for unpaid claims and adjustment expense 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.

	DECEMBER 31, 2017		DECEMBER 31, 2016	
	Net provision for unpaid claims and adjustment expenses	Equity	Net provision for unpaid claims and adjustment expenses	Equity
Unreported claims +20%	5,132	(3,772)	6,143	(4,515)
Average claim severities +1%	5,631	(4,139)	5,432	(3,993)

b) Credit risk

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

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

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

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

Notes to Financial Statements

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

	DECEMBER 31, 2017						
	AAA	AA	A	BBB	BB and lower	Not rated	**Carrying value**
Cash and cash equivalents	$ 5,748	-	-	-	-	14,497	**20,245**
Fixed income securities	98,985	142,347	197,779	79,526	5,007	8,036	**531,680**
Investment income due and accrued	392	528	1,212	484	68	168	**2,852**
Due from reinsurers	-	-	309	-	-	-	**309**
Due from insureds	-	-	-	-	-	1,882	**1,882**
Due from the Law Society	-	-	-	-	-	6,998	**6,998**
Reinsurers' share of provisions for unpaid claims and adjustment expenses	-	75	39,420	-	-	-	**39,495**
Other receivables	-	-	-	-	-	3,167	**3,167**

	DECEMBER 31, 2016						
	AAA	AA	A	BBB	BB and lower	Not rated	**Carrying value**
Cash and cash equivalents	$ 499	-	-	-	-	15,412	**15,911**
Fixed income securities	124,644	123,433	186,662	77,800	4,039	10,437	**527,015**
Investment income due and accrued	240	568	855	549	60	162	**2,434**
Due from reinsurers	-	-	496	-	7	-	**503**
Due from insureds	-	-	-	-	-	2,288	**2,288**
Due from the Law Society	-	-	-	-	-	8,024	**8,024**
Reinsurers' share of provisions for unpaid claims and adjustment expenses	-	-	43,794	-	-	-	**43,794**
Other receivables	-	-	-	-	-	1,766	**1,766**

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

c) Liquidity risk

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

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

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

The following tables summarize the carrying amounts of financial instruments and insurance assets and liabilities 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, 2017				
	Within one year	One to five years	More than five years	No fixed maturity	**Total**
Assets					
Cash and cash equivalents	$ 20,245	-	-	-	**20,245**
Investments – designated as FVTPL	54,551	110,650	191,106	470	**356,777**
Investments – available-for-sale	45,376	124,375	5,622	124,401	**299,774**
Investment income due and accrued	2,852	-	-	-	**2,852**
Due from reinsurers	309	-	-	-	**309**
Due from insureds	1,882	-	-	-	**1,882**
Reinsurers' share of unpaid claims	9,591	20,019	7,564	2,321	**39,495**
Due from Law Society	6,998	-	-	-	**6,998**
Other receivable	3,167	-	-	-	**3,167**
Total	**$ 144,971**	**255,044**	**204,292**	**127,192**	**731,499**
Liabilities					
Provision for unpaid claims	103,950	249,289	99,441	32,408	**485,088**
Due to reinsurers	720	-	-	-	**720**
Due to insureds	220	-	-	-	**220**
Expenses due and accrued	2,217	-	-	-	**2,217**
Total	**$ 107,107**	**249,289**	**99,441**	**32,408**	**488,245**

		DECEMBER 31, 2016				
		Within one year	One to five years	More than five years	No fixed maturity	**Total**
Assets						
Cash and cash equivalents	$	15,911	-	-	-	**15,911**
Investments – designated as FVTPL		37,503	128,157	187,821	373	**353,854**
Investments – available-for-sale		36,901	111,973	24,660	119,025	**292,559**
Investment income due and accrued		2,434	-	-	-	**2,434**
Due from reinsurers		503	-	-	-	**503**
Due from insureds		2,228	-	-	-	**2,228**
Reinsurers' share of unpaid claims		10,707	22,023	8,127	2,937	**43,794**
Due from Law Society		8,024	-	-	-	**8,024**
Other receivable		1,766	-	-	-	**1,766**
Total	**$**	**116,037**	**262,153**	**220,608**	**122,335**	**721,133**
Liabilities						
Provision for unpaid claims	$	101,267	241,914	93,477	35,510	**472,168**
Due to reinsurers		673	-	-	-	**673**
Due to insureds		280	-	-	-	**280**
Expenses due and accrued		1,456	-	-	-	**1,456**
Total	**$**	**103,676**	**241,914**	**93,477**	**35,510**	**474,577**

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.

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

The following chart provides the estimated increase (decrease) on the Company's net investment income, net provision for unpaid claims and adjustment expenses, and after-tax OCI, after an immediate parallel increase or decrease of 1% in interest rates as at December 31 across the yield curve in all markets.

		DECEMBER 31, 2017			DECEMBER 31, 2016		
		Net investment income	Net provision for unpaid claims and adjustment expenses	After-tax OCI	Net investment income	Net provision for unpaid claims and adjustment expenses	After-tax OCI
Interest rates	+1%	(13,338)	(15,625)	(2,328)	(13,832)	(15,289)	(2,466)
	-1%	14,087	15,290	2,419	14,661	14,399	2,520

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

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

		2017	2016
		After-tax OCI	
Equity prices	+10%	9,143	8,748
	-10%	(9,143)	(8,748)

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.

	2017		2016	
Currency	Effect on profit (loss) before taxes (+/-)	Effect on OCI (+/-)	Effect on profit (loss) before taxes (+/-)	Effect on OCI (+/-)
US Dollar	432	3,476	320	3,528
Euro	-	1,343	-	1,189
Other	-	1,221	-	966
	432	**6,040**	**320**	**5,683**

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

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

	DECEMBER 31, 2017					
	Cash and cash equivalents	Fixed income securities	Equities	Investment income due and accrued	**Total**	**% of total**
Canada	$ 20,220	528,424	41,212	2,605	**592,461**	**87.2%**
USA	25	-	42,593	43	**42,661**	**6.3%**
France	-	-	8,572	19	**8,591**	**1.3%**
Japan	-	-	8,183	15	**8,198**	**1.2%**
Others	-	3,256	24,311	170	**27,737**	**4.0%**
Total	**$ 20,245**	**531,680**	**124,871**	**2,852**	**679,648**	**100.0%**

	DECEMBER 31, 2016					
	Cash and cash equivalents	Fixed income securities	Equities	Investment income due and accrued	**Total**	**% of total**
Canada	$ 12,708	523,743	39,874	2,172	**578,497**	**87.0%**
USA	3,203	-	45,065	55	**48,323**	**7.3%**
France	-	-	9,074	18	**9,092**	**1.4%**
Netherlands	-	-	5,837	12	**5,849**	**0.9%**
Others	-	3,272	19,548	177	**22,997**	**3.4%**
Total	**$ 15,911**	**527,015**	**119,398**	**2,434**	**664,758**	**100.0%**

21. Contingent Asset

In 2013, the *Income Tax Act* was amended to extend tax exempt status given to certain subsidiaries of Canadian municipalities to also include certain subsidiaries of public bodies performing a function of government in Canada. Transitional rules were also included to allow applicable taxpayers to refile on this tax exempt basis for their taxation years beginning after May 8, 2000. After completing a detailed and careful evaluation of the applicability of the new provisions to the Company, the Company believes that it is probable that a refund claim would be successful. Accordingly, during 2014 the Company began filing as a tax exempt organization for income tax purposes, and has requested full retrospective exemption back to its 2001 taxation year. The income tax payments relating to taxation years 2001 onwards total as much as $83,624,761. The exemption would also give rise to significant ongoing future income tax savings, but the Company's deferred income tax asset would be of nil value.

LAWYERS' PROFESSIONAL INDEMNITY COMPANY
REPORT TO AUDIT AND FINANCE COMMITTEE - LAW SOCIETY OF ONTARIO
MANDATORY E&O INSURANCE PROGRAM
YEAR ENDED DECEMBER 31, 2017

PREMIUMS

- The 2017 Ontario mandatory professional liability program performed slightly better than expected. Overall, written premiums were slightly above expected levels. At December 31, 2017, there were 26,702 full-time equivalent practitioners, compared with the budgeted amount of 26,700.

- For 2017, transaction levies were $1.8 million above budget, but $0.4 million below the results for the same period in 2016, due to better than expected real estate filings.

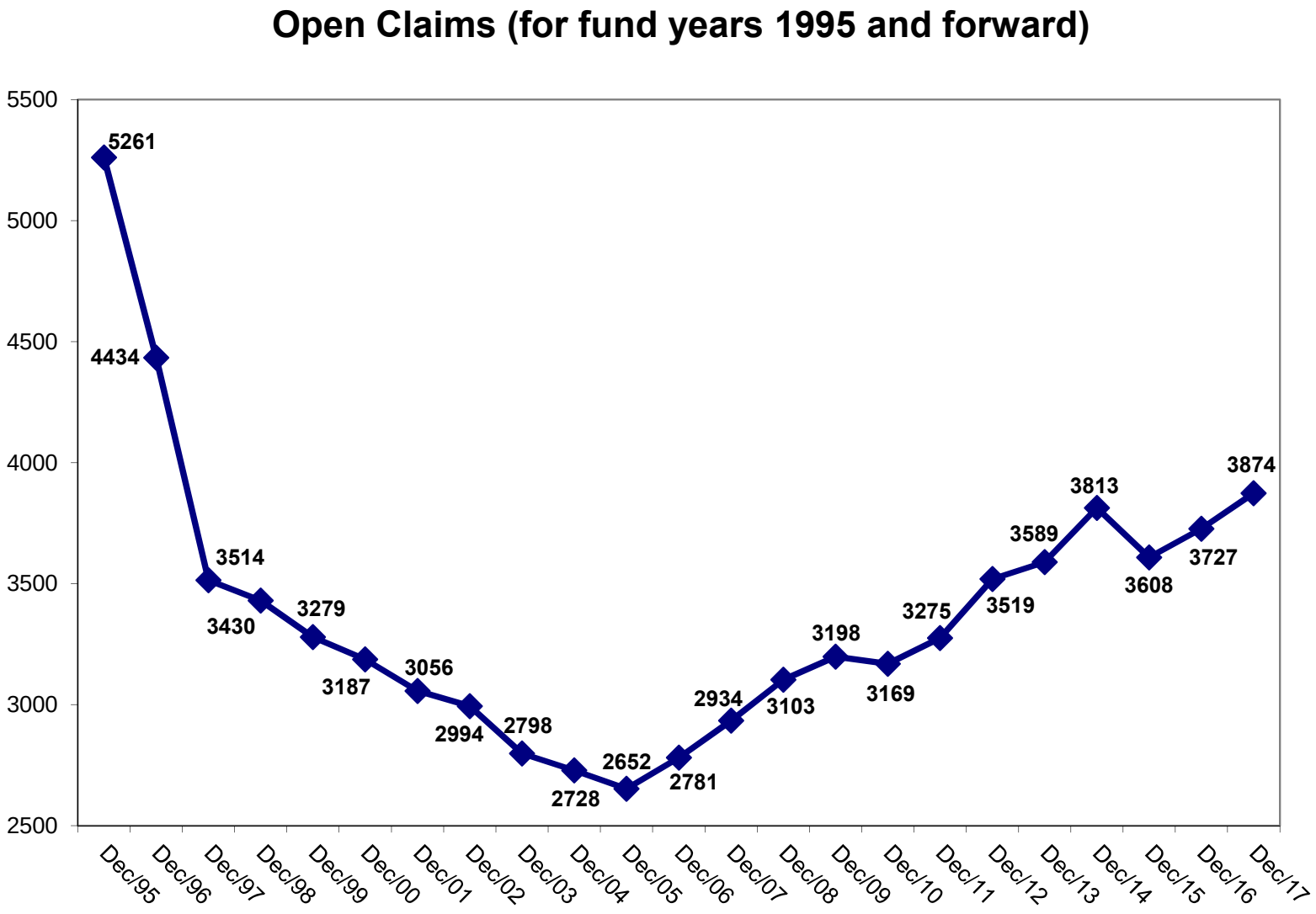
CLAIMS & ADJUSTMENT EXPENSES

- In the year of 2017, there were 2,361 new 2017 fund year claim files reported compared with 2,269 new 2016 fund year claim files reported in 2016.

- The number of files remaining open at December 31, 2017 was 3,874, higher than the 3,727 files remaining open at December 31, 2016.

- For all fund years, 2,910 new files were opened through the year ended December 31, 2017 (including 153 which were reopened) and 2,763 closed. The comparable figures for the year ended December 31, 2016 were 2,796 claims files activated (including 180 which were reopened) and 2,677 closed.

On an aggregate basis, for the year of 2017 there has been a significant net favorable development on claims of prior years (in particular fund years 2009, 2013, 2015 and 2016, offset somewhat by an unfavourable development for fund years 2011 and 2012). Regarding prior year development, in the same period in 2016, there was a significant net favourable development on claims of prior years (in particular fund years 2012 through 2015 offset somewhat by an unfavourable development for the fund year 2009).


Open Claims (for fund years 1995 and forward)
5500
5000
4500
4000
3500
3000
2500
5261
4434
3514
3430
3279
3187
3056
2994
2798
2728
2652
2781
2934
3103
3198
3169
3275
3519
3589
3813
3608
3727
3874
Dec/95
Dec/96
Dec/97
Dec/98
Dec/99
Dec/00
Dec/01
Dec/02
Dec/03
Dec/04
Dec/05
Dec/06
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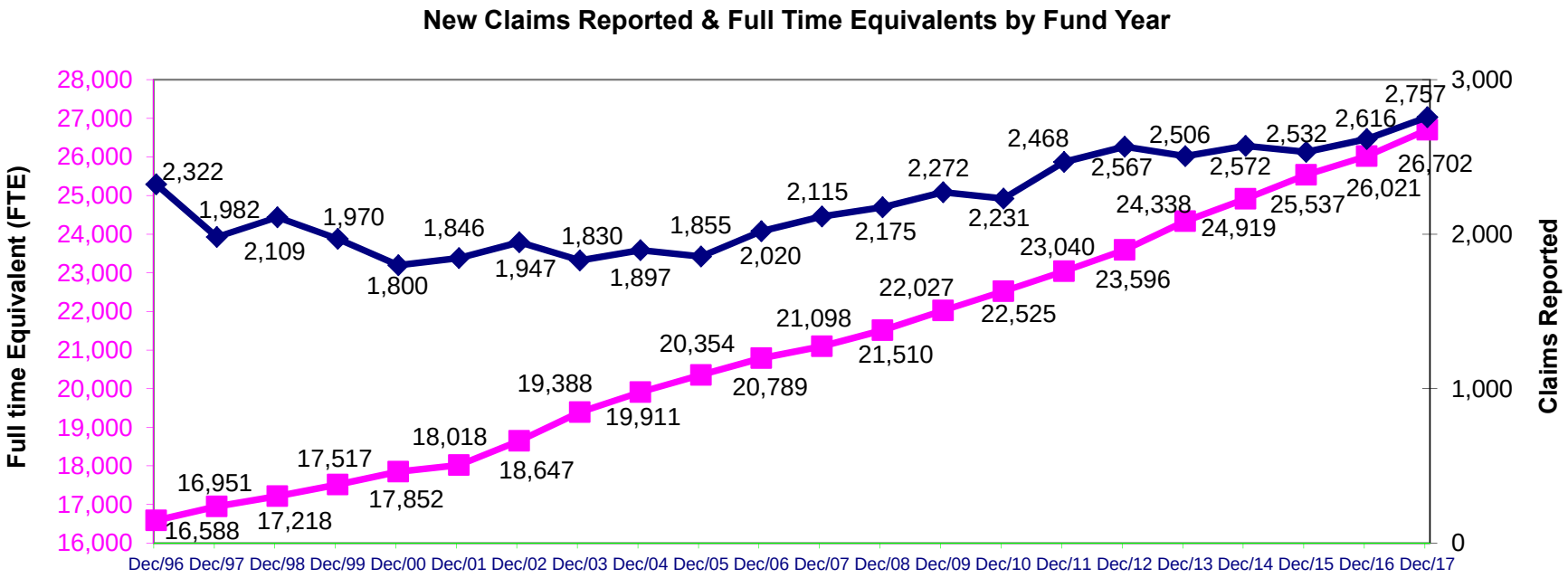
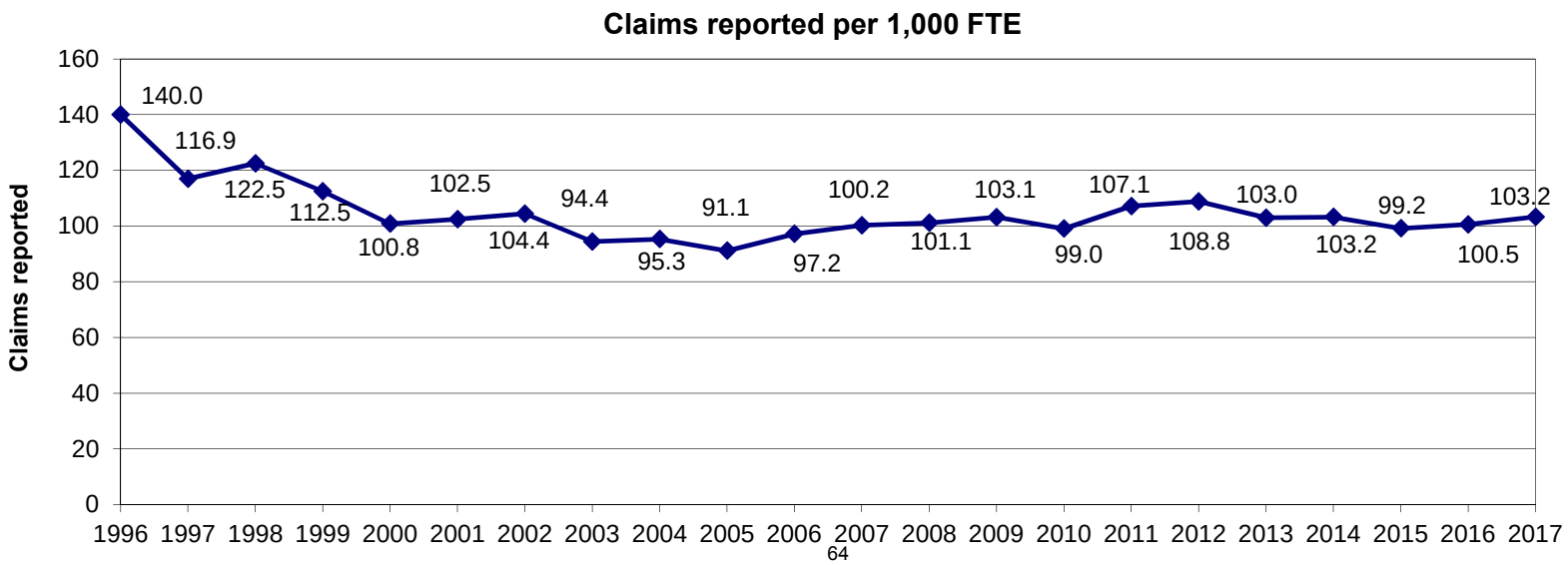
Dec/10
Dec/11
Dec/12
Dec/13
Dec/14
Dec/15
Dec/16
Dec/17


New Claims Reported & Full Time Equivalents by Fund Year
Full time Equivalent (FTE)
Claims Reported
28,000
27,000
26,000
25,000
24,000
23,000
22,000
21,000
20,000
19,000
18,000
17,000
16,000
3,000
2,000
1,000
0
2,322
1,982
2,109
1,970
1,800
1,846
1,947
1,830
1,897
1,855
2,020
2,115
2,175
2,272
2,231
2,468
2,567
2,506
2,572
2,532
2,616
2,757
16,588
16,951
17,218
17,517
17,852
18,018
18,647
19,388
19,911
20,354
20,789
21,098
21,510
22,027
22,525
23,040
23,596
24,338
24,919
25,537
26,021
26,702
Dec/96 Dec/97 Dec/98 Dec/99 Dec/00 Dec/01 Dec/02 Dec/03 Dec/04 Dec/05 Dec/06 Dec/07 Dec/08 Dec/09 Dec/10 Dec/11 Dec/12 Dec/13 Dec/14 Dec/15 Dec/16 Dec/17


Claims reported per 1,000 FTE
Claims reported
160
140
120
100
80
60
40
20
0
140.0
116.9
122.5
112.5
100.8
102.5
104.4
94.4
95.3
91.1
97.2
100.2
101.1
103.1
99.0
107.1
108.8
103.0
103.2
99.2
100.5
103.2
1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017

INSURANCE RATIOS[1]

TEST	RECOMMENDED TARGET	DEC 2017	DEC 2016	DEC 2015
I. Solvency Ratios				
1. Minimum Capital Test				
(Measures the excess of capital available to capital required based on a risk-based capital adequacy framework and is used to determine capital adequacy of a company.)	Preferred: **215**-240% Minimum: 170%	237%	253%	268%
2. Loss reserves to equity				
(Measures unpaid claim and adjustment reserves as a percentage of surplus and provides a simple test of the leveraged position of the company.)	Preferred: < 225% Maximum: 250%	176%	169%	175%
II. Other Select Ratios				
1. Liabilities as a % of liquid assets				
(Liabilities as a percentage of Cash and other liquid assets-measures company's ability to meet its financial demands.)	Preferred: < 80% Maximum: 105%	67%	65%	66%
2. Net premiums written as a % of surplus				
(Net risk ratio measures the company's ability to absorb financial shocks. The higher the ratio of premiums to surplus, the greater is the potential risk borne by the company in relation to the surplus available to absorb loss variations.)	Preferred: < 80% Maximum: 100%	43%	46%	51%
3. Comprehensive return on equity				
(Measures an insurer's comprehensive income as a percentage of equity. The higher the ratio, the greater the return to shareholders per unit of invested capital. Sustainability of earnings is more important than periods of high returns followed by periods of low returns or losses.)	Greater than 0%	0.1%	6.3%	13.2%
4. General expense ratio				
(Measures an insurer's general expenses, excluding commissions, as a percentage of net earned premiums.). This ratio should be maintained at lower than or equal to comparable small insurance companies.	Up to small insurance company benchmark (29% as at Dec 2016)	22%	20%	18%
5. Optional business segment				
(Excess program and TitlePLUS title insurance is planned to achieve break-even or better on a trailing 4 year average basis).	Greater than $0 (stated in $'000s)	670	995	494

Note:

1. Sufficient to maintain/grow MCT.

Better Than Target
Within Target
Outside of Target

CIBC Asset Management Inc.
18 York Street, Suite 1400
Toronto ON M5J 2T8
Tel: 416-364-5620
Fax: 416-364-3286

Confidential

February 1, 2018

Subject: Quarterly Compliance Report as at December 31, 2017 for Lawyers' Professional Indemnity Company

As of and for the quarter ending December 31, 2017, we hereby certify that to the best of our knowledge the investments in the Lawyers' Professional Indemnity Company portfolio were in compliance, based on our records which are issued on a trade date basis, in accordance with the Investment Policy Statement dated January 1, 2017.

Yours truly,

Deborah Lewis, CFA
First Vice-President

LETKO BROSSEAU

GESTION DE PLACEMENTS GLOBALE
GLOBAL INVESTMENT MANAGEMENT
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Toronto, ON M5H 1J8
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(800) 307-8557
(647) 426-1587

February 12, 2018

Lawyer's Professional Indemnity Company
C/O Ms. Kathleen A. Waters, President & CEO
250 Yonge Street, Suite 3101
P.O. Box 3
Toronto, Ontario
M5B 2L7

SUBJECT: COMPLIANCE CERTIFICATE

Dear Ms. Waters,

This is to confirm that, at the end of each month of the quarter ending December 31, 2017, Letko Brosseau was in compliance with the requirements of the Statement of Investment Policies and Procedures, effective January 1st, 2017. To the best of our knowledge, we have no reason to believe that we were not in compliance with all such requirements at any other time during such period.

Should you require additional information, please do not hesitate to contact us at your convenience.

Regards,

Original letter signed by Peter Letko

P Letko

Peter Letko
Letko Brosseau & Associates Inc.
PL/mn

TAB 2.6.3

FOR INFORMATION

LIBRARYCO INC. – AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

46. **The audited Financial Statements for LibraryCo Inc. for the year ended December 31, 2017 are attached for information.**

47. LibraryCo, 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.

48. LibraryCo's Annual Financial Statements have been approved by LibraryCo's Board.

LIBRARYCO INC.

Financial Statements for the year ended December 31, 2017

LIBRARYCO INC.

MANAGEMENT DISCUSSION AND ANALYSIS

DECEMBER 31, 2017

Results of Operations

Results for the year identify a surplus of $93,000 compared to a deficit of $74,000 in 2016 and a budgeted deficit in 2017 of $159,000, with the use of the General Fund financing increased expenditures.

The surplus for the year has increased the General Fund balance to $272,000 and the Reserve Fund balance is unchanged at $500,000.

The main reason for the surplus was the budget allocated to LibraryCo's transition process remaining unspent at year end. LibraryCo's biggest expense, the grants to county law libraries, was in line with budget and increased from 2016. Virtually all other expense categories were under budget with the exception of Special Needs grants.

Statement of Revenues and Expenses — Revenues

The Law Society grant totalled $7.8 million (2016 - $7.7 million).

Statement of Revenues and Expenses — Expenses

The administration expense of $305,000 in 2017 is the administration fee paid to the Law Society. It remained unchanged from 2016.

The Transition expense budget went unspent in 2016. Transition expenses in 2016 of $123,000 related to a user needs survey.

Electronic product expenses of $339,000 remained consistent in 2017 and 2016.

County and District law libraries grants of $6.6 million (2016 - $6.5 million) are detailed by county in the notes to the financial statements and include both the annual grants approved as part of the budget process and also special needs grants. All counties received increases and there were more Special Needs grants in 2017 compared to the prior year.

Balance Sheet and Statement of Changes in Fund Balances

The accounts receivable total has increased from $20,000 to $42,000 due to the timing of benefit premium refunds. Accrued liabilities decreased from $96,000 to $22,000 largely due to expenses related to the transition process in 2016.

The General Fund accounts for the delivery, management and administration of library services. The General Fund has increased by the surplus of $93,000 to $272,000 over the last 12

months. LibraryCo’s budget for 2018 envisages using $159,000 of this fund balance to finance operations.

The Reserve Fund has an unchanged balance of $500,000. In accordance with Board policy, it comprises a general component of $200,000, a capital and special needs component of $150,000, and a staffing and severance component of $150,000.

March 28, 2018

Independent Auditor's Report

To the Board of Directors of
LibraryCo Inc.

We have audited the accompanying financial statements of LibraryCo Inc., which comprise the balance sheet as at December 31, 2017 and the statements of revenues and expenses, changes in fund balances and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these 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.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of LibraryCo Inc. as at December 31, 2017 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

LIBRARYCO INC.
Balance Sheet
Stated in dollars
As at December 31

	2017	2016
Assets		
Current Assets		
Cash	**318,978**	321,233
Short-term investments	**403,167**	403,167
Accounts receivable	**42,022**	19,871
Prepaid expenses	**30,415**	30,881
Total Assets	**794,582**	775,152
Liabilities, Share Capital and Fund Balances		
Current Liabilities		
Accounts payable and accrued liabilities (notes 4 and 6)	**22,299**	95,595
Total Liabilities	**22,299**	95,595
Share Capital and Fund Balances		
Share capital (notes 1 and 5)	**200**	200
General fund (note 2)	**272,083**	179,357
Reserve fund (note 2)	**500,000**	500,000
Total Share Capital and Fund Balances	**772,283**	679,557
Total Liabilities, Share Capital and Fund Balances	**794,582**	775,152

See accompanying notes

LIBRARYCO INC.
Statement of Revenues and Expenses
Stated in Dollars
For the year ended December 31

	2017	2016
Revenues		
Law Society of Upper Canada grant (note 6)	7,815,300	7,662,000
Interest income	6,742	4,915
Total Revenues	7,822,042	7,666,915
Expenses		
Head Office/Administration		
Administration	305,000	305,000
Professional fees	12,738	12,540
Transition expenses	-	122,646
Other (note 7)	16,561	23,402
Total Head Office/Administration Expenses	334,299	463,588
Law Libraries - Centralized Purchases		
Electronic products and services	339,000	339,000
Group benefits	291,460	310,756
Other (note 8)	125,251	134,338
Total Law Libraries - centralized purchases	755,711	784,094
County and District Law Libraries Grants (note 9)	6,639,306	6,492,957
Total County and District Law Libraries Expenses	7,395,017	7,277,051
Total Expenses	7,729,316	7,740,639
Surplus (Deficit) for the year	92,726	(73,724)

See accompanying notes

LIBRARYCO INC.

Statement of Changes in Fund Balances

Stated in Dollars

For the year ended December 31

	2017			2016
	General Fund	Reserve Fund	**Total**	Total
Balances, beginning of year	179,357	500,000	**679,357**	753,081
Surplus (Deficit) for the year	92,726	-	**92,726**	(73,724)
Balances, end of year	**272,083**	**500,000**	**772,083**	679,357

See accompanying notes

LIBRARYCO INC.
Statement of Cash Flows
Stated in dollars
For the year ended December 31

	2017	2016
Net (outflow) inflow of cash related to the following activities		
Surplus (Deficit) for the year	**92,726**	**(73,724)**
Net change in non-cash operating working capital items:		
Accounts receivable	**(22,151)**	**(2,837)**
Prepaid expenses	**466**	**21**
Accounts payable and accrued liabilities	**(73,296)**	**69,307**
Cash sourced (used) in operating activities	**(2,255)**	**(7,233)**
Investing activities		
Short-term investments	**-**	**389**
Net outflow of cash, during the year	**(2,255)**	**(6,844)**
Cash, beginning of year	**321,233**	**328,077**
Cash, end of year	**318,978**	**321,233**

See accompanying notes

LibraryCo Inc.
Notes to financial statements
For the year ended December 31, 2017

1. General

LibraryCo Inc. ("the Organization") 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 Upper Canada ("the Society").

The Organization has two classes of shares: Common shares and Special shares. The 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). The Society may appoint up to four directors, FOLA may appoint up to three directors and TLA may appoint one director.

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

Under an Administrative Services Agreement, the Society provides the administrative functions of the Organization.

2. Significant Accounting Policies

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

General and reserve funds
The Organization follows the restricted fund method.

The General Fund accounts for the delivery, management and administration of library services. The Reserve Fund is maintained to assist the Organization's cash flows and act as a contingency fund. In accordance with a Board resolution, the Reserve Fund will be maintained at a minimum of $500,000, comprising a general component of $200,000, a capital and special needs component of $150,000, and a staffing and severance component of $150,000; any expenses of this fund that would reduce the fund balance below $500,000 should be replenished in the following year.

Cash
Cash consists of amounts on deposit for less than 90 days.

Short-term investments
Short-term investments are amounts invested in short-term (less than one year) investment vehicles according to the Organization's investment policy.

Revenue recognition
Grants are recorded as revenue in the General Fund in the fiscal year in which they are received. Investment income is recognized when receivable, if the amount can be reasonably estimated.

Grants paid
Grants are recognized in the fiscal year in which they are paid.

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

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

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

4. Accounts Payable and Accrued Liabilities

There are no amounts payable for government remittances.

5. Share Capital

Authorized
Unlimited number of Common shares
Unlimited number of Special shares

Issued	**2017**	2016
100 Common shares	**$100**	$100
100 Special shares	**100**	100
	$200	$200

6. Related Party Transactions

The Society provided the Organization with a grant of $7,815,000 (2016: $7,662,000) during the year. The Society provides administrative services to the Organization (note 1) as well as certain other services and publications. The total amount billed by the Society for 2017 was $357,741 (2016: $401,861). Included in accounts payable and accrued liabilities are amounts due to the Society of $8,820 (2016: $11,244).

Lawyers' Professional Indemnity Company (“LAWPRO”) provides professional liability insurance to lawyers in Ontario and is also a wholly owned subsidiary of the Society. There were no transactions with LAWPRO during 2017 or 2016.

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

7. Other Expenses — Head Office/Administration

Included in these expenses are costs associated with administration by the Society, directors’ and officers’ insurance, Board of Directors’ meetings and other miscellaneous items.

8. 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.

9. County and District Law Library 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 the Organization’s Board of Directors. The following individual law library grants were distributed by the Organization during 2017 and 2016:

Law Association	2017	2016
Algoma	$ 139,690	$ 137,951
Brant	103,772	102,737
Bruce	57,877	56,742
Carleton	639,515	626,976
Cochrane	50,278	49,293
Dufferin	48,221	47,276
Durham	143,405	133,032
Elgin	79,067	77,516
Essex	290,927	285,223
Frontenac	138,360	135,667
Grey	68,533	67,190
Haldimand	30,941	30,334
Halton	145,380	142,549
Hamilton	464,788	455,675
Hastings	88,214	87,063

Huron	79,479	77,002
Kenora District	90,318	88,547
Kent	73,916	71,498
Lambton	77,547	77,027
Lanark	40,648	39,851
Leeds & Grenville	74,328	72,870
Lennox & Addington	27,527	27,987
Lincoln	184,708	181,086
Manitoulin	2,627	2,576
Middlesex	375,115	367,759
Muskoka	72,948	68,980
Nipissing	89,232	90,176
Norfolk	72,951	71,521
Northumberland	87,020	78,035
Oxford	73,631	72,187
Parry Sound	45,505	44,612
Peel	307,730	301,696
Perth	57,708	55,596
Peterborough	138,266	134,575
Prescott & Russell	14,394	14,112
Rainy River	27,916	27,368
Renfrew County	128,537	126,017
Simcoe County	145,330	143,481
Stormont, Dundas & Glengarry	80,286	78,711
Sudbury	193,910	190,108
Temiskaming	44,725	43,848
Thunder Bay	179,636	173,843
Toronto	608,753	596,816
Victoria-Haliburton	90,686	88,907
Waterloo	248,090	243,225
Welland County	98,144	95,239
Wellington	78,391	76,854
York	240,336	235,623
	$ 6,639,306	$ 6,492,957

TAB 2.6.4

FOR INFORMATION

INVESTMENT COMPLIANCE REPORTING

49. Investment Compliance Statements as at December 31, 2017 are attached for information.

LAW SOCIETY OF UPPER CANADA
STATEMENT OF INVESTMENT COMPLIANCE
SHORT TERM
As at December 31, 2017

Investment Parameters	Guidelines for Both	COMPENSATION Compliance	GENERAL Compliance
1. Asset Mix			
Federal & provincial treasury bills	Allowed	Yes	Yes
Bankers acceptances	Allowed	Yes	Yes
Commercial paper	Allowed	Yes	Yes
Investment manager Money Market Fund	Allowed	Yes	Yes
Premium Savings Account	Allowed	Yes	Yes
FGP S/T Invest Fund	Allowed	Yes	Yes
2. Quality Requirements			
Commercial paper rating	Min. R1	N/A	N/A
Liquidity	Max. term to maturity of 365	Yes	Yes
3. Quantity Restrictions			
Commercial paper of a single corporate issuer	Max. 8% of Fund	Yes	Yes
4. Other Restrictions			
Equity securities	None	Yes	Yes
Direct investments in:			
resource properties	None	Yes	Yes
mortgages and mortgage-backed securities	None	Yes	Yes
real estate	None	Yes	Yes
venture capital financings	None	Yes	Yes
Derivatives	None	Yes	Yes

Fred Grady
Senior Manager, Finance

LAW SOCIETY OF UPPER CANADA
STATEMENT OF INVESTMENT COMPLIANCE
LONG TERM
As at December 31, 2017

Investment Parameters	Guidelines	Target	COMPENSATION FUND Compliance	GENERAL FUND Compliance	E & O FUND Compliance
1. Asset Mix					
Cash and Short-Term	0 - 15%	0%	Yes	Yes	Yes
Equity investments	20 - 40%	30%	Yes	Yes	Yes
Bonds	45 - 80%	70%	Yes	Yes	Yes
2. Quality Requirements					
Bonds	Min. BBB		Yes	Yes	Yes
3. Quantity Restrictions					
Equities:					
Single holding	Max. 10%		Yes	Yes	Yes
Weight in portfolio > weight in S&P/TSX Composite Index	Varies		Yes	Yes	Yes
Derivatives etc.	None		Yes	Yes	Yes
Non-Canadian	None		Yes	Yes	Yes
Bonds:					
Government of Canada or Government of Canada guaranteed bonds	26-100%	46%	Yes	Yes	Yes
Provincial Government and Provincial Government guaranteed bonds and municipal bonds	0-38%	18%	Yes	Yes	Yes
Corporate Bonds*	0-56%	36%	Yes	Yes	Yes
Target for BBB bonds within corporate bonds of the fixed income portfolio	0-18%	8%	Yes	Yes	Yes

Fred Grady
Senior Manager, Finance

The Law Society of Upper Canada
General Fund
Manager: Foyston, Gordon & Payne Inc.
Compliance Report
(Period ending December 31, 2017)

1. Asset Mix:	Min.	Mid-Point	Max.	Compliance* (Y/N)
Cash & Short Term	0%	0%	15%	Y
Bonds	45%	70%	80%	Y
Total Fixed Income	**60%**	**70%**	**80%**	**Y**
Canadian Equity	**20%**	**30%**	**40%**	**Y**

Minimum bond rating "BBB" or better by the Dominion Bond Rating Service or equivalent rating by another recognized bond rating service.		**Y**
Minimum holding in Federal and Federally Guaranteed Bonds	FTSE TMX Short Term Bond Index Benchmark Weight minus 20%	**Y**
Provincials, Provincially Guarantees and Municipals	FTSE TMX Short Term Bond Index Benchmark Weight plus or minus 20%	**Y**
Maximum Total Corporate Issues	FTSE TMX Short Term Bond Index Benchmark Weight plus 20%	**Y**
Maximum Total Corporate BBB Issues	FTSE TMX Short Term Bond Index Benchmark Weight plus 10%	**Y**
Not more than 10% of the total market value of the bond portfolio will be invested in securities issued by a foreign issuer, or Canadian issuer.		**Y**
Bond portfolio duration 1 to 5 years.		**Y**
The Market value of any one common equity issuer cannot represent more than 10% of the market value of the total portfolio, or that equity's weight in the S&P/TSX Composite Index, whichever is greater.		**Y**

Note: In mid-June 2014 Law Society General Fund moved into the FGP Short Term Bond Fund from the segregated Short Term Bonds.

Investment policy dated February 23, 2017.

*If policy not complied with, comment on specifics.

Jan 26, 2018
Date:

Colin Ripsman
Colin Ripsman
Vice President & Portfolio Manager – Institutional Client Services

The Law Society of Upper Canada Compensation Fund

Manager: Foyston, Gordon & Payne Inc.

Compliance Report

(Period ending December 31, 2017)

1. Asset Mix:	Min.	Mid-Point	Max.	Compliance* (Y/N)
Cash & Short Term	0%	0%	15%	Y
Bonds	45%	70%	80%	Y
Total Fixed Income	**60%**	**70%**	**80%**	**Y**
Canadian Equity	**20%**	**30%**	**40%**	**Y**
Minimum bond rating "BBB" or better by the Dominion Bond Rating Service or equivalent rating by another recognized bond rating service.				**Y**
Each bond portfolio may be invested within the following parameters:				
Minimum holding in Federal and Federally Guaranteed Bonds	FTSE TMX Short Term Bond Index Benchmark Weight minus 20%			Y
Provincials, Provincially Guarantees and Municipals	FTSE TMX Short Term Bond Index Benchmark Weight plus or minus 20%			Y
Maximum Total Corporate Issues	FTSE TMX Short Term Bond Index Benchmark Weight plus 20%			Y
Maximum Total Corporate BBB Issues	FTSE TMX Short Term Bond Index Benchmark Weight plus 10%			Y
Not more than 10% of the total market value of the bond portfolio will be invested in securities issued by a foreign issuer, or Canadian issuer.				Y
Bond portfolio duration 1 to 5 years.				Y
The Market value of any one common equity issuer cannot represent more than 10% of the market value of the total portfolio, or that equity's weight in the S&P/TSX Composite Index, whichever is greater.				Y

Note: In mid-June 2014 Law Society Compensation Fund moved into the FGP Short Term Bond Fund from the segregated Short Term Bonds.

Investment policy dated February 23, 2017.

*If policy not complied with, comment on specifics.

Jan. 26, 2018

Date:

Colin Ripsman

Colin Ripsman
Vice President & Portfolio Manager – Institutional Client Services

FOYSTON, GORDON & PAYNE INC.

INVESTMENT COUNSEL

January 2018

Ms. Wendy Tysall
Chief Financial Officer
Osgoode Hall
Finance Dept., 1st Floor
130 Queen Street West
Toronto, Ontario
M5H 2N6

Dear Wendy:

Re: Manager Compliance Reporting

For the Law Society of Upper Canada Errors and Omissions Insurance Fund, we wish to confirm that the portfolio being managed by Foyston, Gordon & Payne Inc. was in compliance with the Fund's Investment Policy Statement dated February 23, 2017, for the quarter ending December 31, 2017.

Yours truly,

Colin Ripsman

Colin Ripsman
Vice President & Portfolio Manager –
Institutional Client Services

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