The Law Society of Upper Canada | Barreau du Haut-Canada

TAB 2

Report to Convocation
April 27, 2017

Audit & Finance Committee

Committee Members
Chris Bredt (Chair)
Suzanne Clément (Vice Chair)
Teresa Donnelly (Vice-Chair)
Peter Beach
Paul Cooper
Janis Criger
Seymour Epstein
Rocco Galati
Michelle Haigh
Vern Krishna
Gina Papageorgiou
Jan Richardson
Andrew Spurgeon
Cathy Strosberg
Tanya Walker

Purpose of Report: Decision & Information

Prepared by the Finance Department
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COMMITTEE PROCESS

1. The Audit & Finance Committee ("the Committee") met on April 5, 2017. Committee members in attendance were Suzanne Clément (Vice Chair), Teresa Donnelly (Vice Chair), Peter Beach, Paul Cooper, Janis Criger, Seymour Epstein, Michelle Haigh, Jan Richardson, Andrew Spurgeon and Cathy Strosberg.

2. Law Society staff in attendance: Robert Lapper, Wendy Tysall, Andrew Cawse and Brenda Albuquerque-Boutilier.

3. Also in attendance:
   - Kathleen Waters, President & CEO and Steve Jorgensen, Chief Financial Officer from LAWPRO
   - Michael Hawtin, Sadia Khan and Peter Fernandez from PwC
   - Tanya Bishop and Brian White from AON Hewitt.

TAB 2.1

FOR DECISION

LAW SOCIETY OF UPPER CANADA, DRAFT AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

Motion:

4. **That Convocation approve the audited Annual Financial Statements for the Law Society for the financial year ended December 31, 2016, including the interfund transfers listed in Note 13 of the financial statements.**

5. A representative from the Law Society's auditor, PricewaterhouseCoopers LLP (PwC), Sadia Khan will be in attendance.

Restricted Fund Transfers

6. 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.

7. 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:
   - $1,636,000 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;
   - $100,000 from the lawyer General Fund to the Repayable Allowance Fund, as provided in the 2016 budget to fund the Repayable Allowance Program in the Licensing Process;
   - $142,000 from the lawyer General Fund to the Special Projects Fund;
   - $96,000 from the lawyer General Fund to the Capital Allocation;
   - $71,000 from the lawyer General Fund to the County Libraries Fund.

Summary

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

9. The lawyer and paralegal General Funds, which account for the Society's program delivery and administrative activities, are reporting a combined operating surplus of $3.8 million (2015 - $2.3 million). The 2016 budget included the allocation of $1.2 million to the Lawyer General Fund from the accumulated surplus investment income in the Errors & Omissions Insurance Fund ("the E&O Fund") but this transfer was not required. The 2016 budget also projected a deficit in the Paralegal General Fund of $362,000 with the use of the accumulated balance, so operating results are better than budgeted. With the exception of a nominal negative variance in Annual Fees, all the major revenue categories exceeded budget. All the major expense categories were either very close to, or were less than budget.

10. The Society's restricted funds are reporting a combined deficit of $2.7 million in 2016 (2015 - $6.1 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 $2.1 million (2015 - $713,000 deficit).
    - The Errors & Omissions Insurance Fund is reporting a surplus of $1.2 million (2015 - $2.5 million deficit). In 2015, the E&O Fund had provided a $2.5 million premium contribution to reduce the lawyer's base insurance premium which was not repeated in 2016.
    - The Capital Allocation Fund experienced a surplus of $1.4 million (2015 – $1.1 million) dependent on the capitalization of projects during the year.
    - Amortization in the Invested in Capital and Intangible Assets Fund of $3.1 million (2015 - $3.7 million) was the significant contributor to the restricted funds deficit in the current year.

11. Further information can be found in the Management Discussion and Analysis forming part of the Annual Financial Statements. In addition to the Management Discussion & Analysis, supplementary information for Convocation is set out below and a comparison of actual to budget for the year is attached at the end of the statements.

Supplementary Management Discussion & Analysis - Provision for Cost Awards and Contingent Liability

12. Cost awards arising from the disciplinary process are occasionally awarded against the Law Society. The Hearing Division previously dismissed the Society's conduct application against Ms. DeMerchant and Mr. Sukonick and awarded each lawyer $250,000, for a total of $500,000.The Society appealed both the orders dismissing the applications and the orders awarding costs. Ms. DeMerchant and Mr. Sukonick filed a cross appeal of both costs orders, asking that the costs awards be increased.

13. The Appeal Division dismissed the Society's appeal of the orders and the decision on the costs motion for the appeal was released in early 2017. It allowed the lawyers' cross-appeal, ordering the Law Society to pay DeMerchant and Sukonick $650,000 each in costs of the hearing and $17,500 each in costs of the appeal. These additional costs, including post judgement interest on the original amounts of $250,000 were therefore added to the Provision for Cost Awards at the end of 2016. Costs of the appeal or the cross-appeal regarding costs were also settled early in 2017 with each lawyer being awarded a further $3,500.

14. At the end of March 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.

15. Along with the DeMerchant and Sukonick matters, at the current time, there are two other matters which may lead to significant cost awards against the Law Society. In compliance with generally accepted accounting principles, there is insufficient certainty for most of these cost awards to be accrued at this time as proceedings are not completed although there is a risk of significant awards in all of these proceedings. There is therefore a contingent liability note in the annual financial statements stating that the Society has determined that the ultimate settlement for costs awards could range from nil to approximately $1 million.

Communication from the Auditor

16. There are no management letter comments on internal controls from the auditor. A discussion on the other issue raised by the auditor is set out below.

HST Receivables

17. In Appendix B of their communication, the auditors have identified an adjusted item which, prior to adjustment, has the effect of overstating accounts receivable and overstating accounts payable by $886,158. This relates to reclassifying input tax credits recoverable from CRA related to HST paid on goods or services against the overall liability to CRA for HST billed and / or collected on sales such as member fee billing. The auditors concluded that the effect of this item is immaterial, although the amount has been adjusted as a result of their feedback.

THE LAW SOCIETY OF UPPER CANADA
2016 ANNUAL REPORT

Financial Statements

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THE LAW SOCIETY OF UPPER CANADA
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 surplus of $3.8 million (2015 - $2.3 million). The 2016 budget included the allocation of $1.2 million to the Lawyer General Fund from the accumulated surplus investment income in the Errors & Omissions Insurance Fund ("the E&O Fund") but this transfer was not required. The 2016 budget also projected a deficit in the Paralegal General Fund of $362,000 with the use of the accumulated balance, so operating results are better than budgeted. With the exception of a nominal negative variance in Annual Fees, all the major revenue categories exceeded budget. All the major expense categories were either very close to, or were less than budget. In comparing 2016 results to 2015 results, the size and nature of operations were substantially similar.

The Society's restricted funds are reporting a combined deficit of $2.7 million in 2016 (2015 - $6.1 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 $2.1 million (2015 - $713,000 deficit).
- The Errors & Omissions Insurance Fund is reporting a surplus of $1.2 million (2015 - $2.5 million deficit). In 2015, the E&O Fund had provided a $2.5 million premium contribution to reduce the lawyer's base insurance premium which was not repeated in 2016.
- The Capital Allocation Fund experienced a surplus of $1.4 million (2015 – $1.1 million) dependant on the capitalization of projects during the year.
- Amortization in the Invested in Capital and Intangible Assets Fund of $3.1 million (2015 - $3.7 million) was the significant 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 $77.7 million (2015 - $75.6 million) due to an increase in the number of licensees billed with the number of paralegals in particular rising in percentage terms. There were fluctuations in the individual fee components but the total annual fee per lawyer and paralegal was the same as 2015.

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 $110.6 million in 2016 (2015 - $113.1 million) with a reduction in transaction levies. The base premium for professional liability insurance coverage for Ontario

lawyers was $3,350 per lawyer, the same premium charged in 2015. 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 $21.7 million (2015 - $21.4 million).

- Licensing Process revenues from lawyer ($11.2 million) and paralegal candidates ($2 million) have increased to a total of $13.2 million (2015 - $12.9 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 three year pilot Law Practice Program (LPP) which commenced in the fall of 2014, providing lawyer licensing candidates the option of either articling or completing the LPP has been extended by Convocation for two additional licensing years. A comparison of candidate numbers is set out below:

	2016	2015
Candidate Registrants		
Lawyer	**2,302**	2,336
Paralegal	**1,360**	1,450
Candidates Licensed		
Lawyer	**2,188**	2,201
Paralegal	**994**	1,372

- Continuing Professional Development ("CPD") revenues from lawyers ($7.5 million) and paralegals ($977,000) is the same as 2015 at $8.5 million, and equalled budget. The shift toward online learning continues with more registrants viewing programs by live webcast or on demand. Starting in 2016, CPD is paperless for live programs and hardcopies of material are only published for select programs. Registrations are analyzed below:

Registration (all formats)	**2016**	2015
Paid programs	**39,390**	42,032
Nominal fee programs	**10,538**	10,997
Free programs	**4,116**	563
Total number of registrants	**54,044**	53,592

Other Revenue
Other Revenue of $8.8 million (2015 - $7.6 million) primarily comprises income from Ontario Reports, administrative fees, monitoring and enforcement recoveries and catering.

Expenses

Professional Regulation, Tribunals and Compliance
Total regulatory expenses have increased slightly to $28.6 million (2015 - $28.2 million) and are under budget. The biggest variable in this category is typically spending on outside counsel and expert witnesses which were

under budget and there were savings in adjudication costs. However during the year there were unbudgeted costs awarded against the Society arising out of regulatory proceedings which had an impact of nearly $900,000 in the current year.

The processing of files through the Intake, Complaints, Investigations and Discipline 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 for initiatives such as liaising with police and an increased focus on indigenous, refugee and mental health cases. This was confirmed in the CEO's operational review of the department leading to an increase in the number of staff in Investigations.

Professional Development & Competence
Total PD&C expenses have increased to $27.1 million (2015 - $25.5 million) and were nominally under budget. Staff were added for initiatives such as the expansion of paralegal licensing exams and servicing the large increase in requests for special accommodations during licensing exams such as rooms, proctors and software. As approved as part of the Mentoring Task Force Report in January 2016, the new Coach and Advisor Network has been a significant focus of attention in the Practice Supports and Resources department.

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 Systems, Facilities, Finance and Human Resources, were relatively static at $24 million (2015 - $23.8 million) and were under budget.

Convocation, Policy and Outreach
Convocation, policy and outreach expenses primarily comprises Policy, Equity & Public Affairs and bencher expenses decreased to $8.3 million (2015 - $8.8 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 $756,000 (2015 – $843,000) and in respect of expense reimbursements, these payments totalled $506,000 (2015 – $563,000).

Changes in Fund Balances

General Fund
Results for the year means the lawyer General Fund has increased by $2.2 million to $23.6 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 increased by $1.2 million. The paralegal General Fund balance is now $5.1 million. Because of the relatively short history of paralegal regulation there is no formal fund balance policy for the paralegal General Fund.

Restricted Funds
In 2016, the lawyer Compensation Fund deficit for the year amounted to $2.1 million reducing the Compensation Fund balance for lawyers to $12.8 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 2016, the Compensation Fund balance for paralegals increased to $597,000 after the surplus for the year of $156,000. Because of the relatively short history of paralegal regulation there is no formal fund balance policy for the paralegal Compensation Fund.

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 $4,997,000 plus contributed capital of $30,645,000.

Portfolio Investments
Portfolio investments are shown at fair value of $68.1 million (2015 - $66 million) with investment returns offsetting a small capital transfer from the E&O Fund portfolio. Investments comprise Canadian equities (20%) and Canadian fixed income investments (80%).

Provision for Unpaid Grants
The Compensation Fund provision for unpaid grants (that is, the amount reserved) has increased to $23 million (2015 - $19.7 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 some large alleged defalcations on the part of certain licensees. The Compensation Fund describes a major defalcation as being over 35 claims arising from the conduct of one licensee. Most of these claims are still being evaluated and in some instances related investigations are still ongoing. Based on the advice of the actuary, however, the Fund balance remains sufficient to absorb the potential exposure. The paralegal Compensation Fund provision for unpaid grants comprises $197,000 (2015 – $136,000) of the total Compensation Fund provision for unpaid grants.

Unclaimed Trust Funds
Unclaimed trust funds continue to increase, now totalling $5.1 million (2015 - $4.2 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.

Restricted Funds

Compensation Fund
The Lawyer Compensation Fund is reporting a deficit of $2.1 million (2015 – $713,000 deficit). The lawyer Compensation Fund annual fee income increased to $9.9 million (2015 - $8.6 million) in line with the increase in the levy from $225 to $254 per lawyer to assist in complying with the Fund Balance Management Policy

described in the notes to the financial statements and above. Lawyer Compensation Fund expenses have increased to $14.2 million (2015 - $9.3 million) based on the claims experience.

The paralegal fund is reporting a surplus of $156,000 (2015 – $15,000 surplus). The paralegal Compensation Fund annual fee income rose to $726,000 from $612,000.

Errors & Omissions Insurance Fund
The fund is reporting a surplus of $1.2 million (2015 - $2.5 million deficit) attributable to the investment income for the year with premiums recovered ($110.6 million) equaling premiums incurred. LAWPRO's base premium of $3,350 has not changed from 2015 with the increase in the number of insured lawyers offsetting the reduction in transaction levies.

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 and is well placed for the future.

April 27 2017

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, 2016 and the statements of revenue 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, 2016 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

		2016	2015
	Assets		
	Current Assets		
1	Cash	**27,174**	25,932
2	Short-term investments	**26,706**	22,990
3	Accounts receivable (notes 4, 5 and 8)	**10,222**	8,295
4	Prepaid expenses	**2,573**	1,958
5	**Total current assets**	**66,675**	59,175
6	Investment in subsidiaries (note 4)	**35,642**	35,642
7	Portfolio investments (note 6)	**68,136**	66,021
8	Capital assets (note 7)	**8,982**	10,166
9	Intangible assets (note 7)	**729**	1,019
10	**Total Assets**	**180,164**	172,023
	Liabilities and Fund Balances		
	Current Liabilities		
11	Accounts payable and accrued liabilities (note 8)	**13,423**	11,544
12	Deferred revenue	**15,783**	15,271
13	Due to LAWPRO (note 4)	**7,962**	7,569
14	**Total current liabilities**	**37,168**	34,384
15	Provision for unpaid grants/claims	**22,994**	19,652
16	Unclaimed trust funds (note 9)	**5,121**	4,226
17	**Total Liabilities**	**65,283**	58,262
	Fund Balances		
	General funds		
18	Lawyers	**23,602**	21,407
19	Paralegals	**5,065**	3,866
	Restricted funds (note 18)		
20	Compensation – lawyers	**12,825**	14,905
21	Compensation – paralegals	**597**	441
22	Errors and omissions insurance	**55,584**	54,342
23	Capital allocation	**6,529**	6,716
24	Invested in capital and intangible assets	**9,711**	11,185
25	Other	**968**	899
26	**Total Fund Balances**	**114,881**	113,761
27	**Total Liabilities and Fund Balances**	**180,164**	172,023

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

		2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
		General Fund Lawyer		**General Fund Paralegal**		**Restricted Funds (note 18)**		**Total**	
	Revenues								
1	Annual fees	**52,889**	51,380	**4,249**	4,039	**20,540**	20,191	**77,678**	75,610
2	Insurance premiums and levies	**-**	-	**-**	-	**110,617**	113,103	**110,617**	113,103
3	Professional development and competence	**18,563**	18,360	**3,150**	3,081	**-**	-	**21,713**	21,441
4	Investment income	**560**	624	**53**	59	**1,272**	1,544	**1,885**	2,227
5	Change in fair value of investments	**470**	(424)	**44**	(40)	**1,701**	(1,612)	**2,215**	(2,076)
6	Other (note 11)	**7,254**	6,826	**834**	824	**673**	(56)	**8,761**	7,594
7	**Total revenues**	**79,736**	76,766	**8,330**	7,963	**134,803**	133,170	**222,869**	217,899
	Expenses								
8	Professional regulation, tribunals and compliance	**26,166**	25,783	**2,478**	2,389	**-**	-	**28,644**	28,172
9	Professional development and competence	**24,800**	23,199	**2,343**	2,310	**-**	-	**27,143**	25,509
10	Corporate services	**21,915**	21,708	**2,086**	2,063	**-**	-	**24,001**	23,771
11	Convocation, policy and outreach (note 12)	**7,715**	8,105	**626**	671	**-**	-	**8,341**	8,776
12	Services to members and public	**3,937**	3,806	**225**	220	**-**	-	**4,162**	4,026
13	Allocated to Compensation Fund	**(7,401)**	(7,246)	**(627)**	(582)	**-**	-	**(8,028)**	(7,828)
14	Restricted (note 18)	**-**	-	**-**	-	**137,486**	139,314	**137,486**	139,314
15	**Total expenses**	**77,132**	75,355	**7,131**	7,071	**137,486**	139,314	**221,749**	221,740
16	**Surplus (Deficit)**	**2,604**	1,411	**1,199**	892	**(2,683)**	(6,144)	**1,120**	(3,841)
17	**Fund balances, beginning of year**	**21,407**	18,507	**3,866**	2,974	**88,488**	96,121	**113,761**	117,602
18	**Interfund transfers (notes 2 and 13)**	**(409)**	1,489	**-**	-	**409**	(1,489)	**-**	-
19	**Fund balances, end of year**	**23,602**	21,407	**5,065**	3,866	**86,214**	88,488	**114,881**	113,761

See accompanying notes

THE LAW SOCIETY OF UPPER CANADA

Statement of Cash Flows

Stated in thousands of dollars

For the year ended December 31

		2016	2015
	Net inflow of cash related to the following activities		
	Operating		
1	Surplus	**1,120**	(3,841)
	Items not affecting cash:		
2	Increase (decrease) in provision for unpaid grants	**3,342**	(1,781)
3	Amortization of capital assets	**2,357**	2,978
4	Amortization of intangible assets	**696**	719
5	Loss on disposal of capital assets	**57**	273
		7,572	(1,652)
	Net change in non-cash operating items:		
6	Accounts receivable	**(1,927)**	(5,301)
7	Prepaid expenses	**(615)**	183
8	Accounts payable and accrued liabilities	**1,879**	906
9	Due to LAWPRO	**393**	935
10	Deferred revenue	**512**	3,843
11	Fund contribution - unclaimed trusts	**895**	514
12	**Cash from operating activities**	**8,709**	(572)
	Investing		
13	Portfolio investments - net	**(2,115)**	12,379
14	Short-term investments - net	**(3,716)**	(2,710)
15	Capital and intangible asset additions	**(1,636)**	(2,606)
16	**Cash from investing activities**	**(7,467)**	7,063
17	**Net inflow of cash, during the year**	**1,242**	6,491
18	Cash, beginning of year	**25,932**	19,441
19	**Cash, end of year**	**27,174**	25,932

See accompanying notes

THE LAW SOCIETY OF UPPER CANADA
Notes to Financial Statements, December 31, 2016
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, 2016, the total number of lawyers and paralegals entitled to provide legal services in Ontario were 51,000 and 8,000 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, 2016, the lawyer fund balance was $23,602,000 (2015 – $21,407,000). The paralegal fund balance was $5,065,000 (2015 – $3,866,000).

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 scenarios (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.

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 2016, the total allocated costs amounted to $8,028,000 (2015 – $7,828,000).

At December 31, 2016, the lawyer share of the fund balance was $12,825,000 (2015 – $14,905,000) and the paralegal share of the fund balance was $597,000 (2015 – $441,000).

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. In 2016, no funds (2015 - $2.5 million) were drawn from the available surplus in the E&O Fund built up in prior years to be applied to the insurance premium.

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 2016 and 2015.

At December 31, 2016, the E&O Fund balance was $55,584,000 (2015 – $54,342,000) of which $35,642,000 (2015 – $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, 2016, the balance was $6,529,000 (2015 – $6,716,000).

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, 2016, the balance was $9,711,000 (2015 – $11,185,000), 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, 2016 and 2015 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, 2016, the balance was $94,000 (2015 – $188,000).

The Special Projects Fund is maintained to ensure that financing is available for ongoing special projects approved by Convocation. The balance at December 31, 2016 was $417,000 (2015 – $275,000).

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, 2016, the Fund balance was $457,000 (2015 – $436,000).

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 $108,714,000 (2015 – $102,256,000). 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 $10,222,000 (2015 – $8,295,000). 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 & competence, and 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 and insurance premiums 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 1.44% (2015 – 1.53%).

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:

	2016	2015
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. In the period from 1995 to 1997, the Society transferred a net amount of $30,600,000 in capitalization funding as contributed surplus to LAWPRO.

Summarized balance sheet of LAWPRO:

($000's)	**2016**	2015
Total assets	**730,717**	702,982
Total liabilities	**477,251**	464,929
Total shareholder's equity	**253,466**	238,053
Total liabilities and shareholder's equity	**730,717**	702,982

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

($000's)	**2016**	2015
Revenue	**134,906**	141,039
Expenses	**123,428**	102,580
Income before taxes	**11,478**	38,459
Income tax expense	**2,839**	10,015
Net income	**8,639**	28,444
Other comprehensive income net of tax	**6,774**	984
Comprehensive income	**15,413**	29,428

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

($000's)	**2016**	2015
Net cash inflow from operating activities	**18,619**	20,263
Net cash outflow from investing activities	**(25,305)**	(14,994)
Cash and cash equivalents, beginning of year	**22,597**	17,328
Cash and cash equivalents, end of year	**15,911**	22,597

LAWPRO administers the operations of the E&O Fund at no charge, under an administrative services agreement. LAWPRO billed the Society $110,617,000 (2015 – $115,603,000) for premiums during the year. LAWPRO contributed $219,000 primarily to a wellness program provided by the Society to its members (2015 - $188,000). 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 $7,962,000 (2015 – $7,569,000).

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:

($000's)	**2016**	2015
Total assets	**775**	780
Total liabilities	**96**	26
Total share capital and fund balances	**679**	754
Total liabilities, share capital and fund balances	**775**	780

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

($000's)	**2016**	2015
Total revenue	**7,667**	7,702
Total expenses	**7,741**	7,590
(Deficit)Surplus	**(74)**	112

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

($000's)	**2016**	2015
Net cash inflow (outflow) from operating activities	**(7)**	185
Cash, beginning of year	**328**	143
Cash, end of year	**321**	328

The Society provided LibraryCo with a grant of $7,662,000 (2015 - $7,696,000) 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 2016 was $402,000 (2015: $502,000). 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 $11,000 (2015 – $6,000).

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 receivable are amounts due from the LSF of $1,000 (2015 – $59,000).

6. Portfolio Investments

($000's)	**2016**	2015
Debt securities	**54,833**	53,335
Canadian equities	**13,303**	12,686
Total portfolio investments	**68,136**	66,021

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

	2016	2015
Effective interest rates (%)	**0.5 – 2.8**	0.4 – 3.6
Maturity dates (years)	**1 - 6**	1 - 6

7. Capital Assets

($000's)	**2016**			2015
	Cost	**Accumulated Amortization**	**Net**	Net
Land and buildings	**25,395**	**22,724**	**2,671**	3,222
Building and leasehold improvements	**25,526**	**19,404**	**6,122**	6,690
Furniture, equipment and computer hardware	**3,320**	**3,131**	**189**	254
Total capital assets	**54,241**	**45,259**	**8,982**	10,166

Intangible Assets

($000's)	**2016**			2015
	Cost	**Accumulated Amortization**	**Net**	Net
Computer software	**6,613**	**5,884**	**729**	1,019
Total intangible assets	**6,613**	**5,884**	**729**	1,019

8. Accounts Payable and Accrued Liabilities and Accounts Receivable

Included in accounts payable is $427,000 in government remittances, primarily sales taxes (2015 – $617,000).

The accounts receivable balance comprises:

($000's)	**2016**	2015
Accounts receivable	**25,165**	25,120
Allowance for doubtful accounts	**14,943**	16,825
Accounts receivable – net	**10,222**	8,295

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 $5,121,000 (2015 – $4,226,000).

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, 2016, total funds held in trust amount to $4,378,000 (2015 – $4,942,000).

11. Other Revenues

Other Revenue primarily comprises 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 $756,000 (2015 – $843,000). The total expense reimbursements of the elected, ex-officio benchers and lay benchers during the year was $506,000 (2015 – $563,000). The Treasurers' honorarium expense for the year was $192,000 (2015 – $191,000).

13. Interfund Transfers

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

- $1,636,000 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;

- $100,000 from the lawyer General Fund to the Repayable Allowance Fund, as provided in the 2016 budget to fund the Repayable Allowance Program in the Licensing Process;
- $142,000 from the lawyer General Fund to the Special Projects Fund;
- $96,000 from the lawyer General Fund to the Capital Allocation Fund;
- $71,000 from the lawyer General Fund to the County Libraries 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, elect 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 2016 amounted to $2,572,000 (2015 – $2,521,000).

15. Commitments

The Society is committed to monthly lease payments 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:

2017	$931,000
2018	$1,776,000
2019	$1,945,000
2020	$2,011,000
2021	$2,169,000
Thereafter	$15,533,000
Total	$24,365,000

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 $145,000 in 2017 increasing by 2% per annum for the next four years.

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. Except as set out in the next paragraph, 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.

Members failing to meet their professional and ethical obligations are subject to the Society's regulatory process. Regulatory proceedings may result in cost awards against the Society. At the end of 2016, in management's judgement, there is at least a reasonable possibility that a contingent liability relating to one or more cost awards may exist but the amount of any losses cannot be reliably estimated. From its regulatory proceedings, the Society has determined that the ultimate settlement for costs awards could range from nil to approximately $1 million.

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.

		2016								2015
		Compensation Fund								
		Lawyer	Paralegal	Errors and omissions insurance	Capital allocation	Invested in capital and intangible assets	County libraries	Other restricted	Total Restricted funds	Total
1	**Fund balances, beginning of year**	**14,905**	**441**	**54,342**	**6,716**	**11,185**	**-**	**899**	**88,488**	96,121
	Revenues									
2	Annual fees	9,939	726	-	2,084	-	7,591	200	20,540	20,191
3	Insurance premiums and levies	-	-	110,617	-	-	-	-	110,617	113,103
4	Investment income	731	69	472	-	-	-	-	1,272	1,544
5	Change in fair value of investments	916	87	698	-	-	-	-	1,701	(1,612)
6	Other	548	52	-	130	(57)	-	-	673	(56)
7	**Total revenues**	**12,134**	**934**	**111,787**	**2,214**	**(57)**	**7,591**	**200**	**134,803**	133,170
	Expenses									
8	Allocated expenses	7,401	627	-	-	-	-	-	8,028	7,828
9	Direct expenses	6,813	151	110,545	861	3,053	7,662	373	129,458	131,486
10	**Total expenses**	**14,214**	**778**	**110,545**	**861**	**3,053**	**7,662**	**373**	**137,486**	139,314
11	**(Deficit) Surplus**	(2,080)	156	1,242	1,353	(3,110)	(71)	(173)	(2,683)	(6,144)
12	**Interfund transfers**	-	-	-	(1,540)	1,636	71	242	409	(1,489)
13	**Fund balances, end of year**	**12,825**	**597**	**55,584**	**6,529**	**9,711**	**-**	**968**	**86,214**	88,488

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

Unaudited
Stated in thousands of dollars
For the year ended December 31

		2015 Actual	2016 Actual	Budget YTD	Variance
	REVENUES				
1	Annual fees	55,419	**57,138**	**57,539**	**(401)**
2	Professional development and competence	21,440	**21,713**	**20,138**	**1,575**
3	Investment income	683	**613**	**775**	**(162)**
4	Change in fair value of investments	(463)	**514**	**-**	**514**
5	Other	7,651	**8,088**	**7,068**	**1,020**
6	**Total revenues**	84,730	**88,066**	**85,520**	**2,546**
	EXPENSES				
7	Professional regulation, tribunals and compliance	28,172	**28,644**	**29,393**	**749**
8	Professional development and competence	25,509	**27,143**	**27,420**	**277**
9	Corporate services	23,771	**24,001**	**24,419**	**418**
10	Convocation, policy and outreach	8,776	**8,341**	**10,456**	**2,115**
11	Services to members and public	4,026	**4,162**	**4,055**	**(107)**
12	Allocated to Compensation Fund	(7,828)	**(8,028)**	**(7,953)**	**75**
13	**Total expenses**	82,426	**84,263**	**87,790**	**3,527**
14	**Surplus (Deficit)**	**2,304**	**3,803**	**(2,270)**	**6,073**

TAB 2.4

REPORTS FOR INFORMATION

TAB 2.4.2

FOR INFORMATION

ANNUAL FINANCIAL STATEMENTS OF THE LAWYERS' PROFESSIONAL INDEMNITY COMPANY FOR THE YEAR ENDED DECEMBER 31, 2016

27. **The audited annual financial statements for the Lawyers' Professional Indemnity Company ("LAWPRO") for the year ended December 31, 2016 are attached for information.**

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

29. 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 Upper Canada

April 5, 2017

LawPRO®
Lawyers' Professional Indemnity Company
Assurance LawPRO®

Report to the Audit and Finance Committee – Law Society

April 5, 2017

INDEX

Key Point Summary

- *The 2016 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, 2016 was $8.6 million compared to an income of $28.4 million in 2015. Net premiums earned decreased by $4.6 million to $123.2 million in 2016. Investment income for 2016 was $17.4 million, a decrease of $1.1 million from 2015.*

- *Investment income for 2016 was impacted by $5.5 million of realized gains from regular trading during the year, a $5.2 million decrease in unrealized gains on the Company's asset-liability matched portfolio and a $0.9 million impairment expense relating to some equities that have experienced a significant or prolonged decline in value, compared to $5.7 million in realized gains, a $2.7 million decrease in unrealized gains, and a $3.7 million impairment expense in 2015.*

- *In 2016, LAWPRO earned a comprehensive total income of $15.4 million which includes 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, compared to a comprehensive income of $29.4 million during 2015 which included an increase in unrealized gains on its surplus investments of $1.5 million and a remeasurement loss on its defined benefit pension plan of $0.5 million.*

- *As a result of its comprehensive income, the Company increased its shareholder's equity by $15.4 million in 2016 compared to an increase of $29.4 million in 2015.*

- *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 57.*

- *Assets recorded in LAWPRO's financial statements are sufficient to discharge its claim liabilities at December 31, 2016. Investment assets, inclusive of cash and cash equivalent holdings and investment income due and accrued, total $664.8 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 58 and 59).*

- *There were 26,031 full-time equivalent lawyers covered under the Ontario Mandatory Professional Liability Program as at December 31, 2016, an increase of approximately 1.9% over 2015. The base annual premium per lawyer remained flat at $3,350 in 2016. The increase in premiums relating to more insureds entering the insurance program was offset by a drop in the premium contribution from the Errors & Omissions Insurance Fund in 2016 ($nil for 2016 compared to $2.5 million in 2015).*

- *Revenues for the Ontario Program's transaction levies and claims history surcharge levies amounted to $30.7 million in 2016, compared to $33.5 million in 2015. As the transaction levy guarantee mechanism between the Law Society's Errors & Omissions Insurance Fund and LAWPRO was discontinued effective the 2015 insurance program, the company adjusted its accrual calculation method accordingly, resulting in a one-time adjustment of $5.8 million in that year.*

- *The number of claims reported on the Ontario mandatory errors and omissions insurance program during 2016 was 2,616, therefore higher than the level experienced in 2015, and bringing the number of open claim files to 3,727. Claims relating to prior years developed favourably in the aggregate, resulting in a reduction in previously established net claims liabilities of $18.0 million for LAWPRO in 2016. However, this result was offset slightly by an increase in the current year losses incurred. The current fund year claims estimate is just over $107 million for 2016, higher than the adverse environment established in the 2007 through 2015 Fund Years.*

- *With the positive results in 2016, LAWPRO may expect to undergo the regulatory and accounting changes anticipated in the next two to five years with more margin for absorption than may otherwise have been expected. In particular, the significant adverse changes to the calculation of the Minimum Capital Test (MCT) released by the regulator effective 2015 are still being digested – while the Company's actual MCT ratio was 253% as at December 31, 2016, it would have been 242% without the benefit of the three-year, phase-in adjustment. Also, anticipated changes to various accounting standards for insurance contracts under the next phase of IFRS, as well as the accounting for investments and leases, could have an adverse impact on the Company's financial position and/or regulatory capital. Having the increase in shareholder's equity effective December 31, 2016 is positive in assisting with both of these issues.*

Lawyers' Professional Indemnity Company

Financial Statements

As at and for the year ended December 31, 2016

February 22, 2017

Independent Auditor's Report

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, 2016 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, 2016 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

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

Eckler

Appointed Actuary's Report

I have valued the policy liabilities including reinsurance recoverables of Lawyers' Professional Indemnity Company for its statement of financial position as at December 31, 2016, 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.

Toronto, Ontario
February 22, 2017

Brian G. Pelly
Fellow, Canadian Institute of Actuaries
Eckler Ltd.
110 Sheppard Avenue East, Suite 900
Toronto, Ontario M2N 7A3

Lawyers' Professional Indemnity Company
Statement of Financial Position
Stated in thousands of Canadian dollars

As at	December 31 2016	December 31 2015
Assets		
Cash and cash equivalents	15,911	22,597
Investments (note 5)	646,413	613,057
Investment income due and accrued	2,434	2,262
Due from reinsurers	503	539
Due from insureds	2,288	2,127
Due from the Law Society of Upper Canada (note 12)	8,024	7,569
Reinsurers' share of provision for unpaid claims and adjustment expenses (note 9)	43,794	44,057
Other receivables	1,766	1,727
Other assets	2,487	1,217
Property and equipment (note 7)	984	1,474
Intangible asset (note 8)	877	1,097
Deferred income tax asset (note 14)	5,236	5,259
Total assets	**730,717**	**702,982**
Liabilities		
Provision for unpaid claims and adjustment expenses (note 9)	472,168	460,146
Unearned premiums (note 10)	1,027	860
Due to reinsurers	673	658
Due to insureds	280	359
Expenses due and accrued	1,456	2,087
Income taxes due and accrued	1,181	300
Other taxes due and accrued	466	519
	477,251	**464,929**
Equity		
Capital stock (note 17)	5,000	5,000
Contributed surplus (note 17)	30,645	30,645
Retained earnings	182,222	173,484
Accumulated other comprehensive income	35,599	28,924
	253,466	**238,053**
Total liabilities and equity	**730,717**	**702,982**

Accompanying notes are an integral part of the financial statements.

On behalf of the Board

Susan T. McGrath — Susan T. McGrath, Director

Kathleen Waters — Kathleen A. Waters, Director

Lawyers' Professional Indemnity Company
Statement of Profit or Loss
Stated in thousands of Canadian dollars

For the year ended December 31	**2016**	**2015**
Income		
Gross written premiums	123,329	127,842
Premiums ceded to reinsurers (note 11)	(7,386)	(7,081)
Net written premiums	115,943	120,761
(Increase) decrease in unearned premiums (note 10)	(167)	(91)
Net premiums earned	**115,776**	**120,670**
Net investment income (note 5)	17,409	18,541
Ceded commissions	1,721	1,828
	134,906	**141,039**
Expenses		
Gross claims and adjustment expenses (note 9)	101,707	80,372
Reinsurers' share of claims and adjustment expenses (note 9)	(995)	373
Net claims and adjustment expenses	100,712	80,745
Operating expenses (note 15)	19,015	17,999
Premium taxes	3,701	3,836
	123,428	**102,580**
Profit (loss) before income taxes	**11,478**	**38,459**
Income tax expense (recovery) (note 14)		
Current	2,852	10,027
Deferred	(13)	(12)
	2,839	**10,015**
Profit (loss)	**8,639**	**28,444**

Accompanying notes are an integral part of the financial statements.

Lawyers' Professional Indemnity Company
Statement of Comprehensive Income
Stated in thousands of Canadian dollars

For the year ended December 31		**2016**	**2015**
Profit (loss)		**8,639**	**28,444**
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 $36 [2015: ($190)]	(note 13)	99	(526)
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 $3,834 (2015: $1,054)		10,632	2,923
Reclassification adjustment for (gains) losses recognized in profit or loss, net of income tax (expense) recovery of ($1,663) [2015: ($1,489)]		(4,612)	(4,129)
Reclassification adjustment for impairments, recognized in profit or loss, net of income tax expense of $236 (2015: $979)	(note 5)	655	2,716
Other comprehensive income (loss)		**6,774**	**984**
Comprehensive income		**15,413**	**29,428**

Accompanying notes are an integral part of the financial statements.

Lawyers' Professional Indemnity Company
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, 2014	**5,000**	**30,645**	**145,566**	**27,414**	**208,625**
Total comprehensive income for the year	-	-	28,444	984	29,428
Transfer of defined benefit remeasurements from OCI to retained earnings	-	-	(526)	526	-
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**

The aggregate of retained earnings and accumulated other comprehensive income as at December 31, 2016 is $217,821 (December 31, 2015: $202,408).

Accompanying notes are an integral part of the financial statements.

Lawyers' Professional Indemnity Company
Statement of Cash Flows
Stated in thousands of Canadian dollars

For the year ended December 31	2016	2015
Operating Activities		
Profit (loss)	8,639	28,444
Items not affecting cash:		
Deferred income taxes	(13)	(12)
Amortization of property and equipment	654	694
Amortization of intangible asset	220	146
Realized (gains) losses on disposition or impairment	(4,556)	(2,306)
Amortization of premiums and discounts on bonds	606	(131)
Changes in unrealized (gains) losses	4,817	2,983
	10,367	29,818
Changes in non-cash working capital balances:		
Investment income due and accrued	(172)	(250)
Due from reinsurers	51	233
Due from insureds	(240)	(124)
Due from the Law Society of Upper Canada	(455)	(946)
Reinsurers' share of provision for unpaid claims and adjustment expenses	263	843
Other receivables	(39)	(323)
Other assets	(1,135)	51
Income taxes due and accrued (recoverable)	(1,526)	(1,298)
Provision for unpaid claims and adjustment expenses	12,022	(8,347)
Unearned premiums	167	91
Expenses due and accrued	(631)	452
Other taxes due and accrued	(53)	63
Net cash inflow from operating activities	18,619	20,263
Investing Activities		
Purchases of property and equipment	(164)	(510)
Purchases of intangible asset	-	(215)
Purchases of investments	(269,840)	(316,988)
Proceeds from sales and maturities of investments	244,699	302,719
Net cash outflow from investing activities	(25,305)	(14,994)
Net change in cash and cash equivalents during the year	(6,686)	5,269
Cash and cash equivalents, beginning of year	22,597	17,328
Cash and cash equivalents, end of year	15,911	22,597
Cash and cash equivalents at end of year consists of:		
Cash	15,322	13,858
Cash equivalents	589	8,739
	15,911	22,597
Supplemental disclosure of cash flow information:		
Income taxes paid (operating activity)	4,378	11,326
Interest received (investing activity)	16,354	16,148
Dividends received (investing activity)	3,352	3,918

Accompanying notes are an integral part of the financial statements.

Lawyers' Professional Indemnity Company
Notes to Financial Statements
For the year ended December 31, 2016
Amounts stated in Canadian dollars (amounts in tables in thousands)

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 (the "Law Society"), which is the governing body for lawyers 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, 2016. 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 22, 2017.

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

Basis of measurement

The financial statements have been prepared under the historical cost basis that are measured at the end of each reporting period, except for certain financial instruments and the 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.

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 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

Lawyers' Professional Indemnity Company
Notes to Financial Statements
For the year ended December 31, 2016
Amounts stated in Canadian dollars (amounts in tables in thousands)

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.

Lawyers' Professional Indemnity Company
Notes to Financial Statements
For the year ended December 31, 2016
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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.

Lawyers' Professional Indemnity Company
Notes to Financial Statements
For the year ended December 31, 2016
Amounts stated in Canadian dollars (amounts in tables in thousands)

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 amortisation and accumulated impairment losses. Once an acquired intangible asset is available for use, amortisation is recognized on a straight-line basis over its estimated useful life. The estimated useful life and amortisation 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.

Lawyers' Professional Indemnity Company
Notes to Financial Statements
For the year ended December 31, 2016
Amounts stated in Canadian dollars (amounts in tables in thousands)

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 unrealised 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

Lawyers' Professional Indemnity Company
Notes to Financial Statements
For the year ended December 31, 2016
Amounts stated in Canadian dollars (amounts in tables in thousands)

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.

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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

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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, 2016.

a) Amendments to IAS 1 "*Presentation of Financial Statements*" – Disclosure Initiative

These amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments form part of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The adoption of these amendments did not have a significant impact on the Company's financial statements.

b) Amendments to IAS 16 "*Property, Plant and Equipment*" and IAS 38 "*Intangible Assets*" – Clarification of Acceptable Methods of Depreciation and Amortization

These amendments provide additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. The amendments to IAS 16 and IAS 38 prohibit the use of revenue-based depreciation for property, plant and equipment and significantly limit the use of revenue-based amortization for intangible assets. The adoption of these amendments did not have a significant impact on the Company's financial statements.

c) Annual Improvements to IFRSs 2012-2014

These improvements to IFRSs consist of amendments to four IFRSs. IFRS 7 "*Financial Instruments: Disclosures*" was amended to clarify when servicing arrangements are in the scope of its disclosure requirements relating to when an entity maintains a continuing involvement in transferred assets that have been derecognized in their entirety. IAS 19 "*Employee Benefits*" was amended to clarify the types of high-quality bonds to be used in determining the discount rate. The adoption of these amendments did not have a 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) 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 both changes arising from cash flow and non-cash changes. The amendments are effective for annual reporting periods beginning on or after January 1, 2017. The adoption of these amendments is not expected to have a significant impact on the Company's financial statements.

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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. The amendments are effective for annual reporting periods beginning on or after January 1, 2017. The adoption of these amendments is not expected to have significant impact on the Company's financial statements.

c) 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. This new standard introduces a five step revenue recognition model, as well as additional practical expedients to apply on transition and additional relevant disclosure requirements, for nearly all contracts with customers, except for insurance contracts, financial instruments and leases. For example, if services under a single arrangement are rendered in differing reporting periods, then the consideration is allocated to all services based on their stand-alone selling prices. 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.

d) 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, ie. the customer ('lessee') and the supplier ('lessor'). Subject to certain exemptions, 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 standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently assessing the impact on its financial statements.

e) 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.

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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 "*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*", which provides two options for entities that issue contracts pursuant to IFRS 4*: 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 from applying IFRS 9 until 2021 (the 'deferral approach'). 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 undertakes a detailed review.

*IFRS 4 was subsequently renamed to IFRS 17

5. INVESTMENTS

a) Summary

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

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**

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	December 31, 2015			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale				
Fixed income securities	148,823	4,763	(190)	153,396
Common equities	70,046	32,821	(4,875)	97,992
	218,869	37,584	(5,065)	251,388
Designated as FVTPL				
Fixed income securities	353,801	9,936	(2,418)	361,319
Preferred equities	615	-	(265)	350
	354,416	9,936	(2,683)	361,669
Total	**573,285**	**47,520**	**(7,748)**	**613,057**
Reconciled in aggregate to asset classes as follows:				
Fixed income securities	502,624	14,699	(2,608)	514,715
Equities	70,661	32,821	(5,140)	98,342
Total	**573,285**	**47,520**	**(7,748)**	**613,057**

In the above tables, the gross unrealized figures for common equities securities includes recognized impairments. As at December 31, 2016, of the total cumulative impairments of $7,682,462 (December 31, 2015: $7,327,592) an amount of $5,177,018 is included in gross unrealized losses (December 31, 2015: $3,781,353) and an amount of $2,505,444 is included in gross unrealized gains (December 31, 2015: $3,546,239). For additional details, see note 5c.

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, 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				
Issued or guaranteed by:				
Canadian federal government	8,514	33,856	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%

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	December 31, 2015			
	Within 1 year	1 to 5 years	Over 5 years	Total
Available-for-sale				
Issued or guaranteed by:				
Canadian federal government	554	26,594	285	27,433
Canadian provincial and municipal governments	10,388	77,817	12,347	100,552
Mortgage backed securities	-	1,493	-	1,493
Corporate debt	2,203	15,424	6,291	23,918
	13,145	121,328	18,923	153,396
Designated as FVTPL				
Issued or guaranteed by:				
Canadian federal government	16,303	18,215	20,541	55,059
Canadian provincial and municipal governments	16,953	38,810	32,298	88,061
Mortgage backed securities	13,537	12,666	-	26,203
Corporate debt	22,286	44,534	125,176	191,996
	69,079	114,225	178,015	361,319
Fixed income securities	**82,224**	**235,553**	**196,938**	**514,715**
Percent of total	16%	46%	38%	100%

The weighted average duration of fixed income securities as at December 31, 2016 is 3.24 years (December 31, 2015: 2.87 years). The effective yield on fixed income securities as at December 31, 2016 is 2.89% (December 31, 2015: 3.02%).

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, $890,740 in write-downs to various equity securities were required for the year ended December 31, 2016 (2015: $3,695,227).

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

	2016	2015
Balance, as at January 1	7,328	5,340
Increase for the year charged to the income statement	891	3,695
Release upon disposition	(537)	(1,707)
Balance, as at December 31	**7,682**	**7,328**

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:

	2016			2015		
	Designated as FVTPL	Available-for-sale	Total	Designated as FVTPL	Available-for-sale	Total
Interest	12,253	3,628	15,881	12,977	3,551	16,528
Dividends	21	3,378	3,399	21	3,887	3,908
Net realized gains (losses)	(758)	6,275	5,517	130	5,618	5,748
Change in net unrealized gains (losses)	(4,817)	(395)	(5,212)	(2,983)	275	(2,708)
Impairments	-	(891)	(891)	-	(3,695)	(3,695)
	6,699	11,995	18,694	10,145	9,636	19,781
Less: Investment expenses	(391)	(894)	(1,285)	(396)	(844)	(1,240)
Net investment income	**6,308**	**11,101**	**17,409**	**9,749**	**8,792**	**18,541**

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:

	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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	2015					
	Net realized gains (losses)			Increase (decrease) in unrealized gains and losses		
	Gross	Tax	Net	Gross	Tax	Net
Fixed income securities	68	(18)	50	7	(2)	5
Equities	5,550	(1,471)	4,079	3,970	(1,052)	2,918
Total	**5,618**	**(1,489)**	**4,129**	**3,977**	**(1,054)**	**2,923**

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, 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 of Upper Canada	-	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**

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As at December 31, 2015	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	22,600	-	-	-	**22,600**	22,600	-	-	**22,600**
Fixed income securities	362,760	-	153,920	-	**516,680**	265,213	251,467	-	**516,680**
Common equities	-	-	98,281	-	**98,281**	98,281	-	-	**98,281**
Preferred equities	355	-	-	-	**355**	-	355	-	**355**
	385,715	-	252,201	-	**637,916**	386,094	251,822	-	**637,916**
Financial assets measured at fair value (non-recurring basis)									
Due from reinsurers	-	539	-	-	**539**	-	539	-	**539**
Due from insureds	-	2,127	-	-	**2,127**	-	2,127	-	**2,127**
Due from the Law Society of Upper Canada	-	7,569	-	-	**7,569**	-	7,569	-	**7,569**
Other receivables	-	1,727	-	-	**1,727**	-	1,727	-	**1,727**
Other assets	-	327	-	-	**327**	-	327	-	**327**
	-	12,289	-	-	**12,289**	-	12,289	-	**12,289**
Financial liabilities measured at fair value (non-recurring basis)									
Due to reinsurers	-	-	-	658	**658**	-	658	-	**658**
Due to insureds	-	-	-	359	**359**	-	359	-	**359**
Expenses due and accrued	-	-	-	2,087	**2,087**	-	2,087	-	**2,087**
Other taxes due and accrued	-	-	-	519	**519**	-	519	-	**519**
	-	-	-	3,623	**3,623**	-	3,623	-	**3,623**
Total	**385,715**	**12,289**	**252,201**	**(3,623)**	**646,582**	**386,094**	**260,488**	**-**	**646,582**

There were no transfers between any levels during the year ended December 31, 2016 (2015: 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.

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, 2015	54	169	129	1,306	1,658
Additions	8	281	37	184	510
Amortization	(18)	(182)	(75)	(419)	(694)
December 31, 2015	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

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

	December 31, 2016			December 31, 2015		
	Cost	**Accumulated amortization**	**Carrying value**	**Cost**	**Accumulated amortization**	**Carrying value**
Furniture and fixtures	1,421	(1,389)	32	1,415	(1,371)	44
Computer equipment	2,443	(2,219)	224	2,346	(2,078)	268
Computer software	829	(729)	100	769	(678)	91
Leasehold improvements	3,626	(2,998)	628	3,625	(2,554)	1,071
Total	**8,319**	**(7,335)**	**984**	**8,155**	**(6,681)**	**1,474**

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:

	2016	**2015**
Cost		
Balance, beginning of year	1,243	1,028
Additions from separate acquistions	-	215
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	(146)	-
Amortization expense	(220)	(146)
Disposals or classified as held for sale	-	-
Impairment losses	-	-
Balance, end of year	(366)	(146)
Carrying amount	**877**	**1,097**

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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.

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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, 2016, which was 2.40% (December 31, 2015: 2.18%). 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, 2016 the PfAD was calculated at 15% (December 31, 2015: 15%) of the net discounted claim liabilities, 1.5% (December 31, 2015: 1.5%) of the ceded discounted claim liabilities, and a 0.50% reduction to the discount rate (December 31, 2015: 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.

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

	December 31, 2016		December 31, 2015	
	Undiscounted	Discounted	Undiscounted	Discounted
Unpaid claims and adjustment expenses	436,658	472,168	422,542	460,146
Recoverable from reinsurers	(40,857)	(43,794)	(40,863)	(44,057)
Net	**395,801**	**428,374**	**381,679**	**416,089**

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

	December 31, 2016			December 31, 2015		
	Gross	Ceded	Net	Gross	Ceded	Net
Professional liability	456,512	(43,687)	412,825	444,235	(43,984)	400,251
Title	15,656	(107)	15,549	15,911	(73)	15,838
Total	**472,168**	**(43,794)**	**428,374**	**460,146**	**(44,057)**	**416,089**

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

	December 31, 2016			December 31, 2015		
	Gross	Ceded	Net	Gross	Ceded	Net
Case reserves	292,488	(2,486)	290,002	278,175	(2,887)	275,288
IBNR	179,680	(41,308)	138,372	181,971	(41,170)	140,801
Total	**472,168**	**(43,794)**	**428,374**	**460,146**	**(44,057)**	**416,089**

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, 2016 and December 31, 2015.

In 2016, 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 these 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.

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In 2015, 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 these changes was a $9,259,000 decrease in the provision, before reinsurance, as at December 31, 2015. This impact amount is attributable to severity assumptions, the professional liability line of business, and changes in the prior years.

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

	2016			2015		
	Gross	**Ceded**	**Net**	**Gross**	**Ceded**	**Net**
Claims & external adjustment expenses paid	80,961	1,258	79,703	80,456	470	79,986
Change in case reserves	15,050	(258)	15,308	(6,122)	(236)	(5,886)
Change in IBNR	(3,310)	252	(3,562)	2,072	(250)	2,322
Discount expense	(2,094)	(257)	(1,837)	(4,267)	(357)	(3,910)
IAE paid	8,724	-	8,724	8,263	-	8,263
Change in provision for IAE	2,376	-	2,376	(30)	-	(30)
	101,707	**995**	**100,712**	**80,372**	**(373)**	**80,745**

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:

	2016	**2015**
Provision for unpaid claims and adjustment expenses – January 1 – net	416,089	423,593
Change in net provision for claims and adjustment expenses due to:		
Prior years' incurred claims	(18,208)	(27,559)
Current year's incurred claims	120,757	112,214
Net claims and adjustment expenses paid in relation to:		
Prior years	(76,771)	(78,575)
Current year	(11,656)	(9,674)
Impact of discounting	(1,837)	(3,910)
Provision for unpaid claims and adjustment expenses – December 31 – net	428,374	416,089
Reinsurers' share of provisions for unpaid claims and adjustment expenses	43,794	44,057
Provision for unpaid claims and adjustment expenses – December 31 – gross	**472,168**	**460,146**

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, 2016, is presented based on the net amounts of the two triangles.

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

	All Prior Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of Ultimate Claims												
At end of Policy year		88,720	91,567	94,936	90,778	98,870	110,380	102,937	103,962	106,879	113,990	
One Year Later		90,139	99,776	95,781	90,585	100,573	93,630	95,423	92,844	96,377		
Two Years Later		95,375	94,086	97,708	89,394	97,841	90,749	91,649	87,845			
Three Years Later		93,715	93,942	96,541	87,128	96,265	88,237	89,307				
Four Years Later		93,424	92,322	94,258	87,341	87,906	84,248					
Five Years Later		90,823	89,566	91,157	84,680	87,930						
Six Years Later		91,450	88,292	94,402	85,491							
Seven Years Later		90,168	86,719	95,835								
Eight Years Later		88,798	87,445									
Nine Years Later		88,662										
Cumulative Claims Paid												
At end of Policy year		(4,100)	(5,593)	(6,726)	(4,628)	(6,868)	(4,744)	(4,167)	(5,516)	(5,896)	(7,299)	
One Year Later		(21,723)	(19,886)	(21,366)	(16,553)	(17,678)	(15,743)	(18,406)	(18,123)	(19,993)		
Two Years Later		(37,033)	(32,641)	(35,997)	(30,239)	(30,885)	(26,124)	(30,668)	(30,339)			
Three Years Later		(51,509)	(47,582)	(48,477)	(42,488)	(44,452)	(36,429)	(41,705)				
Four Years Later		(59,136)	(55,086)	(59,669)	(54,208)	(54,632)	(46,319)					
Five Years Later		(65,553)	(63,348)	(67,445)	(61,111)	(62,242)						
Six Years Later		(71,553)	(66,017)	(75,230)	(66,828)							
Seven Years Later		(75,582)	(71,895)	(80,766)								
Eight Years Later		(77,803)	(74,578)									
Nine Years Later		(79,423)										
Estimate of Ultimate Claims		88,662	87,445	95,835	85,491	87,930	84,248	89,307	87,845	96,377	113,990	
Cumulative Claims Paid		(79,423)	(74,578)	(80,766)	(66,828)	(62,242)	(46,319)	(41,705)	(30,339)	(19,993)	(7,299)	
Undiscounted Claims Liabilities	11,414	9,239	12,867	15,069	18,663	25,688	37,929	47,602	57,506	76,384	106,691	**419,052**
Provision for IAE	161	149	241	308	358	722	1,277	1,566	2,296	3,771	6,757	**17,606**
Discounting (including PfAD)	1,213	850	1,150	1,253	1,616	2,321	3,512	4,294	5,007	6,234	8,060	**35,510**
Present Value recognized in the Statement of Financial Position	12,788	10,238	14,258	16,630	20,637	28,731	42,718	53,462	64,809	86,389	121,508	**472,168**

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

	All Prior Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of Ultimate Claims												
At end of Policy year		84,240	86,762	89,886	86,458	94,874	106,381	98,696	99,579	102,534	109,643	
One Year Later		85,659	94,971	91,732	86,265	96,577	89,631	91,183	88,460	92,032		
Two Years Later		90,895	90,242	93,660	85,075	93,845	86,750	87,409	83,462			
Three Years Later		90,130	90,098	92,492	82,808	92,269	84,238	85,066				
Four Years Later		89,840	88,478	90,209	83,022	83,910	80,249					
Five Years Later		87,238	85,722	87,108	80,361	83,934						
Six Years Later		87,866	84,448	90,353	81,172							
Seven Years Later		86,584	82,875	91,787								
Eight Years Later		85,214	83,601									
Nine Years Later		85,078										
Cumulative Claims Paid												
At end of Policy year		(4,100)	(5,593)	(6,726)	(4,628)	(6,868)	(4,744)	(4,167)	(5,516)	(5,896)	(7,299)	
One Year Later		(21,723)	(19,886)	(21,366)	(16,553)	(17,678)	(15,741)	(18,406)	(18,123)	(19,993)		
Two Years Later		(37,033)	(32,641)	(35,997)	(30,239)	(29,976)	(26,122)	(30,668)	(30,339)			
Three Years Later		(51,509)	(47,582)	(48,477)	(42,466)	(43,542)	(36,421)	(41,705)				
Four Years Later		(59,136)	(55,086)	(59,669)	(54,111)	(53,722)	(46,312)					
Five Years Later		(65,553)	(63,348)	(67,409)	(61,000)	(61,207)						
Six Years Later		(71,553)	(66,017)	(75,193)	(66,705)							
Seven Years Later		(75,582)	(71,895)	(79,843)								
Eight Years Later		(77,803)	(74,578)									
Nine Years Later		(79,423)										
Estimate of Ultimate Claims		85,078	83,601	91,787	81,172	83,934	80,249	85,066	83,462	92,032	109,643	
Cumulative Claims Paid		(79,423)	(74,578)	(79,843)	(66,705)	(61,207)	(46,312)	(41,705)	(30,339)	(19,993)	(7,299)	
Undiscounted Claims Liabilities	9,575	5,655	9,023	11,944	14,467	22,727	33,937	43,361	53,123	72,039	102,344	**378,195**
Provision for IAE	161	149	241	308	358	722	1,277	1,566	2,296	3,771	6,757	**17,606**
Discounting (including PfAD)	1,018	572	865	1,042	1,315	2,101	3,210	3,980	4,699	5,955	7,816	**32,573**
Present Value recognized in the Statement of Financial Position	10,754	6,376	10,129	13,294	16,140	25,550	38,424	48,907	60,118	81,765	116,917	**428,374**

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10. UNEARNED PREMIUMS

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

	2016	2015
Balance, as at January 1	860	769
Net premiums written during the year	115,943	120,761
Less: Net premiums earned during the year	(115,776)	(120,670)
Increase (decrease) in unearned premiums	167	91
Balance, as at December 31	**1,027**	**860**

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 (2015: 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 (2015: $20 million in excess of $15 million relating to class action proceedings only). 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, 2016 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.

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For the year ended December 31, 2016, $110,616,998 of the gross premiums written related to mandatory insurance coverage provided to the Law Society and its members (2015: $115,603,310). As at December 31, 2016, the Company had a balance due from the Law Society of $8,024,182 (December 31, 2015: $7,569,044 due from Law Society).

For the year ended December 31, 2016, the Company contributed to the Law Society $177,652 in regards to a wellness program to be made available to the insureds of the Company's primary liability policy (2015: $188,204). 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:

	2016	**2015**
Short-term compensation and benefits	3,812	3,429
Post employment benefits	305	274
	4,117	3,703

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 2016, the Company made payments of $705,717 (2015: $678,900) and recorded pension expense of $743,285 (2015: $714,685).

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 $970,494 in contributions made in 2016 (2015: nil) and recorded pension expenses of $90,000 in 2016 (2015: $84,219). 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, 2016. Management's preliminary estimate is that no contribution is required to the plan during the year ending December 31, 2017.

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

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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

	2016	**2015**
Accrued benefit obligation		
Balance, as at January 1	7,676	7,158
Current service cost	139	143
Interest cost	297	272
Remeasurement (gains) losses:		
Actuarial (gains) losses - demographic assumptions	-	-
Actuarial (gains) losses - financial assumptions	149	107
Actuarial (gains) losses - experience adjustments	(55)	269
Benefits paid	(273)	(273)
Balance, as at December 31	**7,933**	**7,676**

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Defined benefit plan assets

	2016	2015
Plan assets		
Fair value, as at January 1	8,565	8,848
Interest income on plan assets	346	331
Remeasurement gains (losses):		
Return on plan assets greater (less) than discount rate	229	(341)
Benefits paid	(273)	(273)
Employer contribution	971	-
Fair value, as at December 31	**9,838**	**8,565**

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, 2016	December 31, 2015
Equity securities	35.56%	34.43%
Fixed income securities	19.42%	18.48%
Cash and cash equivalents	0.27%	1.16%
Refundable-tax account	44.75%	45.93%
	100%	**100%**

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

	December 31, 2016	December 31, 2015
Fair value of plan assets	9,838	8,565
Accrued benefit obligation	(7,933)	(7,676)
Funded status surplus	1,905	889
Irrecoverable surplus (effect of asset ceiling)	-	-
Accrued benefit asset	**1,905**	**889**

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

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

	2016	**2015**
Service cost:		
Current service cost	139	143
Past service cost and (gain) loss from settlements	-	-
Net interest (income) expense	(49)	(59)
Components of defined benefit costs recognized in profit or loss	**90**	**84**
Remeasurement on the net defined benefit liability:		
Actuarial (gain) loss due to liability experience	(55)	268
Actuarial (gain) loss due to liability assumption changes	149	107
Actuarial (gain) loss arising during year	94	375
Return on plan assets (greater) less than discount rate	(229)	341
Change in irrecoverable surplus (effect of asset ceiling)	-	-
Components of defined benefit costs recognized in OCI	**(135)**	**716**
Total	**(45)**	**800**

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

	2016	**2015**
Discount rate	3.70%	3.85%
Rate of compensation increase	4.50%	4.50%
Mortality	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	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, 2016, if the discount rate was 1% higher / (lower) the defined benefit obligation would decrease by $916,500 (increase by $1,118,400). 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.

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The expected maturity profile of the defined benefit obligation as at December 31, 2016 is as follows:

	2017	2018	2019	2020	2021	Thereafter
Expected benefit payments	273	277	462	461	460	2,275

The defined benefit obligation as at December 31, 2016 by participant category is as follows:

Active participants	3,304
Pensioners	4,629

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:

	2016	2015
Current income tax		
(Recovered) expensed during the year	2,859	10,029
Prior year adjustments	(7)	(2)
Total current income tax expense (recovery)	**2,852**	**10,027**
Deferred income tax		
Origination and reversal of temporary differences	(13)	(12)
Changes in statutory tax rates	-	-
Total deferred income tax expense (recovery)	**(13)**	**(12)**
Total income tax expense (recovery)	**2,839**	**10,015**

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

	2016	2015
Unpaid claims and adjustment expenses	(162)	100
Investments	(40)	(40)
Pensions	223	(32)
Property and equipment	(34)	(40)
	(13)	**(12)**

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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:

	2016	2015
Current income tax		
Unrealized investment gains and losses on available-for-sale portfolio	2,407	544
Pensions	-	-
Total current income tax expense	**2,407**	**544**
Deferred income tax		
Unrealized investment gains and losses on available-for-sale portfolio	-	-
Pensions	36	(190)
Total deferred income tax expense	**36**	**(190)**
Total income tax expense in OCI	**2,443**	**354**

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.

	2016	2015
Profit or loss before income taxes	11,478	38,459
Statutory income tax rate	26.50%	26.50%
Provision for (recovery of) income taxes at statutory rates	3,042	10,192
Increase (decrease) resulting from:		
Investments	(225)	(197)
Non-deductible meals and entertainment	21	14
Other non-deductible items	1	6
Provision for (recovery of) income taxes	**2,839**	**10,015**

The statutory rate applicable to the Company at December 31, 2016 is same as at December 31, 2015.

During the year, the Company made income tax payments of $4,378,038 (2015: $11,325,581) and received no income tax refunds (2015: nil) from the various taxing authorities.

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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 2016	December 31 2015
Deferred tax assets		
Net provision for unpaid claims and adjustment expenses	5,676	5,513
Property and equipment	366	332
	6,042	**5,845**
Deferred tax liabilities		
Investments	(353)	(393)
Pension	(453)	(193)
	(806)	(586)
Total net deferred tax assets	**5,236**	**5,259**

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:

	2016	2015
Salaries and benefits	11,197	10,818
Professional fees	1,688	1,665
Occupancy lease	1,148	1,096
Financial processing fees	1,016	941
Directors remuneration	1,013	893
Information systems	935	833
Office and administrative expenses	855	673
Amortization of property and equipment	626	569
Communication	537	511
Total	**19,015**	**17,999**

Included in salaries and benefits are amounts for future employee benefits under a defined contribution plan of $705,717 (2015 - $678,900) and a supplementary defined benefit plan of $90,000 (2015 - $84,219).

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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 the year, 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, 2016, lease obligations on office premises were as follows:

	2017	2018	2019	2020	2021	Thereafter
Expected lease payments	1,220	1,487	1,642	1,642	1,642	10,681

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 $1,119,860 as at December 31, 2016 (December 31, 2015: $1,228,611) which are held as security for amounts recoverable from unregistered reinsurers of $411,126 (2015: $382,026). 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, 2015: nil).

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19. CAPITAL MANAGEMENT

Capital is comprised of the Company's equity. As at December 31, 2016 the Company's equity was $253,466,413 (December 31, 2015: $238,052,956). 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% (2015: 180%) in excess of which, under normal circumstances, the Company will maintain its capital. During the year ended December 31, 2016, the Company complied with the various provincial regulators' guidelines and as at December 31, 2016, the Company has a MCT ratio of 253% (December 31, 2015: 268%). 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, 2016 and 2015. 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.

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

a) Insurance risk

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

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

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

Concentration of risk
A concentration of risk represents the exposure to increased losses associated with an inadequately diversified portfolio of policy coverage. The Company has a reinsurance program to limit its exposure to catastrophic losses from any one event or set of events. The Company has approximately 99% of its business in Ontario (2015: 99%) and 95% in professional liability (2015: 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:

	2016			2015		
Gross written premium	**Ontario**	**All other provinces**	**Total**	**Ontario**	**All other provinces**	**Total**
Professional liability	116,822	-	116,822	121,729	-	121,729
Title	6,337	170	6,507	5,895	218	6,113
Total	**123,159**	**170**	**123,329**	**127,624**	**218**	**127,842**

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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, 2016		December 31, 2015	
	Net provision for unpaid claims and adjustment expenses	Equity	Net provision for unpaid claims and adjustment expenses	Equity
Unreported claims +20%	6,143	(4,515)	4,962	(3,647)
Average claim severities +1%	5,432	(3,993)	4,460	(3,278)

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 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.

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

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

	December 31, 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 of Upper Canada	-	-	-	-	-	8,024	8,024
Reinsurers' share of provisions for unpaid claims and adjustment expenses	-	-	43,794	-	-	-	43,794
Other receivables	-	-	-	-	-	1,766	1,766
Other assets	-	-	-	-	-	2,487	2,487

	December 31, 2015						
	AAA	AA	A	BBB	BB and lower	Not rated	Carrying value
Cash and cash equivalents	5,881	-	-	-	-	16,716	22,597
Fixed income securities	131,313	85,315	204,140	68,979	-	24,968	514,715
Investment income due and accrued	284	294	1,074	481	2	127	2,262
Due from reinsurers	-	-	532	-	7	-	539
Due from insureds	-	-	-	-	-	2,127	2,127
Due from the Law Society of Upper Canada	-	-	-	-	-	7,569	7,569
Reinsurers' share of provisions for unpaid claims and adjustment expenses	-	-	44,056	-	-	1	44,057
Other receivables	-	-	-	-	-	1,727	1,727
Other assets	-	-	-	-	-	1,217	1,217

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

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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, 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
Other assets	582	-	-	1,905	2,487
Total	**116,559**	**262,153**	**220,608**	**124,240**	**723,560**
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**

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	December 31, 2015				
	Within one year	**One to five years**	**More than five years**	**No fixed maturity**	**Total**
Assets					
Cash and cash equivalents	22,597	-	-	-	22,597
Investments - designated as FVTPL	69,079	114,225	178,015	350	361,669
Investments - available-for-sale	13,145	121,328	18,923	97,992	251,388
Investment income due and accrued	2,262	-	-	-	2,262
Due from reinsurers	539	-	-	-	539
Due from insureds	2,127	-	-	-	2,127
Reinsurers' share of unpaid claims	10,663	22,178	8,022	3,194	44,057
Due from Law Society	7,569	-	-	-	7,569
Other receivable	1,727	-	-	-	1,727
Other assets	328	-	-	889	1,217
Total	**130,036**	**257,731**	**204,960**	**102,425**	**695,152**
Liabilities					
Provision for unpaid claims	100,446	233,586	88,511	37,603	460,146
Due to reinsurers	658	-	-	-	658
Due to insureds	359	-	-	-	359
Expenses due and accrued	2,087	-	-	-	2,087
Total	**103,550**	**233,586**	**88,511**	**37,603**	**463,250**

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.

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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, 2016			December 31, 2015		
	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%	(13,832)	(15,289)	(2,466)	(11,245)	(12,933)	(2,467)
-1%	14,661	14,399	2,520	11,800	13,538	2,469

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.

		2016	2015
		After-tax OCI	
Equity prices	+10%	8,748	7,202
	-10%	(8,748)	(7,202)

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.

	2016		2015	
Currency	**Effect on profit (loss) before taxes (+/-)**	**Effect on OCI (+/-)**	**Effect on profit (loss) before taxes (+/-)**	**Effect on OCI (+/-)**
US Dollar	320	3,528	767	3,362
Euro	-	1,189	-	1,115
Other	-	966	-	785
	320	**5,683**	**767**	**5,262**

Lawyers' Professional Indemnity Company
Notes to financial statements
For the year ended December 31, 2016
Amounts stated in Canadian dollars (amounts in tables in thousands)

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, 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%
Japan	-	-	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%**

	December 31, 2015					
	Cash and cash equivalents	**Fixed income securities**	**Equities**	**Investment income due and accrued**	**Total**	**% of total**
Canada	14,924	505,265	24,901	1,998	547,088	85.8%
USA	7,673	6,146	42,746	92	56,657	8.9%
France	-	-	9,199	19	9,218	1.4%
Netherlands	-	-	4,579	-	4,579	0.7%
Others	-	3,304	16,917	153	20,374	3.2%
Total	**22,597**	**514,715**	**98,342**	**2,262**	**637,916**	**100.0%**

Lawyers' Professional Indemnity Company
Notes to financial statements
For the year ended December 31, 2016
Amounts stated in Canadian dollars (amounts in tables in thousands)

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 $80,822,961. 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.

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 judgments. 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 22, 2017

Kathleen A. Waters
President and CEO

Steve Jorgensen
Chief Financial Officer

LAWYERS' PROFESSIONAL INDEMNITY COMPANY
REPORT TO AUDIT AND FINANCE COMMITTEE - LAW SOCIETY OF UPPER CANADA
MANDATORY E&O INSURANCE PROGRAM
YEAR ENDED DECEMBER 31, 2016

PREMIUMS

- Overall, the 2016 Ontario mandatory professional liability program performed substantially as expected. At December 31, 2016, there were 26,021 full-time equivalent practitioners, a level which were slightly below the budgeted amount of 26,138.

- Fiscal 2016 transaction levies of $27.3 million were $3.0 million higher than budget due to very strong real estate activity in Ontario. Robust real estate transaction volume during both 2015 and 2016 resulted in a favourable final true-up of 2015 levies, a high result for 2016 levy activity during the year, and upward movement on the accrual for 2016 levies to be collected after year-end.

CLAIMS & ADJUSTMENT EXPENSES

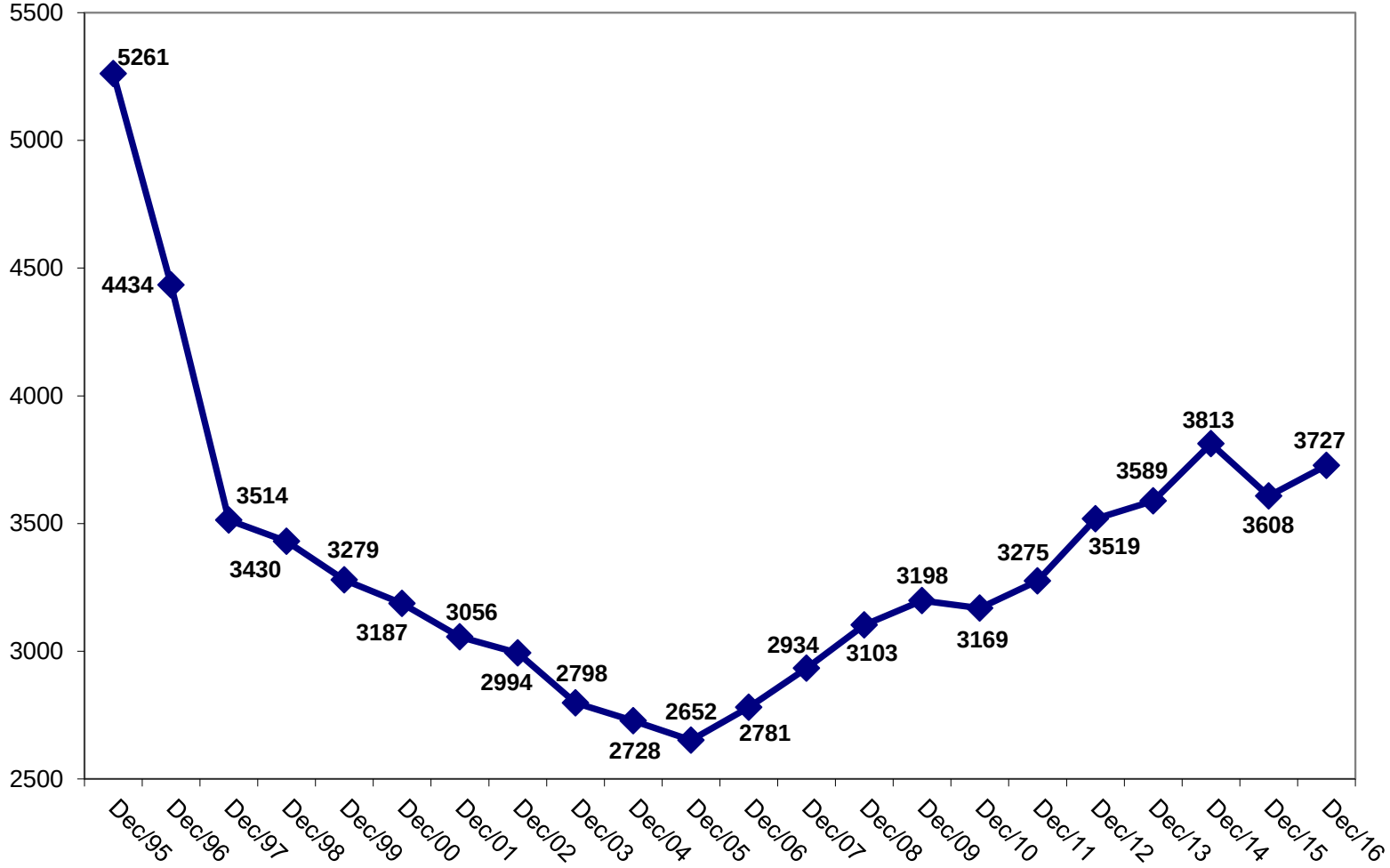
- During 2016, there were 2,269 fund year 2016 claim files reported compared with 2,147 fund year 2015 claim files reported in 2015.

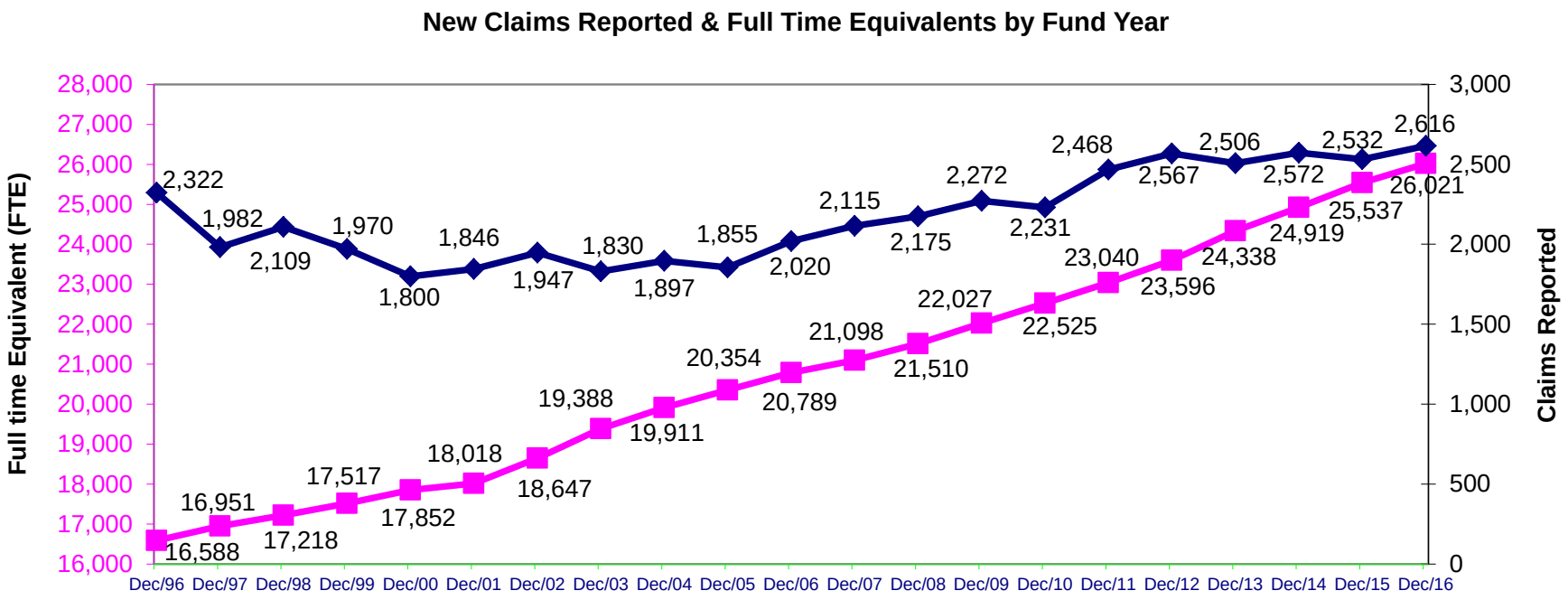
- The number of files remaining open at December 31, 2016 was 3,727, higher than the 3,608 files remaining open at December 31, 2015.

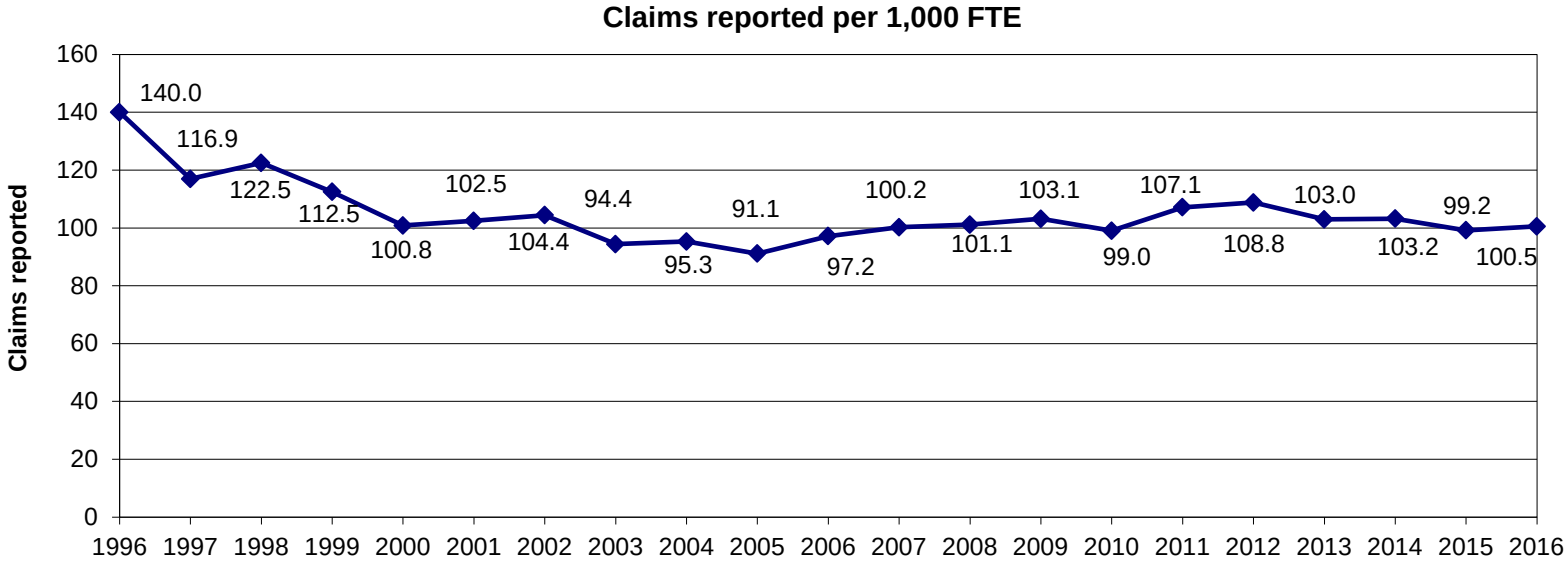
- For all fund years, 2,796 new files were opened through December 31, 2016 (including 180 which were reopened) and 2,677 closed. The comparable figures for the year ended December 31, 2015 were 2,679 claims files activated (including 147 which were reopened) and 2,884 closed.

On an aggregate basis, for fiscal year 2016 there has been a significant net favorable development on claims of prior years (in particular fund years 2012 through 2015). Regarding prior year development, in the same period in 2015, there was a significant net favourable development on claims of prior years (in particular fund years 2007, 2008, 2010 through 2014).

Open Claims (for fund years 1995 and forward)




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
2,500
2,000
1,500
1,000
500
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
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
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


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
1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016

INSURANCE RATIOS[1]

TEST	RECOMMENDED RANGE	DEC 2016	DEC 2015	DEC 2014
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%	253%	268%	251%
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%	169%	175%	203%
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%	65%	66%	70%
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%	46%	51%	55%
3. Return on equity				
(Measures an insurer's net 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%[1],			
	Net income	4%	13%	9%
	Comprehensive Income	6%	13%	9%
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 (28% as at Dec 2015)	20%	18%	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)	995	494	862

Note:

1. Sufficient to maintain/grow MCT.

Better Than Range
Within Range
Outside of Range

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

Confidential

February 6, 2017

Subject: Quarterly Compliance Report as at December 31, 2016 for Lawyers' Professional Indemnity Company

As of and for the quarter ending December 31, 2016, 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, 2016.

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
Canada
(647) 426-1987
(800) 307-8557
(647) 426-1587

February 1st, 2017

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 31st, 2016, Letko Brosseau was in compliance with the requirements of the Statement of Investment Policies and Procedures, effective January 1st, 2016. 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

Peter Letko
Letko Brosseau & Associates Inc.
PL/mn

TAB 2.4.3

FOR INFORMATION

LIBRARYCO INC. – AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

30. **The audited annual financial statements for LibraryCo Inc. for the year ended December 31, 2016 are attached for information.**

31. 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.

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

LIBRARYCO INC.

Financial Statements for the year ended December 31, 2016

March 31, 2017

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, 2016 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, 2016 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

	2016	2015
Assets		
Current Assets		
Cash	**321,233**	328,077
Short-term investments	**403,167**	403,556
Accounts receivable	**19,871**	17,034
Prepaid expenses	**30,881**	30,902
Total Assets	**775,152**	779,569
Liabilities, Share Capital and Fund Balances		
Current Liabilities		
Accounts payable and accrued liabilities (notes 4 and 6)	**95,595**	26,288
Total Liabilities	**95,595**	26,288
Share Capital and Fund Balances		
Share capital (note 5)	**200**	200
General fund (note 2)	**179,357**	253,081
Reserve fund (note 2)	**500,000**	500,000
Total Share Capital and Fund Balances	**679,557**	753,281
Total Liabilities, Share Capital and Fund Balances	**775,152**	779,569

See accompanying notes

On behalf of the Board of Directors

Chair - Board of Directors

Vice-Chair – Board of Directors

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

	2016	2015
Revenues		
Law Society of Upper Canada grant	**7,662,000**	**7,696,000**
Interest income	**4,915**	**6,040**
Total Revenues	**7,666,915**	**7,702,040**
Expenses		
Head Office/Administration		
Administration	**305,000**	**430,000**
Professional fees	**12,540**	**12,253**
Transition expenses	**122,646**	**-**
Other (note 7)	**23,402**	**33,207**
Total Head Office/Administration Expenses	**463,588**	**475,460**
Law Libraries - Centralized Purchases		
Electronic products and services	**339,000**	**339,000**
Group benefits	**310,756**	**275,114**
Other (note 8)	**134,338**	**132,205**
Total Law Libraries - centralized purchases	**784,094**	**746,319**
County and District Law Libraries Grants (note 9)	**6,492,957**	**6,368,536**
Total County and District Law Libraries Expenses	**7,277,051**	**7,114,855**
Total Expenses	**7,740,639**	**7,590,315**
(Deficit) Surplus for the year	**(73,724)**	**111,725**

See accompanying notes

LIBRARYCO INC.

Statement of Changes in Fund Balances

Stated in Dollars

For the year ended December 31

	2016			2015
	General Fund	Reserve Fund	**Total**	Total
Balances, beginning of year	253,081	500,000	**753,081**	641,356
(Deficit) Surplus for the year	(73,724)	-	**(73,724)**	111,725
Balances, end of year	**179,357**	**500,000**	**679,357**	753,081

See accompanying notes

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

	2016	2015
Net (outflow) inflow of cash related to the following activities		
(Deficit) Surplus for the year	**(73,724)**	**111,725**
Net change in non-cash operating working capital items:		
Accounts receivable	**(2,837)**	**29,963**
Prepaid expenses	**21**	**(1,328)**
Accounts payable and accrued liabilities	**69,307**	**(72,100)**
Cash sourced (used) in operating activities	**(7,233)**	**68,260**
Investing activities		
Short-term investments	**389**	**117,160**
Net (outflow) inflow of cash, during the year	**(6,844)**	**185,420**
Cash, beginning of year	**328,077**	**142,657**
Cash, end of year	**321,233**	**328,077**

See accompanying notes

LibraryCo Inc.
Notes to financial statements
For the year ended December 31, 2016

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	**2016**	2015
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 $7,662,000 (2015: $7,696,000) 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 2016 was

$401,861 (2015: $502,346). Included in accounts payable and accrued liabilities are amounts due to the Society of $11,244 (2015: $5,926).

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 2016 or 2015.

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 2016 and 2015:

Law Association	**2016**	2015
Algoma	$137,951	$134,266
Brant	102,737	99,742
Bruce	56,742	55,630
Carleton	626,976	614,682
Cochrane	49,293	48,326
Dufferin	47,276	47,309
Durham	133,032	129,443
Elgin	77,516	81,396
Essex	285,223	280,630
Frontenac	135,667	131,556
Grey	67,190	66,857
Haldimand	30,334	30,474
Halton	142,549	139,774
Hamilton	455,675	446,740
Hastings	87,063	84,375
Huron	77,002	75,492
Kenora District	88,547	86,811
Kent	71,498	70,096
Lambton	77,027	74,536
Lanark	39,851	39,069
Leeds & Grenville	72,870	71,441
Lennox & Addington	27,987	26,458
Lincoln	181,086	177,535
Manitoulin	2,576	2,525
Middlesex	367,759	361,548
Muskoka	68,980	64,197

Nipissing	90,176	85,767
Norfolk	71,521	70,853
Northumberland	78,035	76,504
Oxford	72,187	71,772
Parry Sound	44,612	39,179
Peel	301,696	295,780
Perth	55,596	54,506
Peterborough	134,575	132,936
Prescott & Russell	14,112	14,231
Rainy River	27,368	28,832
Renfrew County	126,017	123,546
Simcoe County	143,481	140,687
Stormont, Dundas & Glengarry	78,711	77,168
Sudbury	190,108	187,367
Temiskaming	43,848	42,989
Thunder Bay	173,843	169,454
Toronto	596,816	585,117
Victoria-Haliburton	88,907	87,163
Waterloo	243,225	238,456
Welland County	95,239	98,971
Wellington	76,854	75,347
York	235,623	231,003
	$6,492,957	$6,368,536

TAB 2.4.4

FOR INFORMATION

STATUS OF TORONTO LAWYERS FEED THE HUNGRY PROGRAM

33. **Convocation is requested to receive an update on the Toronto Lawyers Feed The Hungry Program for information.**

34. In January 2016, Convocation approved two year funding of $100,000 per year for a position to support Lawyers Feed the Hungry programs ("the Program"). The intention was to support the programs across Ontario and assist the Toronto program in becoming self-sustaining and less reliant on the Law Society for in-kind support, specifically:
    - the development of a long term fundraising and stakeholder management plan to bring the Program to financial sustainability by 2018,
    - improving the organizational structure of the Program and Law Society Foundation,
    - assessing the roles and responsibilities of stakeholders.

35. In March 2016, a Fundraising Consultant was engaged to provide initial guidance and expertise on the above objectives specific to the Toronto program.

36. The Fundraising Consultant has noted that, by 2018, the Toronto program could realistically raise sufficient funds to:
    i. Fund the current cost of operating the meal program at about $400,000 annually;
    ii. Fund a professional staff member with fundraising accountability ("Development Manager"). The Development Manager would:
        - create a self-sustaining model for the Toronto Program
        - provide guidance on fundraising efforts to the Ontario centres
        - assume responsibility for fundraising support and communication services related to law firm / corporate meal sponsorships and events currently provided in-kind by the Law Society.

37. In the long run, the Fundraising Consultant felt that increased fundraising efforts could allow for a further reduction in Law Society in-kind support. However, the full achievement of this secondary goal is uncertain, as it is dependent on the effectiveness of the anticipated fundraising committee and the fundraising climate in general.

38. In the short term, the focus will be on increased revenue generation and the adoption of more effective fundraising practices to ensure that the Toronto Program is on firm footing. According to the Fundraising Consultant, an increase in fundraising revenue is achievable, provided:
    i. A restructured fundraising committee of the Foundation is established, composed of members with expertise, interest and the ability to reach out to potential supporters;
    ii. A Development Manager is hired;

iii. Best fundraising practices are implemented including a systematic approach to canvassing major / corporate / Foundation gifts as well as a donor stewardship plan;
iv. Existing revenue sources are maximized, with a particular emphasis on sponsorships, major gifts, special events and annual gifts;
v. The demand for meal sponsorships, which currently raise $100,000 annually is exploited;
vi. Fair and sufficient time is provided for fundraising revenue to increase. It is currently envisaged that the Development Manager requires 2 years in the role for revenue to increase to a sustainable level where the activities identified could be comfortably funded.

39. The Fundraising Consultant concluded there must be a strengthened culture of philanthropy to support the program. While all sources of annual revenue should be explored, it is most likely that the legal community will remain the primary funder. Moreover, notwithstanding the recommendation to hire a Development Manager, volunteer leadership must continue to be heavily engaged through their strategic guidance, outreach to potential supporters and their own philanthropic support. Indeed, the presence of a Development Manager will strengthen the role of the volunteers.

Current Situation

40. The current financial situation of the program is healthy. The Toronto Lawyer's Feed the Hungry Program's fund balance at the end of 2016 was $935,000 with annual revenues of $755,000 up from $507,000 in 2015. Direct costs associated with operating the program have remained relatively unchanged over the last three years at approximately $400,000 per annum. In addition to expenses specific to the provision of meals, the Toronto Program incurs about $50,000 a year in fundraising costs, for total expenses of about $450,000 annually.

41. In February 2017, Aviva Malka joined the Law Society as the Development Manager with a mandate for strategic fund growth and relationship development. The funding for her position was approved by Convocation and will extend over two years – 2017 and 2018. She will assume the Law Society's in kind fundraising activities and will develop new fundraising initiatives as well as manage existing revenue streams. She will work with lead volunteers in coordinating administrative aspects of the program including marketing and communications and provide support to the Fundraising Committee.

42. The Law Society Foundation's Board has been actively recruiting a Chair for the proposed new Fundraising Committee. In addition, the Law Society Foundation's Board Chair is hosting a Fundraising Summit in April to engage prospective members for the Fundraising Committee.

43. Some background material on the Law Society Foundation and the Lawyers Feed the Hungry Program follows.

Background Material

44. The Law Society established The Law Society Foundation, a registered charity, in 1962. The Foundation serves the legal profession and public through various initiatives including the Lawyers Feed the Hungry Program ("LFH"). LFH was founded in 1998 by the late Martin Teplitsky who provided outstanding leadership to the program.

45. As a result of dedicated volunteer support and donor contributions, LFH provides meals to those in need and financial support to charitable agencies that help alleviate hunger in Barrie, London, Ottawa, Toronto and Windsor.

46. The Toronto Program feeds about 60,000 guests yearly, and is operated from the Law Society's cafeteria. These facilities are an ideal location, both to serve those in need and for accessibility by volunteers in the Toronto downtown area. The cost of operating the Toronto Program is about $400,000 annually. Yearly donations net of fundraising expenses roughly match this annual cost; however these donations include funds received that do not result from direct fundraising efforts and are therefore less certain ("Ad Hoc Donations").

47. The Law Society provides in-kind support to the Toronto Program including facilities usage, general financial administration and issue management and oversight. Support for fundraising and related activities, including events, email campaign, meal sponsorships is now being provided by a newly hired development manager.

TAB 2.4.5

FOR INFORMATION

REPORT ON INVESTMENT RETURNS

48. **Convocation is requested to review a report on the investment returns of the Law Society's long-term investment portfolio.**

49. As set out in the Investment Policy, one of the responsibilities of Convocation is to review the Portfolios' investment returns on at least an annual basis. A Detailed Semi-Annual Investment Review for the Period Ending 31 December, 2016 from AON Hewitt Investment Consulting follows. This assesses the investment returns of the General, Compensation and Errors & Omissions Insurance ("E&O"). Funds which are administered by the same Investment Policy and managed by Foyston Gordon & Payne. At December 31, 2016, excluding cash and short-term investments, these investments had a total market value of $68 million.

50. The report indicates that the overall gross return over the 4-year period ending 31 December 2016 was 3.84%, outperforming the benchmark by 0.75%. Over the most recent 6-month period, the Fund outperformed its benchmark by 1.98%, with a return of 3.42%. The report does not disclose any issues or recommendations.

51. As set out in the Investment Policy, one of the responsibilities of Convocation is to approve the appointment and continuing retention of the Portfolio Manager. Convocation's recent deliberations leading to the increase in the equity component of the asset mix at the end of February accomplished this with equities continuing to be managed by Foyston Gordon and Payne. At the beginning of March, the Portfolio Manager had increased the equity component of the portfolio from approximately 18% to 32% in line with the new asset mix ranges in the Investment Policy.

Law Society of Upper Canada | Fourth Quarter 2016

Detailed Semi-Annual Investment Review

Visit the Aon Hewitt Retirement and Investment Blog *(http://retirementandinvestmentblog.aon.com); sharing our best thinking.*

Empower Results®

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Empower Results®

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As of 31 December 2016

	Comments	Recommendations
E&O Insurance Fund Performance	▪ The overall gross return over the 4-year period ending 31 December 2016 was 3.84%, outperforming the benchmark by 0.75%. ▪ Over the most recent 6-month period, the Fund outperformed its benchmark by 1.98%, with a return of 3.42%. ▪ Strong stock selection in the materials and energy sectors contributed to performance. Stock selection in the telecommunications sector detracted from performance as did the portfolio's overweight position in the consumer discretionary sector. ▪ The portfolio's overweight position in corporate bonds continued to be a strong contributor to performance. Canadian financial bonds, specifically insurance and bank non-viable contingent capital (NVCC) securities, performed well in the quarter. The exposure to longer-dated hybrid federal bonds and provincial credits detracted from performance as did the portfolio's underweight in energy and communication sectors.	▪ No action is required.
Compensation Fund Performance	▪ The overall gross return over the 4-year period ending 31 December 2016 was 3.82%, outperforming the benchmark by 0.73%. ▪ Over the most recent 6-month period, the Fund outperformed its benchmark by 1.97% with a return of 3.41%. ▪ Performance attribution comments for this Fund are the same as the E&O Insurance Fund comments above.	▪ No action is required.
General Fund Performance	▪ The overall gross return over the 4-year period ending 31 December 2016 was 3.82%, outperforming the benchmark by 0.73%. ▪ Over the most recent 6-month period, the Fund outperformed its benchmark by 1.97% with a return of 3.41%. ▪ Performance attribution comments for this Fund are the same as the E&O Insurance Fund comments above.	▪ No action is required.

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Commentary and Recommendations

As of 31 December 2016

Portfolio Rebalancing	▪ All asset classes were within their allowable ranges as at 31 December 2016.	▪ No action is required.
Statement of Investment Policies and Procedures (SIPP)	▪ The revised SIPP was updated and received in February 2017. The asset mix changes will be reflected in the next monitoring report in Q2 2017.	▪ No action is required.
Foyston, Gordon & Payne (FGP)	▪ On 27 February 2017, Foyston, Gordon & Payne Inc. made an announcement regarding the promotions of a number of portfolio managers and a newly hired Chief Operating Officer (COO) effective immediately: 1) Bryan Pilsworth has been promoted to co-Portfolio Manager along with John Berry for the FGP Canadian Equity Strategy. 2) Cameron Greenwood has been promoted to Portfolio Manager for the FGP Short Term Investment and FGP Short Term Bond strategies. Greenwood will become co-manager of the FGP Long-Term Bond strategy. 3) The firm has hired Garvin Deokiesingh to take over the role of Chief Operating Officer from Mark Thompson, who will be retiring at the end of June 2017. The COO change will not affect portfolio management.	▪ Aon Hewitt views the appointments positively as part of the firm's ongoing succession plans and we maintain the current Buy ratings for the FGP Canadian Equity strategy. ▪ Continue to monitor.

Executive Summary

E&O Insurance Fund Asset Allocation and Annualized Performance

As of 31 December 2016

	Market Value ($000)	%	Performance (%)							
			6 Months	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception	Inception Date
E&O Insurance Fund (Gross)	22,070	100.0	3.42	5.74	2.73	3.24	3.84	3.90	4.05	1/04/2006
E&O Insurance Fund Benchmark			1.44	3.84	2.38	2.98	3.09	3.03	3.37	
Value Added			1.98	1.90	0.35	0.26	0.75	0.87	0.68	
E&O Insurance Fund (Net)	22,070	100.0	3.35	5.61	2.61	3.11	3.72	3.77	3.91	1/04/2006
E&O Insurance Fund Benchmark			1.44	3.84	2.38	2.98	3.09	3.03	3.37	
Value Added			1.91	1.77	0.23	0.13	0.63	0.74	0.54	
E&O Canadian Equities	4,111	18.6	17.20 (7)	27.86 (8)	7.45 (26)	7.53 (61)	11.27 (45)	11.56 (30)	6.74 (46)	1/04/2006
S&P/TSX Capped Composite			10.24 (65)	21.08 (33)	5.36 (81)	7.06 (72)	8.52 (90)	8.25 (91)	5.19 (89)	
Value Added			6.96	6.78	2.09	0.47	2.75	3.31	1.55	
E&O Canadian Fixed Income	16,883	76.5	0.57 (20)	1.42 (80)	1.76 (95)	2.31 (81)	2.37 (81)	2.46 (69)	4.01 (42)	1/04/2006
FTSE TMX Short Term Bond			-0.05 (100)	1.01 (100)	1.81 (92)	2.22 (95)	2.10 (100)	2.08 (100)	3.64 (100)	
Value Added			0.62	0.41	-0.05	0.09	0.27	0.38	0.37	
E&O Short-Term	1,076	4.9	0.36 (78)	0.67 (82)	0.72 (80)	0.84 (85)	0.90 (86)	0.94 (84)	0.88 (92)	1/10/2009
FTSE TMX 91-Day T-Bill			0.26 (100)	0.51 (100)	0.57 (100)	0.68 (100)	0.77 (100)	0.81 (100)	0.78 (100)	
Value Added			0.10	0.16	0.15	0.16	0.13	0.13	0.10	

The total fund performance prior to 30 June 2009 includes a U.S. equities component.
Parentheses contain percentile rankings.
Returns for periods greater than one year are annualized.

Executive Summary

E&O Insurance Fund Annual Performance

As of 31 December

	Performance (%)										
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
E&O Insurance Fund (Gross)	5.74	-0.19	4.26	5.67	4.14	3.54	7.34	11.22	-5.26	1.91	-
E&O Insurance Fund Benchmark	3.84	0.95	4.19	3.39	2.83	2.65	5.69	8.15	-3.15	2.70	-
Value Added	1.90	-1.14	0.07	2.28	1.31	0.89	1.65	3.07	-2.11	-0.79	-
E&O Insurance Fund (Net)	5.61	-0.31	4.12	5.55	4.00	3.42	7.22	11.02	-5.43	1.74	-
E&O Insurance Fund Benchmark	3.84	0.95	4.19	3.39	2.83	2.65	5.69	8.15	-3.15	2.70	-
Value Added	1.77	-1.26	-0.07	2.16	1.17	0.77	1.53	2.87	-2.28	-0.96	-
E&O Canadian Equities	27.86 (8)	-9.71 (93)	7.69 (85)	23.30 (25)	12.71 (21)	-5.82 (34)	16.65 (57)	37.96 (29)	31.09 (45)	4.06 (86)	-
S&P/TSX Capped Composite	21.08 (33)	-8.32 (85)	10.55 (60)	12.99 (96)	7.19 (83)	-8.71 (52)	17.61 (41)	35.06 (44)	33.00 (61)	9.83 (44)	17.26 (50)
Value Added	6.78	-1.39	-2.86	10.31	5.52	2.89	-0.96	2.90	1.91	-5.77	-
E&O Canadian Fixed Income	1.42 (80)	2.09 (88)	3.43 (55)	2.55 (23)	2.82 (38)	4.71 (40)	5.58 (1)	7.02 (34)	4.82 (99)	3.97 (26)	-
FTSE TMX Short Term Bond	1.01 (100)	2.61 (63)	3.06 (85)	1.74 (94)	2.01 (100)	4.65 (49)	3.56 (93)	4.54 (98)	8.55 (10)	4.09 (15)	4.00 (89)
Value Added	0.41	-0.52	0.37	0.81	0.81	0.06	2.02	2.48	-3.73	-0.12	-
E&O Short-Term	0.67 (82)	0.77 (79)	1.07 (72)	1.09 (74)	1.08 (76)	1.00 (92)	0.62 (65)	-	-	-	-
FTSE TMX 91-Day T-Bill	0.51 (100)	0.63 (99)	0.91 (100)	1.01 (100)	1.01 (87)	1.00 (93)	0.54 (88)	0.62 (93)	3.33 (85)	4.43 (70)	3.98 (52)
Value Added	0.16	0.14	0.16	0.08	0.07	0.00	0.08	-	-	-	-

The total fund performance prior to 30 June 2009 includes a U.S. equities component.
Parentheses contain percentile rankings.

Executive Summary

Compensation Fund Asset Allocation and Annualized Performance

As of 31 December 2016

	Market Value ($000)	%	Performance (%)							
			6 Months	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception	Inception Date
Compensation Fund (Gross)	32,774	100.0	3.41	5.71	2.67	3.20	3.82	3.89	5.01	1/06/2003
Compensation Fund Benchmark			1.44	3.84	2.38	2.98	3.09	3.03	4.50	
Value Added			1.97	1.87	0.29	0.22	0.73	0.86	0.51	
Compensation Fund (Net)	32,774	100.0	3.35	5.58	2.55	3.08	3.69	3.76	4.91	1/06/2003
Compensation Fund Benchmark			1.44	3.84	2.38	2.98	3.09	3.03	4.50	
Value Added			1.91	1.74	0.17	0.10	0.60	0.73	0.41	
Compensation Canadian Equities	6,074	18.5	17.20 (7)	27.75 (9)	7.39 (28)	7.54 (61)	11.28 (45)	11.56 (29)	10.55 (44)	1/06/2003
S&P/TSX Capped Composite			10.24 (65)	21.08 (33)	5.36 (81)	7.06 (72)	8.52 (90)	8.25 (91)	8.95 (89)	
Value Added			6.96	6.67	2.03	0.48	2.76	3.31	1.60	
Compensation Canadian Fixed Income	25,101	76.6	0.57 (20)	1.41 (80)	1.78 (93)	2.33 (79)	2.39 (77)	2.47 (67)	4.49 (-)	1/06/2003
Compensation Fixed Income Benchmark			-0.05 (100)	1.01 (100)	1.81 (92)	2.22 (95)	2.10 (100)	2.08 (100)	4.07 (-)	
Value Added			0.62	0.40	-0.03	0.11	0.29	0.39	0.42	
Compensation Short-Term	1,599	4.9	0.36 (78)	0.67 (82)	0.72 (80)	0.84 (84)	0.90 (86)	0.94 (83)	1.65 (100)	1/06/2003
FTSE TMX 91-Day T-Bill			0.26 (100)	0.51 (100)	0.57 (100)	0.68 (100)	0.77 (100)	0.81 (100)	1.80 (100)	
Value Added			0.10	0.16	0.15	0.16	0.13	0.13	-0.15	

The total fund performance prior to 30 June 2009 includes a U.S. equities component.
Parentheses contain percentile rankings.
Returns for periods greater than one year are annualized.

Executive Summary

Compensation Fund Annual Performance

As of 31 December

	Performance (%)										
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Compensation Fund (Gross)	5.71	-0.28	4.28	5.68	4.18	3.52	7.43	9.74	0.92	2.16	6.23
Compensation Fund Benchmark	3.84	0.95	4.19	3.39	2.83	2.65	6.37	7.82	0.82	3.06	5.88
Value Added	1.87	-1.23	0.09	2.29	1.35	0.87	1.06	1.92	0.10	-0.90	0.35
Compensation Fund (Net)	5.58	-0.40	4.14	5.54	4.06	3.44	7.43	9.70	0.82	2.03	6.10
Compensation Fund Benchmark	3.84	0.95	4.19	3.39	2.83	2.65	6.37	7.82	0.82	3.06	5.88
Value Added	1.74	-1.35	-0.05	2.15	1.23	0.79	1.06	1.88	0.00	-1.03	0.22
Compensation Canadian Equities	27.75 (9)	-9.72 (93)	7.83 (83)	23.30 (25)	12.71 (21)	-5.82 (34)	16.65 (57)	37.96 (29)	31.09 (45)	4.06 (86)	14.53 (75)
S&P/TSX Capped Composite	21.08 (33)	-8.32 (85)	10.55 (60)	12.99 (96)	7.19 (83)	-8.71 (52)	17.61 (41)	35.06 (44)	33.00 (61)	9.83 (44)	17.26 (50)
Value Added	6.67	-1.40	-2.72	10.31	5.52	2.89	-0.96	2.90	1.91	-5.77	-2.73
Compensation Canadian Fixed Income	1.41 (80)	2.16 (87)	3.43 (54)	2.57 (23)	2.82 (38)	4.71 (40)	5.81 (1)	7.34 (31)	4.82 (99)	3.93 (29)	4.37 (25)
Compensation Fixed Income Benchmark	1.01 (100)	2.61 (63)	3.06 (85)	1.74 (94)	2.01 (100)	4.65 (49)	4.40 (29)	5.41 (94)	6.41 (73)	3.68 (72)	4.06 (82)
Value Added	0.40	-0.45	0.37	0.83	0.81	0.06	1.41	1.93	-1.59	0.25	0.31
Compensation Short-Term	0.67 (82)	0.77 (79)	1.08 (69)	1.09 (74)	1.08 (76)	1.00 (92)	0.64 (63)	-4.60 (100)	9.37 (1)	1.73 (100)	3.82 (89)
FTSE TMX 91-Day T-Bill	0.51 (100)	0.63 (99)	0.91 (100)	1.01 (100)	1.01 (87)	1.00 (93)	0.54 (88)	0.62 (93)	3.33 (85)	4.43 (70)	3.98 (52)
Value Added	0.16	0.14	0.17	0.08	0.07	0.00	0.10	-5.22	6.04	-2.70	-0.16

The total fund performance prior to 30 June 2009 includes a U.S. equities component.
Parentheses contain percentile rankings.

Executive Summary

General Fund Asset Allocation and Annualized Performance

As of 31 December 2016

	Market Value ($000)	%	Performance (%) 6 Months	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception	Inception Date
General Fund (Gross)	16,785	100.0	3.41	5.71	2.68	3.21	3.82	3.89	4.16	1/04/2004
General Fund Benchmark			1.44	3.84	2.38	2.98	3.09	3.03	3.83	
Value Added			1.97	1.87	0.30	0.23	0.73	0.86	0.33	
General Fund (Net)	16,785	100.0	3.35	5.59	2.56	3.08	3.69	3.76	4.07	1/04/2004
General Fund Benchmark			1.44	3.84	2.38	2.98	3.09	3.03	3.83	
Value Added			1.91	1.75	0.18	0.10	0.60	0.73	0.24	
General Canadian Equities	3,117	18.6	17.20 (7)	27.75 (9)	7.40 (28)	7.53 (61)	11.27 (45)	11.56 (30)	9.15 (44)	1/04/2004
S&P/TSX Capped Composite			10.24 (65)	21.08 (33)	5.36 (81)	7.06 (72)	8.52 (90)	8.25 (91)	7.52 (91)	
Value Added			6.96	6.67	2.04	0.47	2.75	3.31	1.63	
General Canadian Fixed Income	12,850	76.6	0.57 (20)	1.41 (80)	1.78 (93)	2.33 (79)	2.39 (73)	2.48 (66)	3.58 (100)	1/04/2004
FTSE TMX Short Term Bond			-0.05 (100)	1.01 (100)	1.81 (92)	2.22 (95)	2.10 (100)	2.08 (100)	3.48 (100)	
Value Added			0.62	0.40	-0.03	0.11	0.29	0.40	0.10	
General Short-Term	818	4.9	0.36 (78)	0.67 (82)	0.73 (79)	0.84 (85)	0.89 (87)	0.92 (94)	2.02 (35)	1/04/2004
FTSE TMX 91-Day T-Bill			0.26 (100)	0.51 (100)	0.57 (100)	0.68 (100)	0.77 (100)	0.81 (100)	1.73 (100)	
Value Added			0.10	0.16	0.16	0.16	0.12	0.11	0.29	

The total fund performance prior to 30 June 2009 includes a U.S. equities component.
Parentheses contain percentile rankings.
Returns for periods greater than one year are annualized.

Executive Summary

General Fund Annual Performance

As of 31 December

	Performance (%)										
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
General Fund (Gross)	5.71	-0.26	4.26	5.67	4.18	3.52	5.22	8.33	2.88	2.22	6.47
General Fund Benchmark	3.84	0.95	4.19	3.39	2.83	2.65	5.62	7.06	2.58	3.40	5.83
Value Added	1.87	-1.21	0.07	2.28	1.35	0.87	-0.40	1.27	0.30	-1.18	0.64
General Fund (Net)	5.59	-0.37	4.12	5.54	4.06	3.44	5.22	8.32	2.78	2.08	6.37
General Fund Benchmark	3.84	0.95	4.19	3.39	2.83	2.65	5.62	7.06	2.58	3.40	5.83
Value Added	1.75	-1.32	-0.07	2.15	1.23	0.79	-0.40	1.26	0.20	-1.32	0.54
General Canadian Equities	27.75 (9)	-9.72 (93)	7.80 (84)	23.30 (25)	12.71 (21)	-5.82 (34)	16.65 (57)	37.96 (29)	31.09 (45)	4.06 (86)	14.53 (75)
S&P/TSX Capped Composite	21.08 (33)	-8.32 (85)	10.55 (60)	12.99 (96)	7.19 (83)	-8.71 (52)	17.61 (41)	35.06 (44)	33.00 (61)	9.83 (44)	17.26 (50)
Value Added	6.67	-1.40	-2.75	10.31	5.52	2.89	-0.96	2.90	1.91	-5.77	-2.73
General Canadian Fixed Income	1.41 (80)	2.16 (87)	3.43 (54)	2.58 (22)	2.83 (37)	4.71 (40)	3.07 (100)	5.54 (87)	7.31 (63)	4.00 (24)	4.32 (26)
FTSE TMX Short Term Bond	1.01 (100)	2.61 (63)	3.06 (85)	1.74 (94)	2.01 (100)	4.65 (49)	3.56 (93)	4.54 (98)	8.55 (10)	4.09 (15)	4.00 (89)
Value Added	0.40	-0.45	0.37	0.84	0.82	0.06	-0.49	1.00	-1.24	-0.09	0.32
General Short-Term	0.67 (82)	0.78 (79)	1.07 (71)	1.04 (90)	1.02 (86)	0.95 (100)	2.29 (1)	-1.60 (100)	11.50 (1)	1.29 (100)	3.99 (48)
FTSE TMX 91-Day T-Bill	0.51 (100)	0.63 (99)	0.91 (100)	1.01 (100)	1.01 (87)	1.00 (93)	0.54 (88)	0.62 (93)	3.33 (85)	4.43 (70)	3.98 (52)
Value Added	0.16	0.15	0.16	0.03	0.01	-0.05	1.75	-2.22	8.17	-3.14	0.01

The total fund performance prior to 30 June 2009 includes a U.S. equities component.
Parentheses contain percentile rankings.

Capital Market Performance

Capital Market Performance

Major Capital Markets' Returns

As of 31 December 2016

	6 Months	Year To Date	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years
Canadian Equity								
S&P/TSX Composite	10.2	21.1	21.1	5.4	7.1	8.5	8.2	4.7
Foreign Equity								
S&P 500 (CAD)	11.3	8.1	8.1	14.6	17.7	23.2	21.2	8.5
S&P 500 (USD)	7.8	12.0	12.0	6.5	8.9	14.3	14.7	6.9
MSCI EAFE (Net) (CAD)	9.1	-2.5	-2.5	7.7	6.3	12.0	12.6	2.2
MSCI World (Net) (CAD)	10.3	3.8	3.8	11.1	12.2	17.5	16.7	5.3
Real Estate								
REALpac / IPD Canada Property Index	3.1	5.7	5.7	6.8	7.0	8.0	9.1	9.0
Fixed Income								
FTSE TMX Universe Bond	-2.3	1.7	1.7	2.6	4.6	3.1	3.2	4.8
FTSE TMX Long Term Bond	-5.3	2.5	2.5	3.1	7.7	4.1	4.3	6.3
FTSE TMX 91-Day T-Bill	0.3	0.5	0.5	0.6	0.7	0.8	0.8	1.4
Consumer Price Index								
Canadian CPI, unadjusted	-0.5	1.5	1.5	1.6	1.5	1.5	1.3	1.6

Canadian Equities

The S&P/TSX Composite Index returned +10.2% in last six months of 2016, driven by strong returns in the Financials (+18.1%) and Energy (+13.6%) sectors. Value stocks outperformed growth stocks (+18.5% vs. +5.7%), expanding the trend of outperformance over the past year (+32.9% vs. +9.6%). The S&P/TSX Composite Index returned +21.1% over 2016. All sectors posted positive returns, except for Healthcare (-78.5%). The best performing sectors in the past year were Materials (+41.2%), Energy (+35.4%), and Financials (+24.1%).

U.S. Equities

The S&P 500 Index (CAD) returned +11.3% over the six month period. The decline of the Canadian dollar versus the U.S. dollar added 3.5% for unhedged Canadian investors. All sectors posted positive returns, except for Consumer Staples (-1.5%). The best performing sectors were Financials (+30.8%), Information Technology (+17.9%), and Industrials (+15.3%). The Index returned +8.1% over the last twelve months in Canadian dollar terms. Sector performance was generally positive with Energy (+23.0%) Telecommunications (+19.2%) and Financials (+18.6%) being the strongest performers.

Non-North American Equities

The MSCI EAFE Index (CAD) posted returned +9.1% over the last six months. Sector results were mixed, with Financials (+24.1%) and Materials (+23.7%) the best performing and Healthcare (-7.0%) and Consumer Staples (-5.6%) the worst performing. Over the past twelve months, the Index returned -2.5% in Canadian dollar terms. Energy (+22.4%), Materials (+20.0%), and Industrials (+3.0%) were the only sectors to generate positive returns over the year.

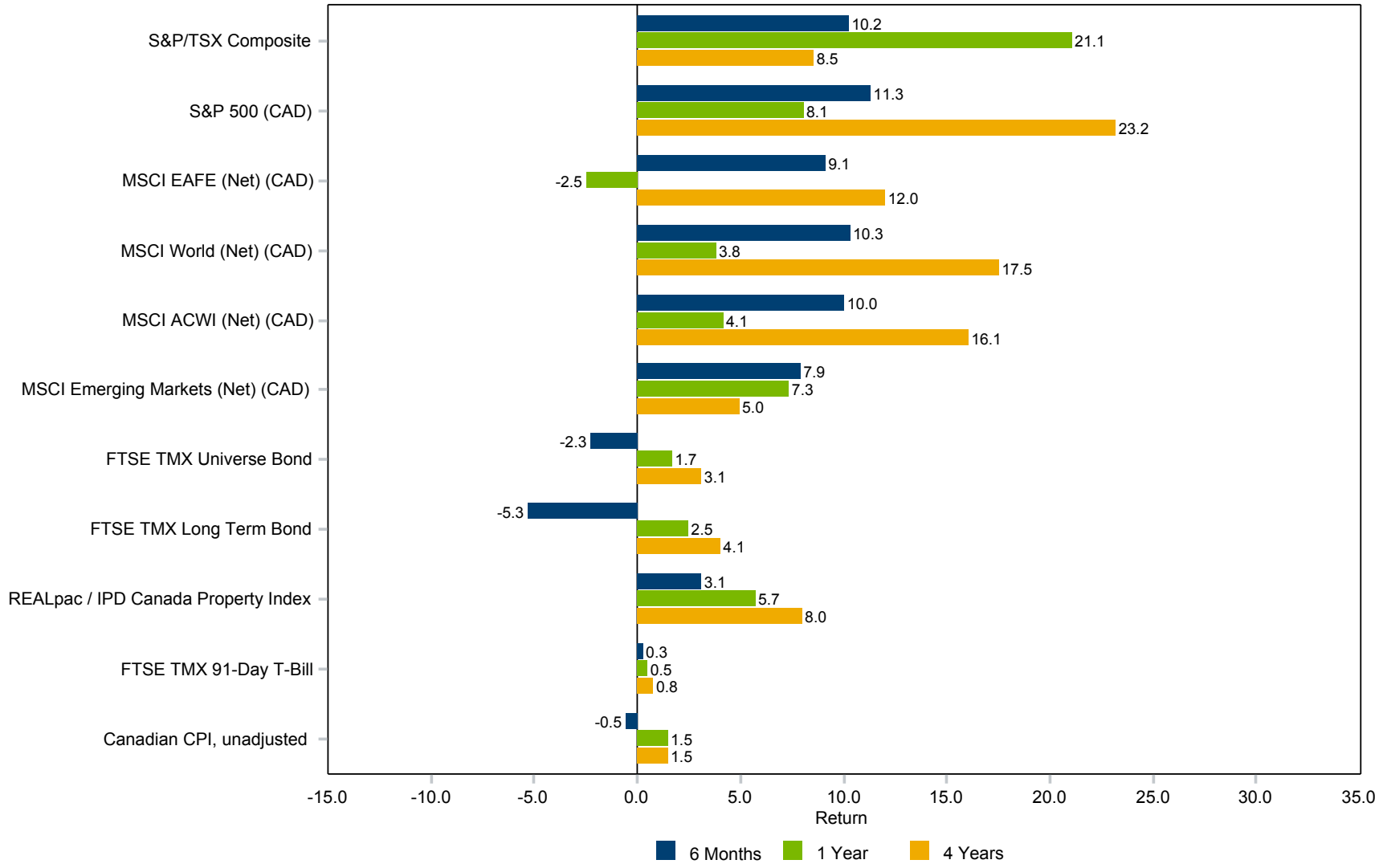
Fixed Income

The Canadian bond market, as measured by the FTSE TMX Universe Bond Index, declined by 2.3% over the six month period. Bond market returns were negative across all segments. Corporate bonds returned -0.3%, outperforming both Federal bonds (-2.7%) and Provincial bonds (-3.4%). Over the last twelve months, the Index returned +1.7%. Long duration bonds outperformed medium and short duration bonds during the year. Yields rose sharply in the last few months of the year after the election of Donald Trump increased inflationary expectations in the markets.

Capital Market Performance

Comparative Performance

As of 31 December 2016



E&O Insurance Fund Analysis

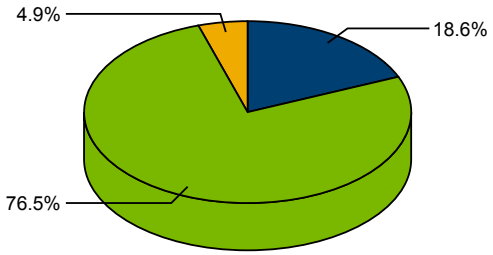
E&O Insurance Fund

Asset Allocation by Segment

E&O Insurance Fund

31 December 2016 : $22,070,392

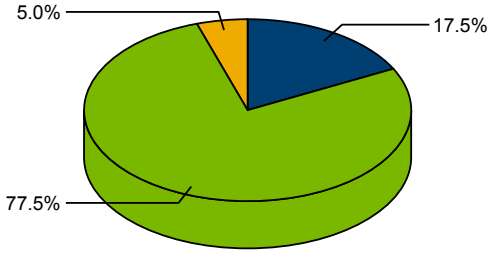
Segments	Market Value ($)	Allocation (%)
Canadian Equity	4,111,388	18.6
Canadian Fixed Income	16,882,835	76.5
Short-Term	1,076,168	4.9



Canadian Equity Canadian Fixed Income Short-Term

30 June 2016 : $21,341,546

Segments	Market Value ($)	Allocation (%)
Canadian Equity	3,731,013	17.5
Canadian Fixed Income	16,538,200	77.5
Short-Term	1,072,333	5.0



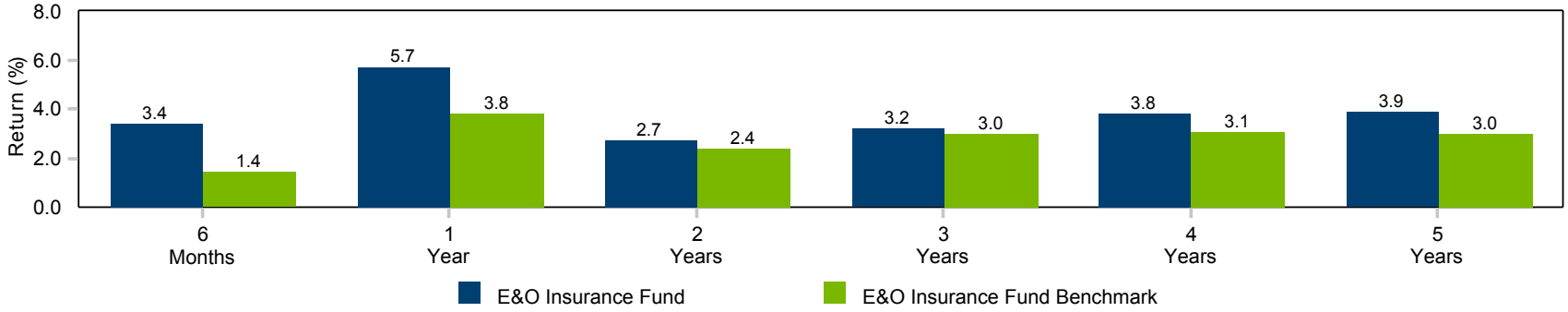
Canadian Equity Canadian Fixed Income Short-Term

E&O Insurance Fund

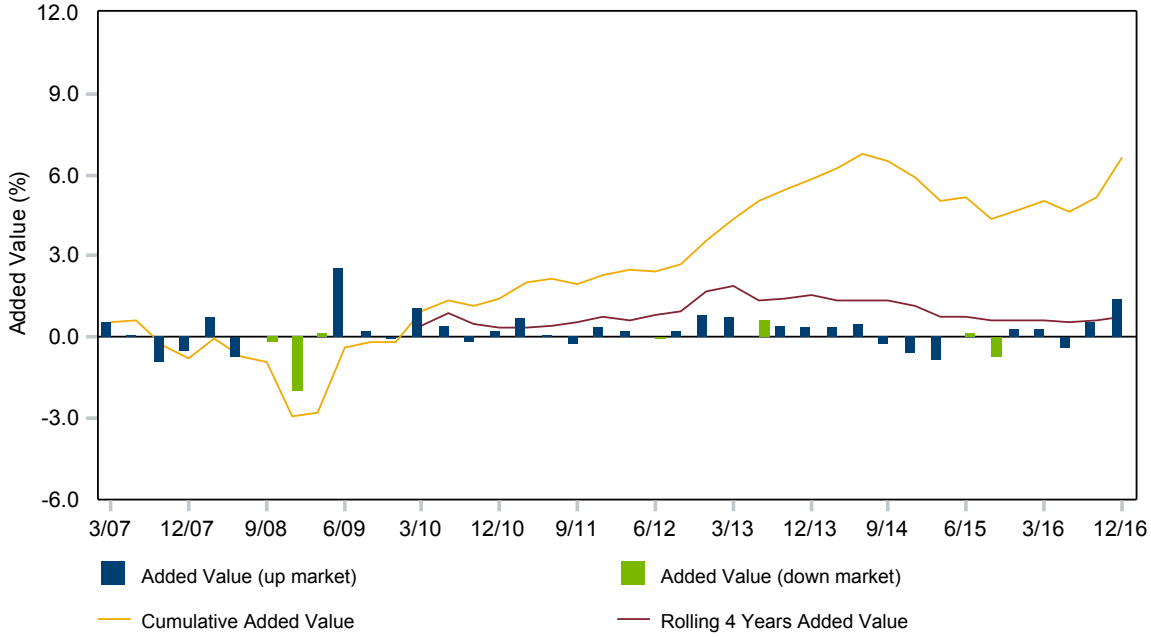
E&O Insurance Fund Performance Summary

As of 31 December 2016

Return Summary



Added Value History (%)



Performance Statistics

	Quarters	%
Market Capture		
Up Markets	35	123.9
Down Markets	8	136.9
Batting Average		
Up Markets	35	74.3
Down Markets	8	37.5
Overall	43	67.4

Six Months

Strong stock selection in the materials and energy sectors contributed to performance. Stock selection in the telecommunications sector detracted from performance as did the portfolio's overweight position in the consumer discretionary sector.

The portfolio's overweight position in corporate bonds continued to be a strong contributor to performance. Canadian financial bonds, specifically insurance and bank non-viable contingent capital (NVCC) securities, performed well in the quarter. The exposure to longer-dated hybrid federal bonds and provincial credits detracted from performance as did the portfolio's underweight in energy and communication sectors.

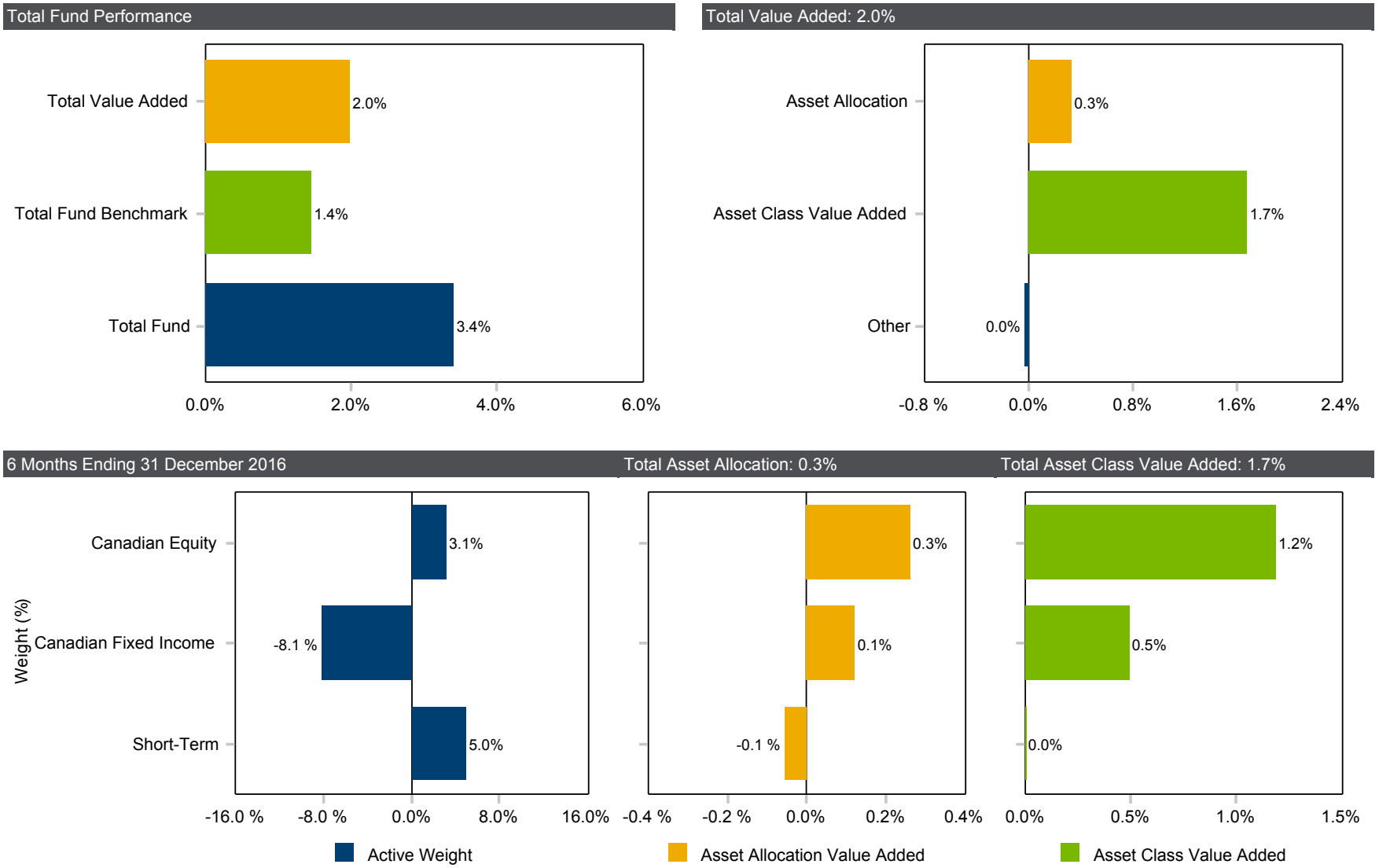
AON Empower Results®

E&O Insurance Fund

E&O Insurance Fund Performance Attribution

6 Months Ending 31 December 2016

Total Fund vs. Benchmark

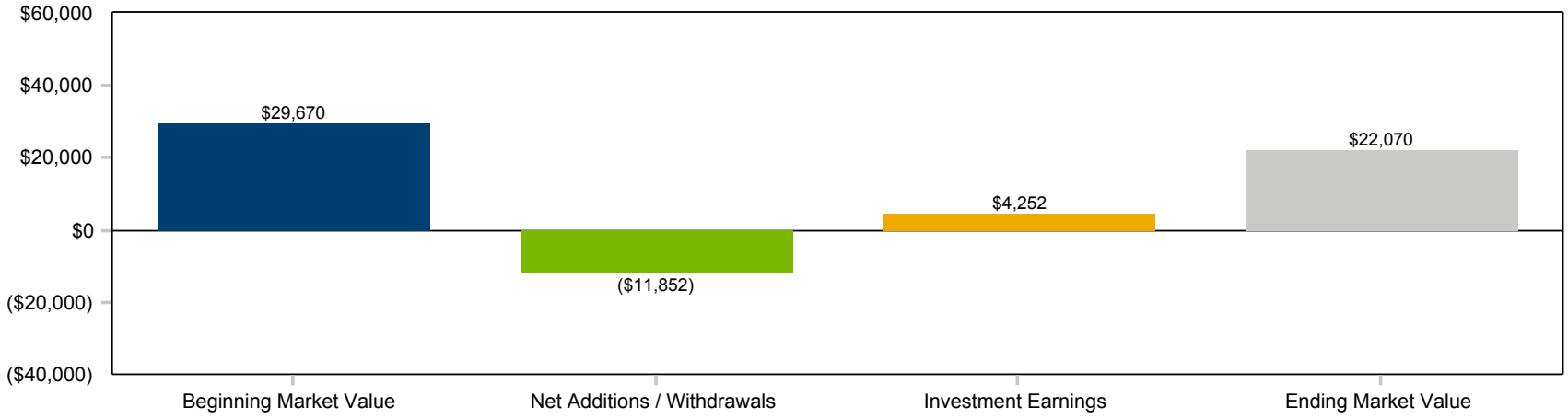


E&O Insurance Fund

E&O Insurance Fund Asset Summary

As of 31 December 2016

Change in Market Value ($000)
From 1 January 2013 to 31 December 2016



Summary of Cash Flows ($000)

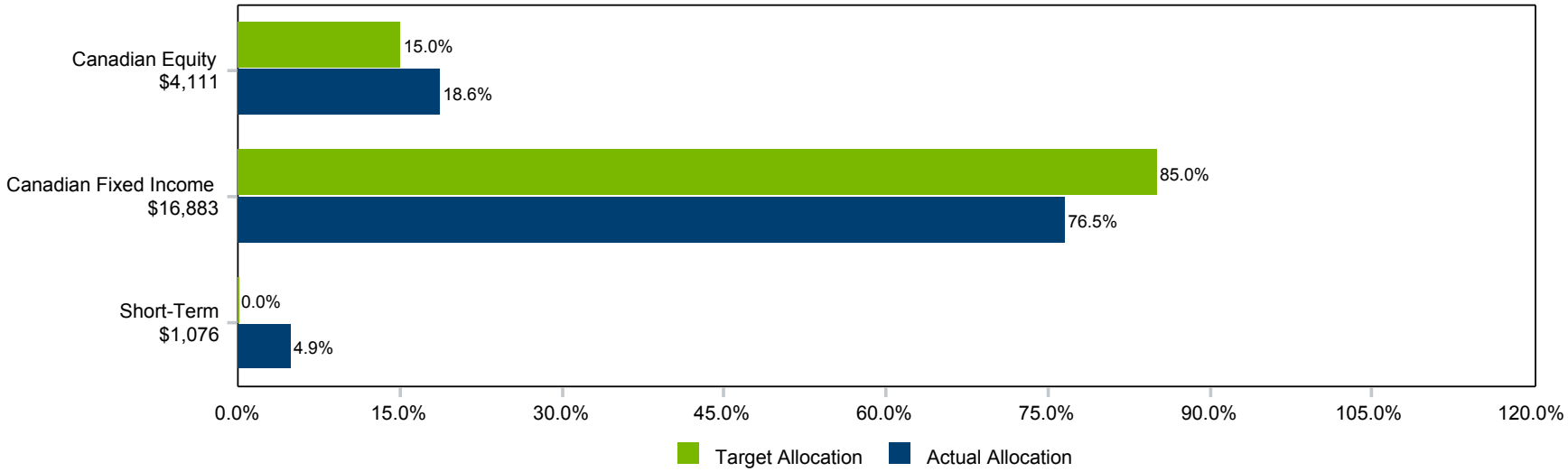
	Jan-2013 To Dec-2016
E&O Insurance Fund	
Beginning Market Value	29,670
+/- Net Cash Flows	-11,852
+/- Income	3,362
+/- Capital Gains / Losses	890
= Ending Market Value	22,070

Note: Capital Gains / Losses also includes Accretion / Amortization
.

E&O Insurance Fund

Asset Allocation Compliance

As of 31 December 2016 ($000)



	Market Value ($000)	Market Value (%)	Target Allocation (%)	Differences (%)	Minimum Allocation (%)	Maximum Allocation (%)
Total Fund	22,070	100.0	100.0	0.0		
Canadian Equity	4,111	18.6	15.0	3.6	5.0	25.0
Canadian Fixed Income	16,883	76.5	85.0	-8.5	60.0	95.0
Short-Term	1,076	4.9	0.0	4.9	0.0	15.0

Compensation Fund Analysis

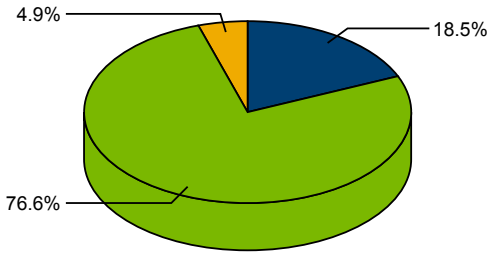
Compensation Fund

Asset Allocation by Segment

Compensation Fund

31 December 2016 : $32,774,041

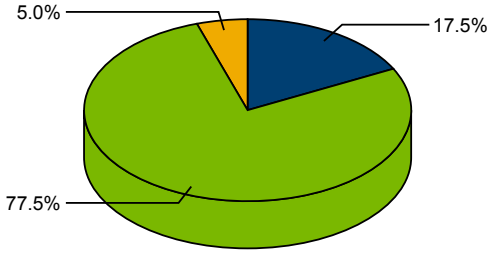
Segments	Market Value ($)	Allocation (%)
Canadian Equity	6,074,398	18.5
Canadian Fixed Income	25,101,096	76.6
Short-Term	1,598,547	4.9



Canadian Equity Canadian Fixed Income Short-Term

30 June 2016 : $31,692,856

Segments	Market Value ($)	Allocation (%)
Canadian Equity	5,539,442	17.5
Canadian Fixed Income	24,560,565	77.5
Short-Term	1,592,849	5.0



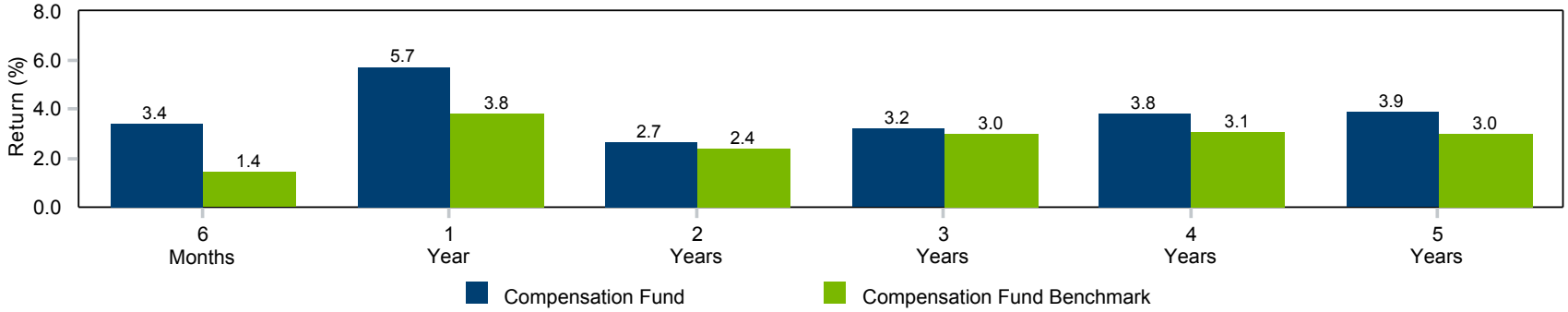
Canadian Equity Canadian Fixed Income Short-Term

Compensation Fund

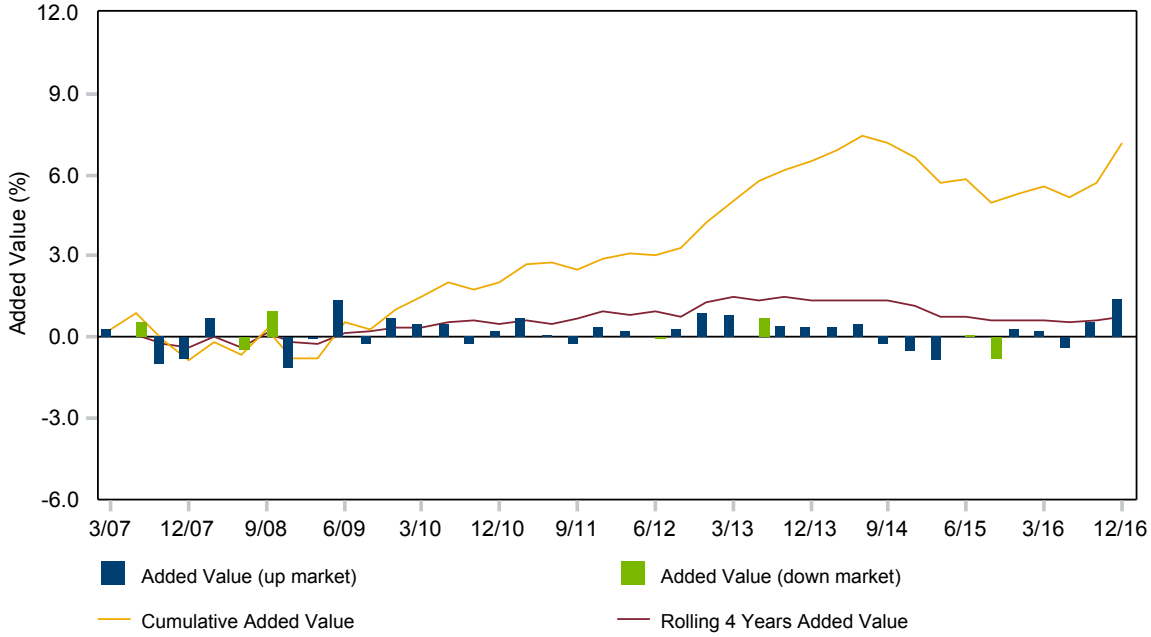
Compensation Fund Performance Summary

As of 31 December 2016

Return Summary



Added Value History (%)



Performance Statistics

	Quarters	%
Market Capture		
Up Markets	33	114.7
Down Markets	7	82.1
Batting Average		
Up Markets	33	66.7
Down Markets	7	57.1
Overall	40	65.0

Six Months

Strong stock selection in the materials and energy sectors contributed to performance. Stock selection in the telecommunications sector detracted from performance as did the portfolio's overweight position in the consumer discretionary sector.

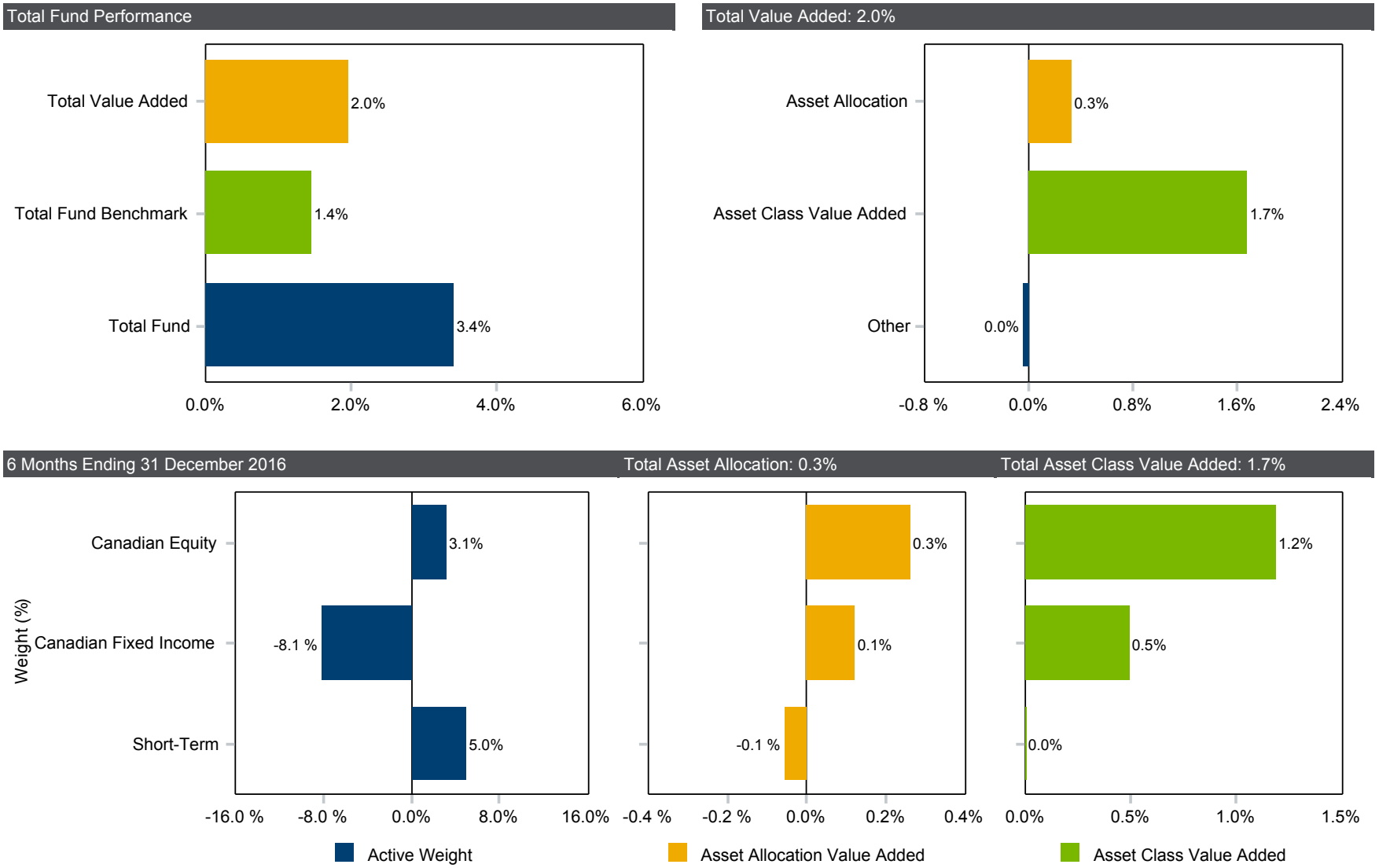
The portfolio's overweight position in corporate bonds continued to be a strong contributor to performance. Canadian financial bonds, specifically insurance and bank non-viable contingent capital (NVCC) securities, performed well in the quarter. The exposure to longer-dated hybrid federal bonds and provincial credits detracted from performance as did the portfolio's underweight in energy and communication sectors.

Compensation Fund

Compensation Fund Performance Attribution

6 Months Ending 31 December 2016

Total Fund vs. Benchmark

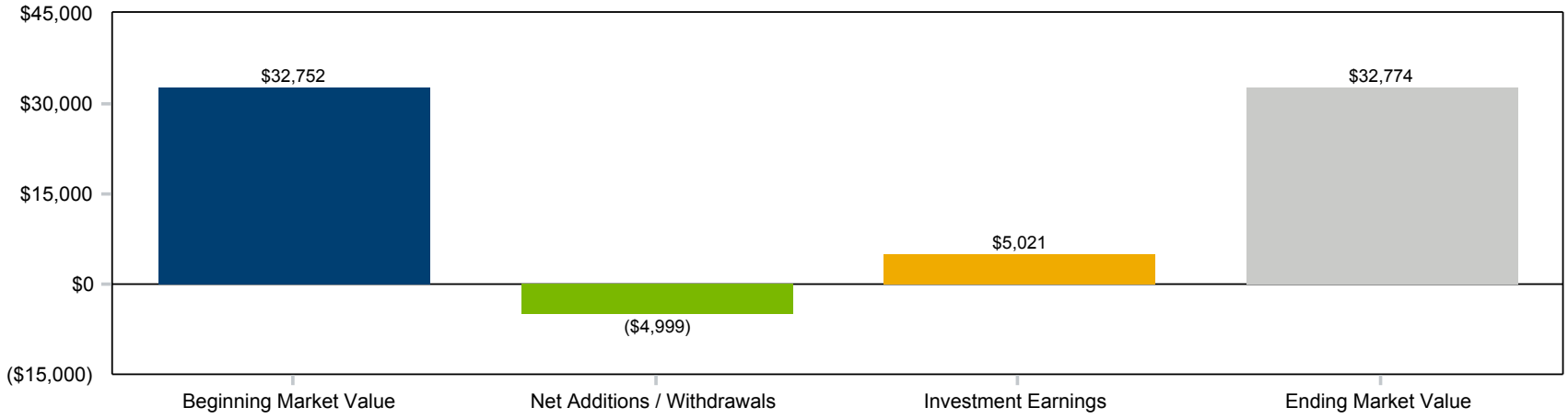


Compensation Fund

Compensation Fund Asset Summary

As of 31 December 2016

Change in Market Value ($000)
From 1 January 2013 to 31 December 2016



Summary of Cash Flows ($000)

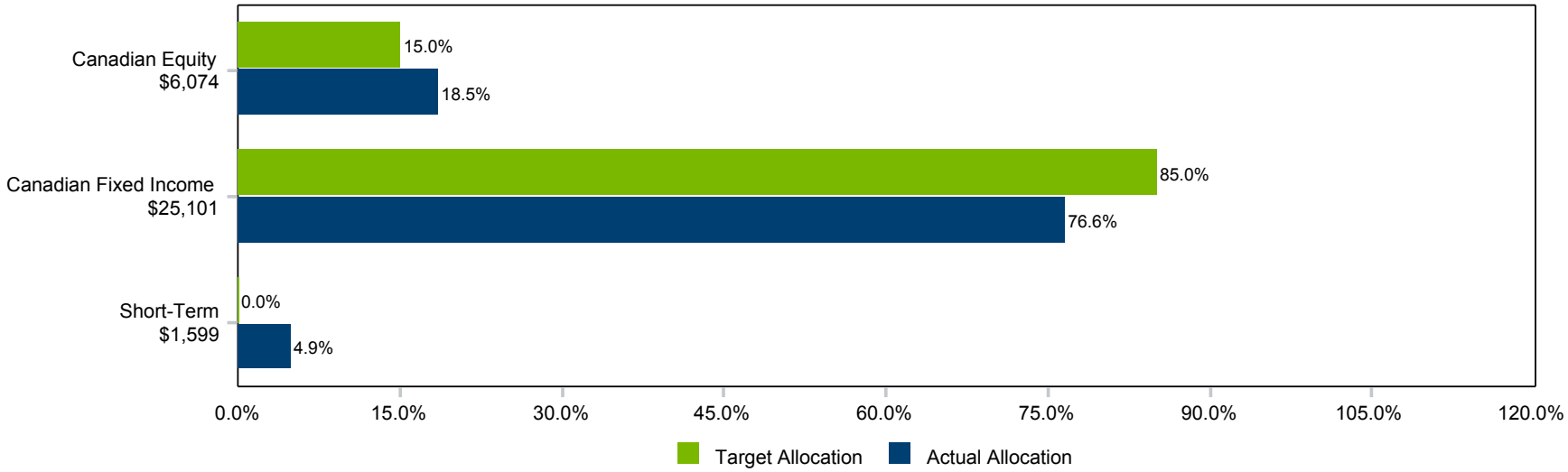
	Jan-2013 To Dec-2016
Compensation Fund	
Beginning Market Value	32,752
+/- Net Cash Flows	-4,999
+/- Income	3,888
+/- Capital Gains / Losses	1,133
= Ending Market Value	32,774

Note: Capital Gains / Losses also includes Accretion / Amortization
.

Compensation Fund

Asset Allocation Compliance

As of 31 December 2016 ($000)



	Market Value ($000)	Market Value (%)	Target Allocation (%)	Differences (%)	Minimum Allocation (%)	Maximum Allocation (%)
Total Fund	32,774	100.0	100.0	0.0		
Canadian Equity	6,074	18.5	15.0	3.5	5.0	25.0
Canadian Fixed Income	25,101	76.6	85.0	-8.4	60.0	95.0
Short-Term	1,599	4.9	0.0	4.9	0.0	15.0

General Fund Analysis

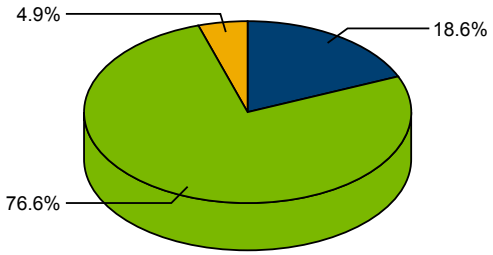
General Fund

Asset Allocation by Segment

General Fund

31 December 2016 : $16,784,593

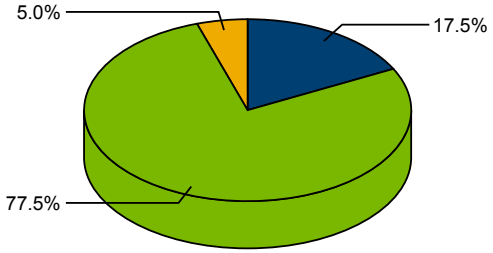
Segments	Market Value ($)	Allocation (%)
Canadian Equity	3,116,775	18.6
Canadian Fixed Income	12,849,942	76.6
Short-Term	817,877	4.9



Canadian Equity Canadian Fixed Income Short-Term

30 June 2016 : $16,230,598

Segments	Market Value ($)	Allocation (%)
Canadian Equity	2,837,665	17.5
Canadian Fixed Income	12,577,971	77.5
Short-Term	814,962	5.0



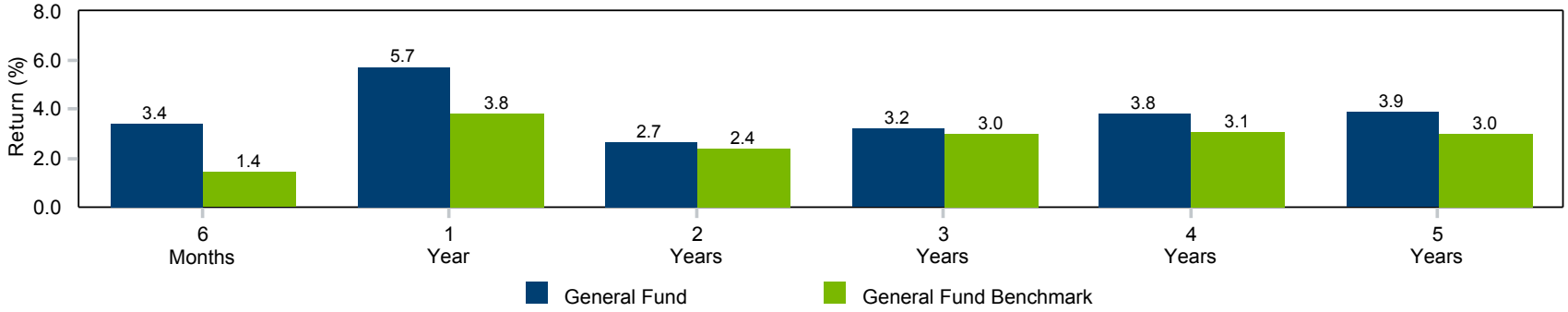
Canadian Equity Canadian Fixed Income Short-Term

General Fund

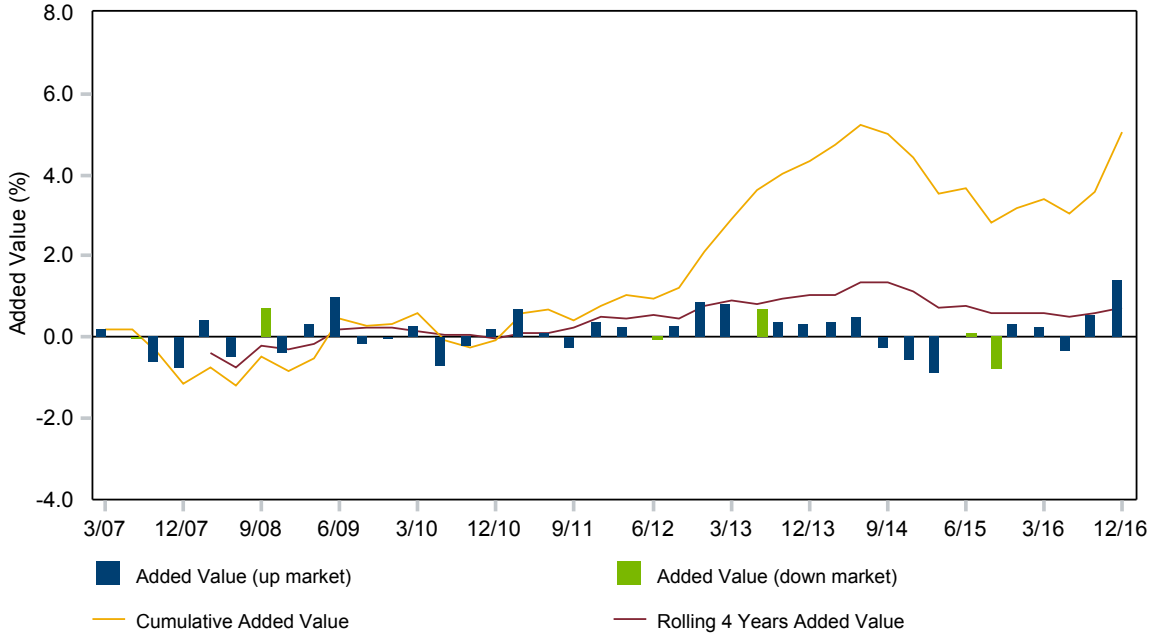
General Fund Performance Summary

As of 31 December 2016

Return Summary



Added Value History (%)



Performance Statistics

	Quarters	%
Market Capture		
Up Markets	43	105.8
Down Markets	8	74.2
Batting Average		
Up Markets	43	60.5
Down Markets	8	62.5
Overall	51	60.8

Six Months

Strong stock selection in the materials and energy sectors contributed to performance. Stock selection in the telecommunications sector detracted from performance as did the portfolio's overweight position in the consumer discretionary sector.

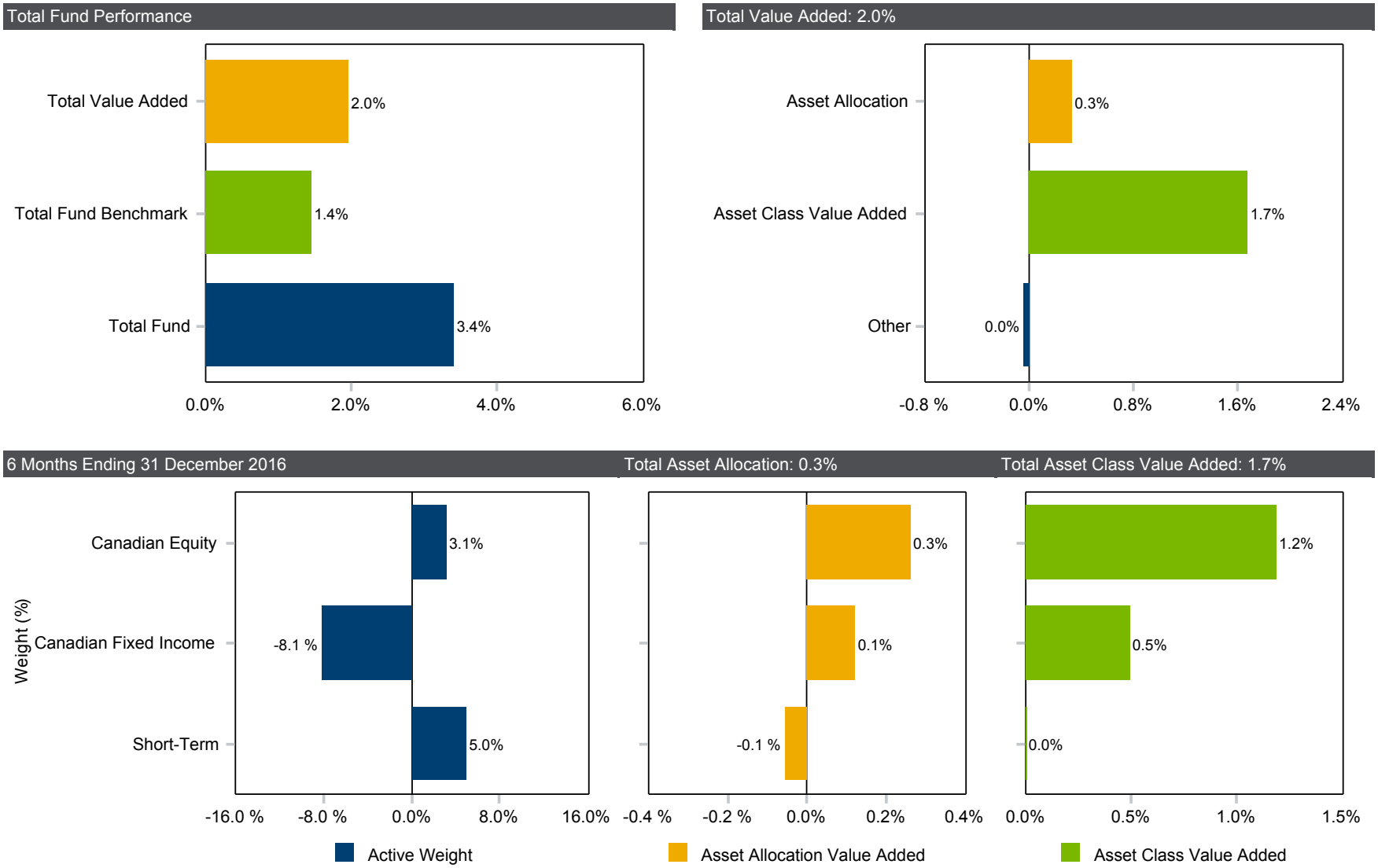
The portfolio's overweight position in corporate bonds continued to be a strong contributor to performance. Canadian financial bonds, specifically insurance and bank non-viable contingent capital (NVCC) securities, performed well in the quarter. The exposure to longer-dated hybrid federal bonds and provincial credits detracted from performance as did the portfolio's underweight in energy and communication sectors.

General Fund

General Fund Performance Attribution

6 Months Ending 31 December 2016

Total Fund vs. Benchmark

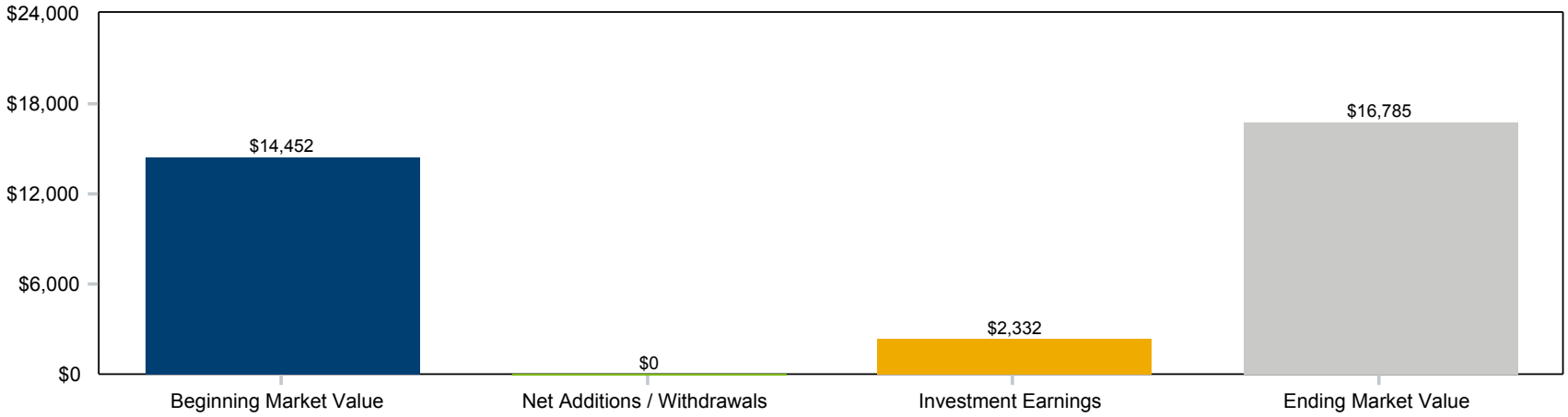


General Fund

General Fund Asset Summary

As of 31 December 2016

Change in Market Value ($000)
From 1 January 2013 to 31 December 2016



Summary of Cash Flows ($000)

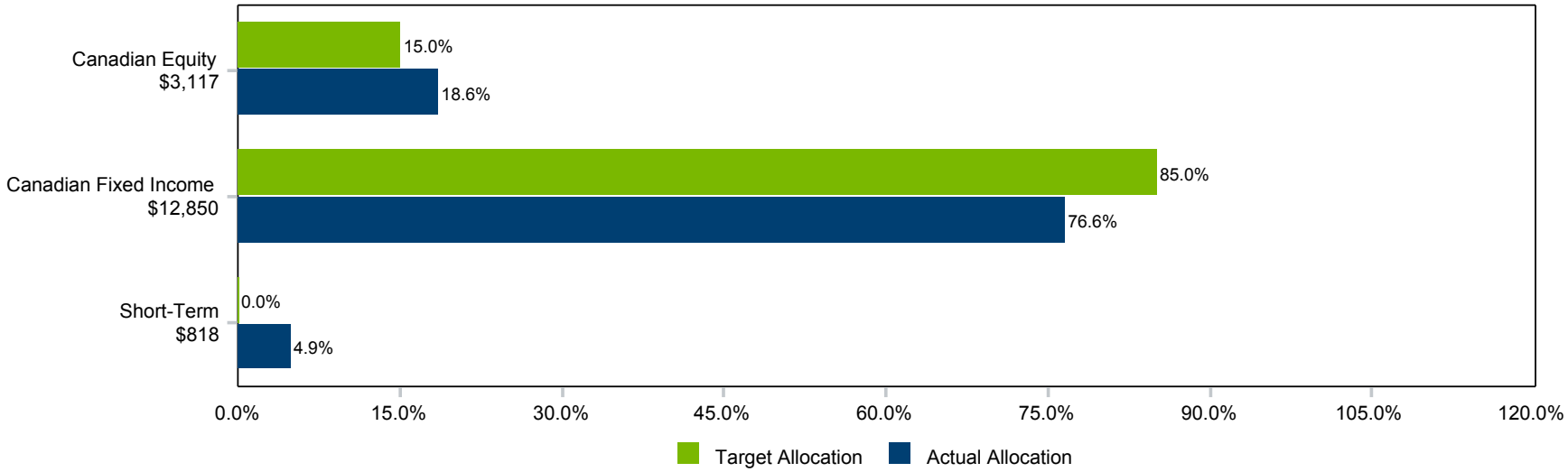
	Jan-2013 To Dec-2016
General Fund	
Beginning Market Value	14,452
+/- Net Cash Flows	-
+/- Income	1,779
+/- Capital Gains / Losses	553
= Ending Market Value	16,785

Note: Capital Gains / Losses also includes Accretion / Amortization
.

General Fund

Asset Allocation Compliance

As of 31 December 2016 ($000)



	Market Value ($000)	Market Value (%)	Target Allocation (%)	Differences (%)	Minimum Allocation (%)	Maximum Allocation (%)
Total Fund	16,785	100.0	100.0	0.0		
Canadian Equity	3,117	18.6	15.0	3.6	5.0	25.0
Canadian Fixed Income	12,850	76.6	85.0	-8.4	60.0	95.0
Short-Term	818	4.9	0.0	4.9	0.0	15.0

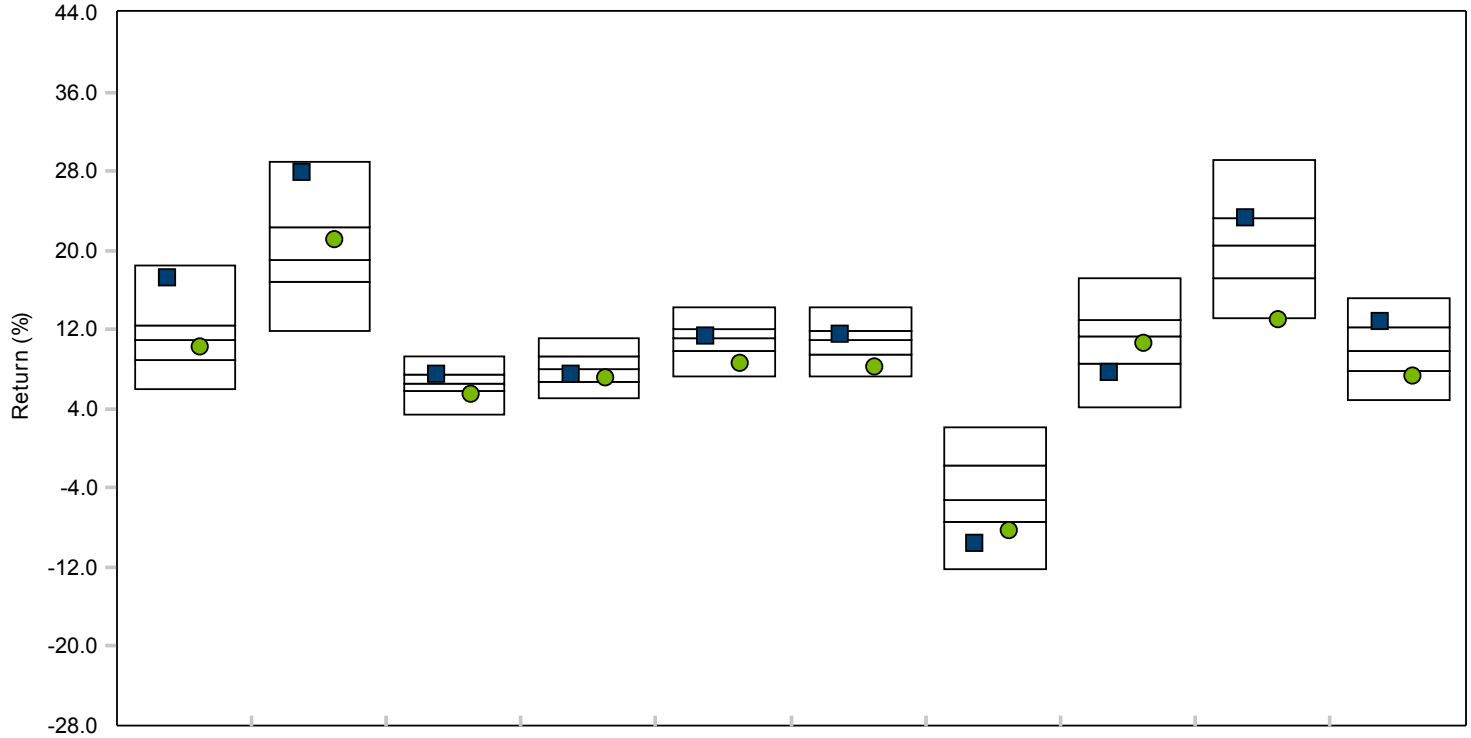
Asset Class Analysis

Canadian Equity Funds

Peer Group Analysis

As of 31 December 2016

Canadian Equity



	6 Months	1 Year	2 Years	3 Years	4 Years	5 Years	2015	2014	2013	2012
■ FGP Canadian Equity	17.2 (7)	27.9 (8)	7.4 (26)	7.5 (61)	11.3 (45)	11.6 (30)	-9.7 (93)	7.7 (85)	23.3 (25)	12.7 (21)
● S&P/TSX Capped Composite	10.2 (65)	21.1 (33)	5.4 (81)	7.1 (72)	8.5 (90)	8.2 (91)	-8.3 (85)	10.6 (60)	13.0 (96)	7.2 (83)
5th Percentile	18.5	28.9	9.4	11.2	14.2	14.2	2.1	17.1	29.1	15.2
1st Quartile	12.5	22.3	7.5	9.3	12.0	11.9	-1.8	13.0	23.3	12.3
Median	11.0	19.1	6.6	8.0	11.0	10.9	-5.2	11.4	20.5	9.9
3rd Quartile	8.9	16.9	5.7	6.7	9.8	9.4	-7.4	8.5	17.2	7.8
95th Percentile	6.0	11.8	3.4	5.0	7.3	7.2	-12.2	4.2	13.2	5.0
Population	103	103	103	103	103	103	114	114	114	119

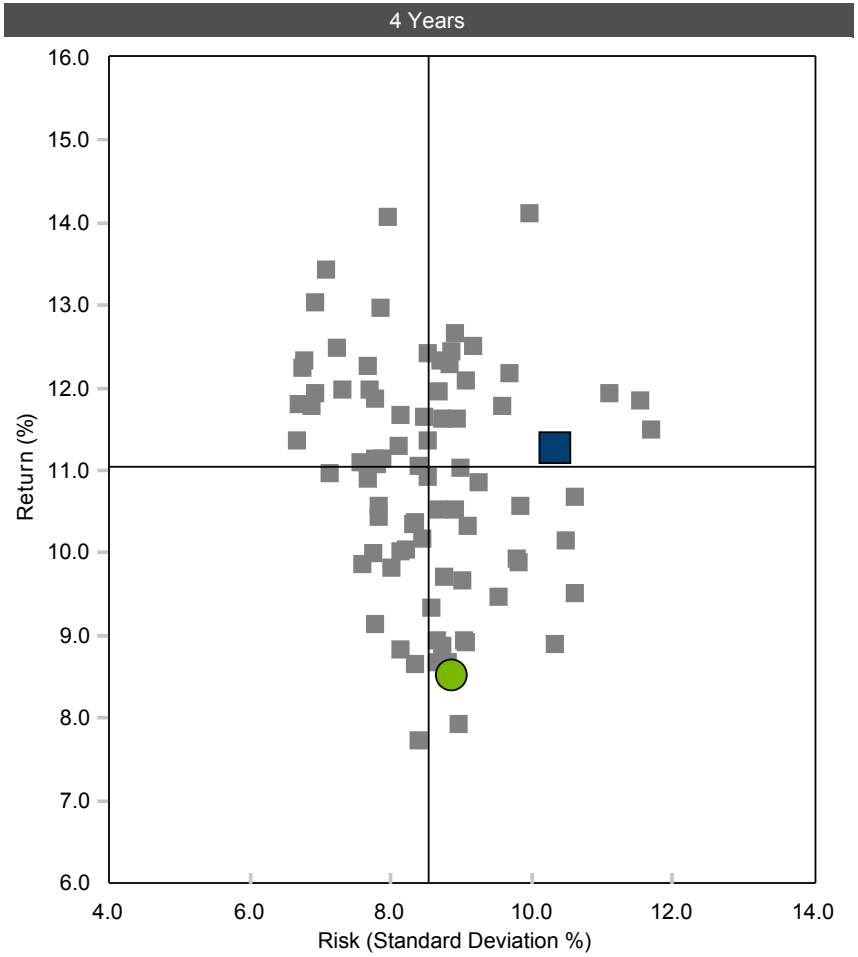
Parentheses contain percentile rankings.
Returns for periods greater than one year are annualized.
Source: Aon Hewitt Manager Universe.

Canadian Equity Funds

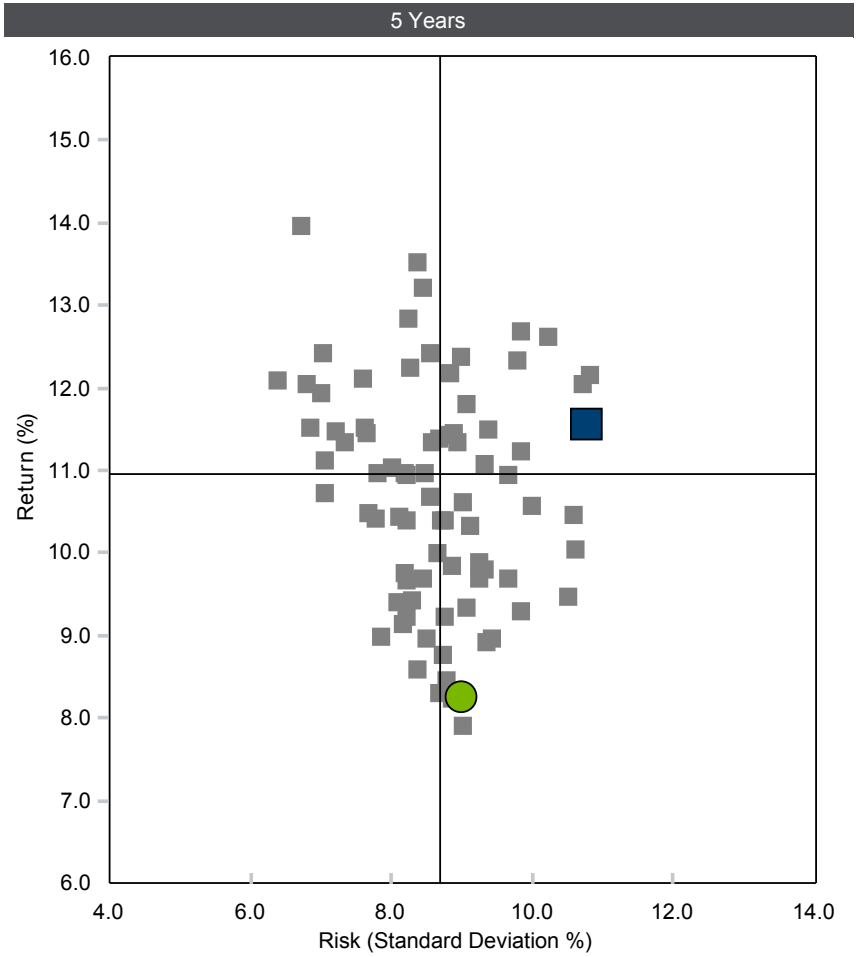
Peer Group Scattergram

Periods Ending 31 December 2016

Canadian Equity



	Return	Standard Deviation
FGP Canadian Equity	11.3	10.3
S&P/TSX Capped Composite	8.5	8.9
Median	11.0	8.5



	Return	Standard Deviation
FGP Canadian Equity	11.6	10.8
S&P/TSX Capped Composite	8.2	9.0
Median	10.9	8.7

Returns for periods greater than one year are annualized.
Source: Aon Hewitt Manager Universe.

Canadian Equity Funds

FGP Canadian Equity Portfolio Characteristics

6 Month Period Ending 31 December 2016

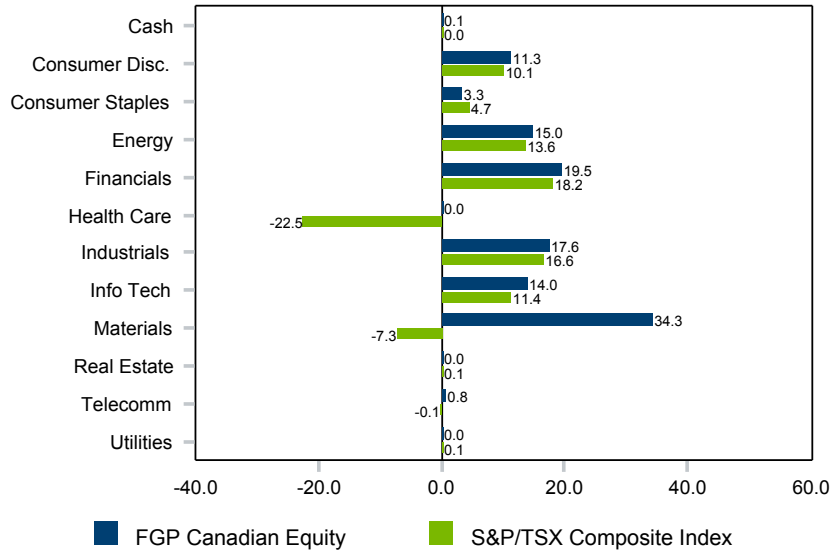
Portfolio Characteristics

	Portfolio	Benchmark
Wtd. Avg. Mkt. Cap ($M)	46,010	44,661
Median Mkt. Cap ($M)	17,078	2,815
Price/Earnings ratio	16.0	17.3
Price/Book ratio	1.8	2.1
5 Yr. EPS Growth Rate (%)	4.6	7.8
Current Yield (%)	2.8	2.7
Debt to Equity	1.2	1.7
Number of Holdings	34	250

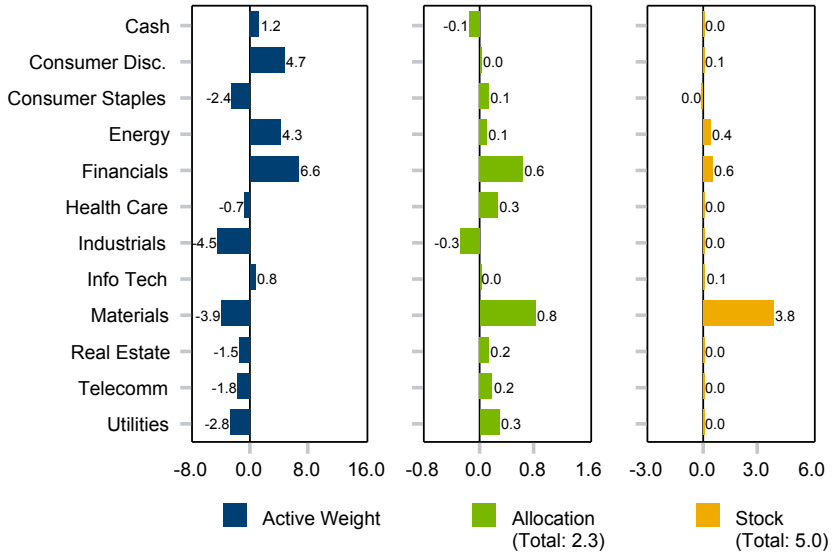
Manager Top Ten Holdings

	Portfolio Weight (%)	Benchmark Weight (%)	Active Weight (%)	6 Months Return (%)
Bank of Nova Scotia	7.70	4.49	3.21	20.51
Royal Bank of Canada	7.59	6.71	0.88	21.43
Suncor Energy	6.76	3.63	3.13	24.39
Canadian Natural Resources	5.68	2.35	3.33	8.61
Toronto-Dominion Bank	5.50	6.12	-0.62	21.70
Imperial Oil	4.41	0.59	3.82	15.07
Husky Energy	4.10	0.24	3.86	3.30
CIBC	4.07	2.16	1.91	15.54
Manulife Financial	3.79	2.35	1.44	37.89
Magna International	3.22	1.06	2.16	30.14
% of Portfolio	52.82	29.70		

Sector Returns (%)



Sector Performance Attribution (%)

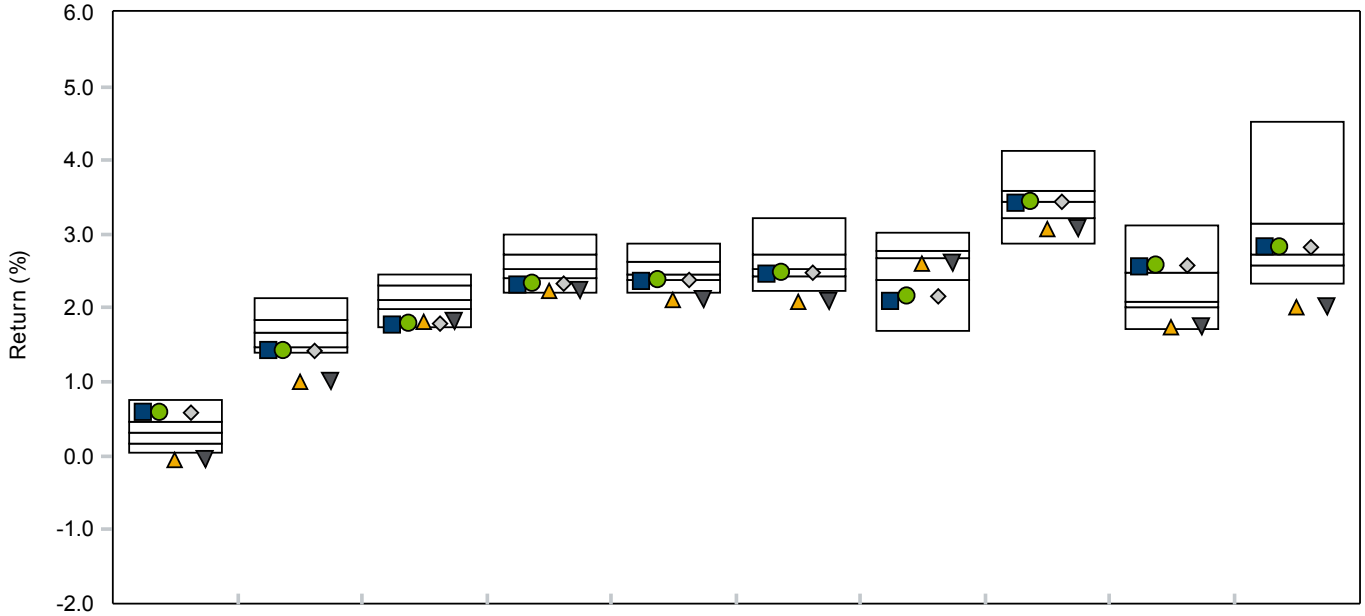


Fixed Income Funds

Peer Group Analysis

As of 31 December 2016

Canadian Short Term Bonds



	6 Months	1 Year	2 Years	3 Years	4 Years	5 Years	2015	2014	2013	2012
■ E&O Fixed Income	0.6 (20)	1.4 (80)	1.8 (95)	2.3 (81)	2.4 (81)	2.5 (69)	2.1 (88)	3.4 (55)	2.5 (23)	2.8 (38)
● General Fixed Income	0.6 (20)	1.4 (80)	1.8 (93)	2.3 (79)	2.4 (73)	2.5 (66)	2.2 (87)	3.4 (54)	2.6 (22)	2.8 (37)
▲ FTSE TMX Short Term Bond	-0.1 (100)	1.0 (100)	1.8 (92)	2.2 (95)	2.1 (100)	2.1 (100)	2.6 (63)	3.1 (85)	1.7 (94)	2.0 (100)
◇ Compensation Fixed Income	0.6 (20)	1.4 (80)	1.8 (93)	2.3 (79)	2.4 (77)	2.5 (67)	2.2 (87)	3.4 (54)	2.6 (23)	2.8 (38)
▼ Compensation Fixed Income Benchmark	-0.1 (100)	1.0 (100)	1.8 (92)	2.2 (95)	2.1 (100)	2.1 (100)	2.6 (63)	3.1 (85)	1.7 (94)	2.0 (100)
5th Percentile	0.8	2.1	2.5	3.0	2.9	3.2	3.0	4.1	3.1	4.5
1st Quartile	0.5	1.8	2.3	2.7	2.6	2.7	2.8	3.6	2.5	3.1
Median	0.3	1.7	2.1	2.5	2.5	2.5	2.7	3.4	2.1	2.7
3rd Quartile	0.2	1.5	2.0	2.4	2.4	2.4	2.4	3.2	2.0	2.6
95th Percentile	0.0	1.4	1.8	2.2	2.2	2.2	1.7	2.9	1.7	2.3
Population	16	16	15	15	15	14	16	16	16	16

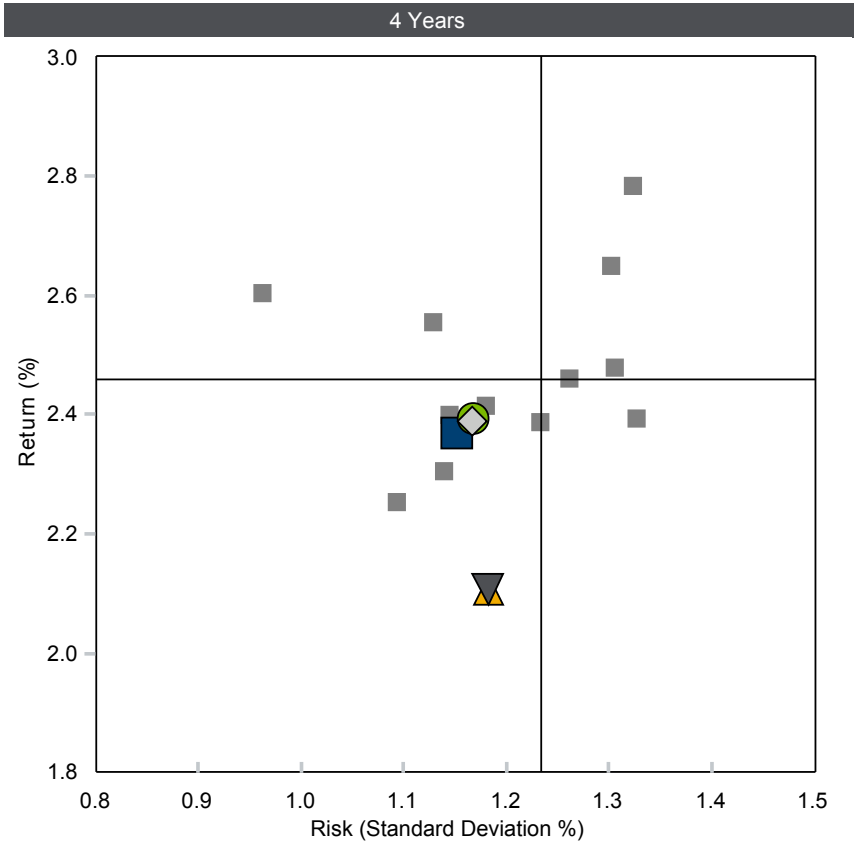
Parentheses contain percentile rankings.
Returns for periods greater than one year are annualized.
For illustrative purposes, Aon Hewitt has used the FTSE TMX Universe Bond Index for the purpose of a peer group analysis.
Note, this is not a direct comparison between FGP's Canadian fixed income mandate and the Canadian bonds universe.
Source: Aon Hewitt Manager Universe.

Fixed Income Funds

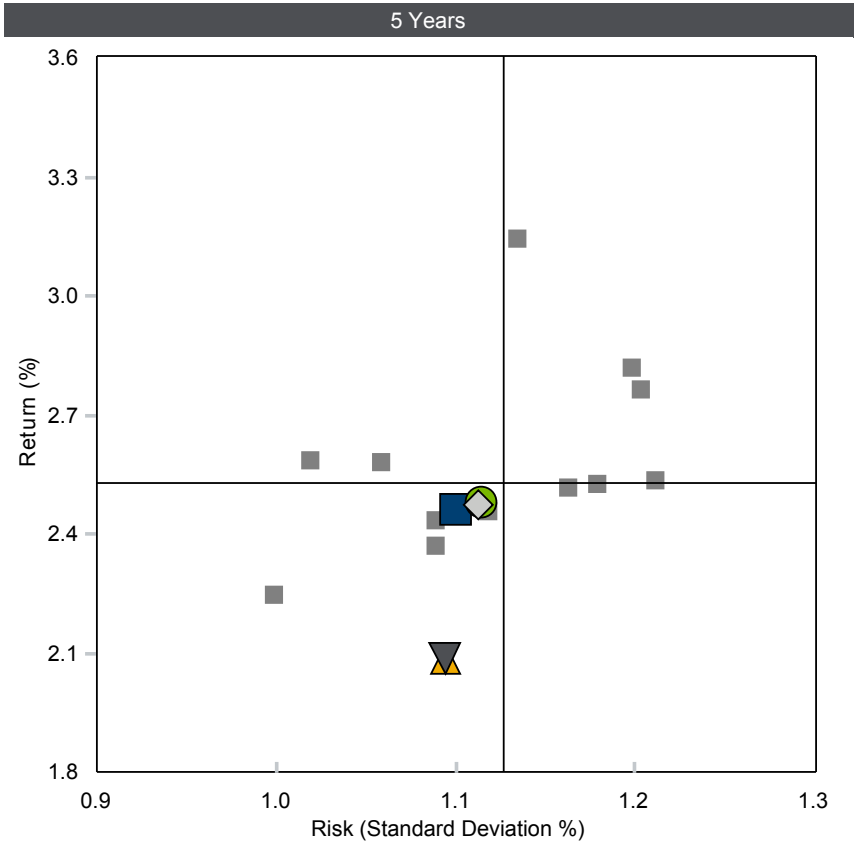
Peer Group Scattergram

Periods Ending 31 December 2016

Canadian Short Term Bonds



	Return	Standard Deviation
E&O Fixed Income	2.4	1.2
General Fixed Income	2.4	1.2
FTSE TMX Short Term Bond	2.1	1.2
Compensation Fixed Income	2.4	1.2
Compensation Fixed Income Benchmark	2.1	1.2
Median	2.5	1.2



	Return	Standard Deviation
E&O Fixed Income	2.5	1.1
General Fixed Income	2.5	1.1
FTSE TMX Short Term Bond	2.1	1.1
Compensation Fixed Income	2.5	1.1
Compensation Fixed Income Benchmark	2.1	1.1
Median	2.5	1.1

Returns for periods greater than one year are annualized.
For illustrative purposes, Aon Hewitt has used the FTSE TMX Universe Bond Index for the purpose of a peer group analysis.
Note, this is not a direct comparison between FGP's Canadian fixed income mandate and the Canadian bonds universe.
Source: Aon Hewitt Manager Universe.

Fixed Income Funds

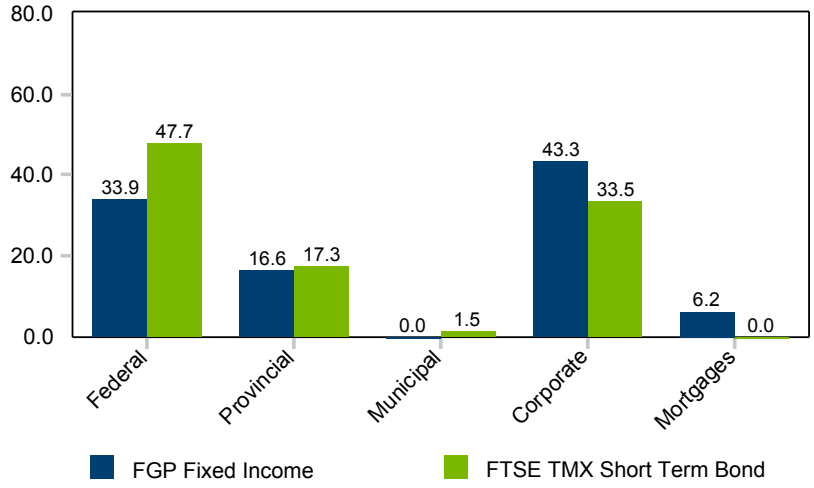
FGP Fixed Income Fund Characteristics

As of 31 December 2016

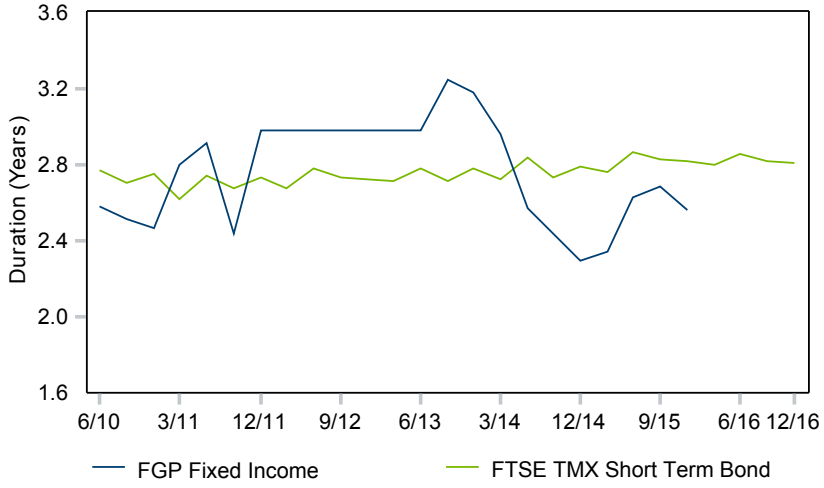
Portfolio Characteristics

	Portfolio	Benchmark
Modified Duration	2.7	2.8
Avg. Maturity	2.8	3.0
Avg. Quality	AA	AA
Yield To Maturity (%)	1.6	1.4

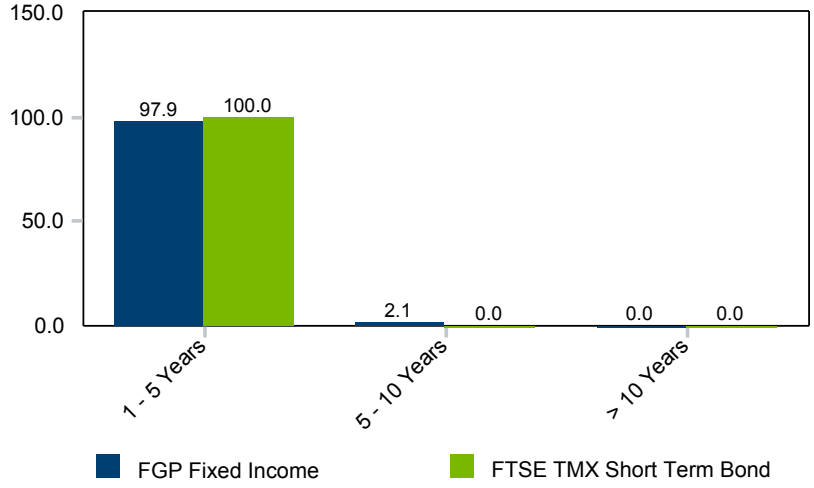
Sector Distribution (%)



Changes in Duration



Maturity Distribution (%)

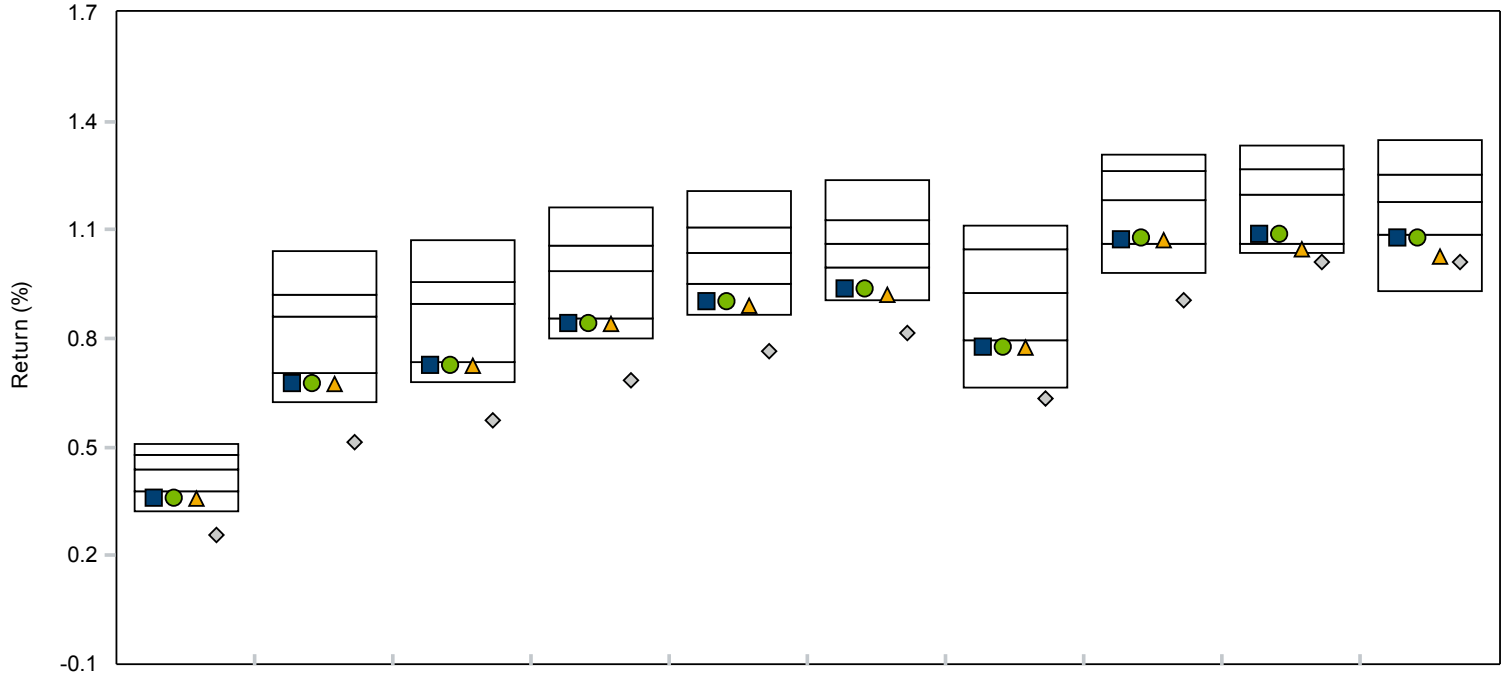


Money Market Funds

Peer Group Analysis

As of 31 December 2016

Money Market



	6 Months	1 Year	2 Years	3 Years	4 Years	5 Years	2015	2014	2013	2012
■ E&O Short-Term	0.4 (78)	0.7 (82)	0.7 (80)	0.8 (85)	0.9 (86)	0.9 (84)	0.8 (79)	1.1 (72)	1.1 (74)	1.1 (76)
● Compensation Short-Term	0.4 (78)	0.7 (82)	0.7 (80)	0.8 (84)	0.9 (86)	0.9 (83)	0.8 (79)	1.1 (69)	1.1 (74)	1.1 (76)
▲ General Short-Term	0.4 (78)	0.7 (82)	0.7 (79)	0.8 (85)	0.9 (87)	0.9 (94)	0.8 (79)	1.1 (71)	1.0 (90)	1.0 (86)
◇ FTSE TMX 91-Day T-Bill	0.3 (100)	0.5 (100)	0.6 (100)	0.7 (100)	0.8 (100)	0.8 (100)	0.6 (99)	0.9 (100)	1.0 (100)	1.0 (87)
5th Percentile	0.5	1.0	1.1	1.2	1.2	1.2	1.1	1.3	1.3	1.3
1st Quartile	0.5	0.9	1.0	1.1	1.1	1.1	1.0	1.3	1.3	1.3
Median	0.4	0.9	0.9	1.0	1.0	1.1	0.9	1.2	1.2	1.2
3rd Quartile	0.4	0.7	0.7	0.9	1.0	1.0	0.8	1.1	1.1	1.1
95th Percentile	0.3	0.6	0.7	0.8	0.9	0.9	0.7	1.0	1.0	0.9
Population	16	16	16	16	16	16	16	16	17	19

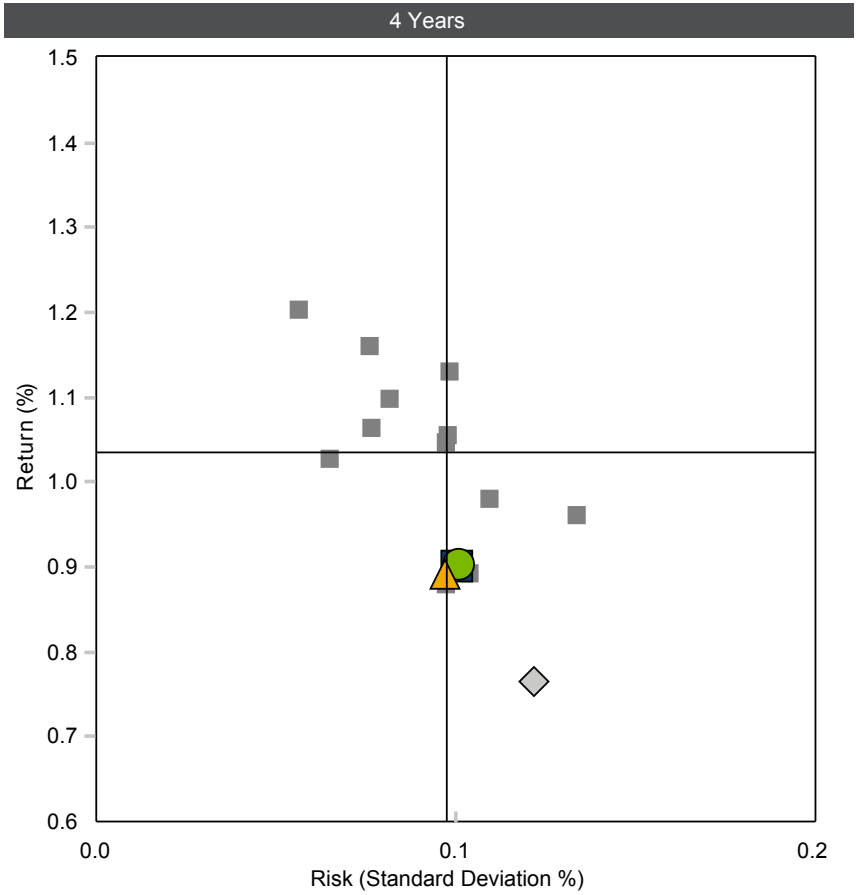
Parentheses contain percentile rankings.
Returns for periods greater than one year are annualized.
Source: Aon Hewitt Manager Universe.

Money Market Funds

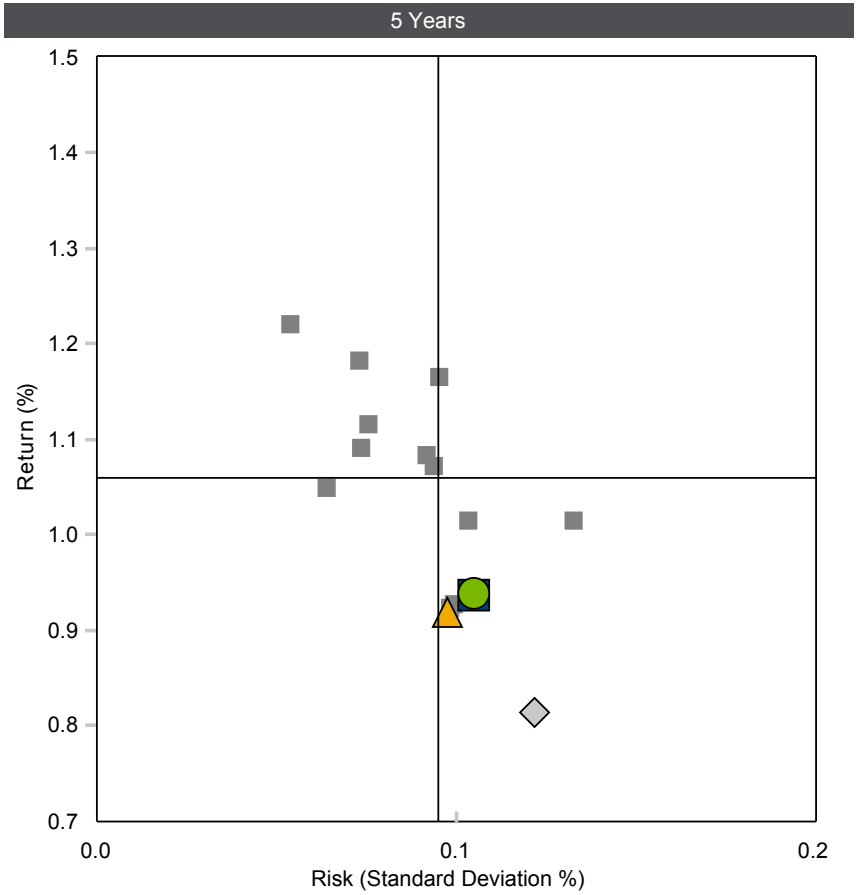
Peer Group Scattergram

Periods Ending 31 December 2016

Money Market



	Return	Standard Deviation
E&O Short-Term	0.9	0.1
Compensation Short-Term	0.9	0.1
General Short-Term	0.9	0.1
FTSE TMX 91-Day T-Bill	0.8	0.1
Median	1.0	0.1



	Return	Standard Deviation
E&O Short-Term	0.9	0.1
Compensation Short-Term	0.9	0.1
General Short-Term	0.9	0.1
FTSE TMX 91-Day T-Bill	0.8	0.1
Median	1.1	0.1

Returns for periods greater than one year are annualized.
Source: Aon Hewitt Manager Universe.

Appendix A - Plan Information

Plan Information

Summary of Investment Objectives

The investment policy contains specific performance objectives for the fund and for the investment manager.

Investment rates of return are reported on a calendar basis and include realized and unrealized capital gains and losses, plus income.

Returns are calculated on a time-weighted basis and are compared to the objectives described below in order to assess the performance of the investment manager.

The primary objective is to outperform a benchmark portfolio over moving four-year periods. The specific benchmark weights are provided on the following page.

Management Mandates: Active management of the asset allocation
Active management of the asset classes

Management Structure: One Short-Term bond mandate
One Canadian equity mandate

Management Firm: Foyston, Gordon & Payne Inc. (FGP)

Investment Products:	Prior to 30 June 2009	From 1 July 2009 to 21 May 2010	From 21 May 2010 23 June 2014	After 23 June 2014
E&O Insurance Fund				
Short-Term	-	Pooled	Pooled	Pooled
Canadian Bonds	Pooled	Pooled	Segregated	Pooled
Canadian Equities	Pooled	Pooled	Pooled	Pooled
Private U.S. Equities	Pooled	-	-	-
Compensation & General Fund				
Short-Term	Pooled	Pooled	Pooled	Pooled
Canadian Bonds	Segregated	Segregated	Segregated	Pooled
Canadian Equities	Pooled	Pooled	Pooled	Pooled
Private U.S. Equities	Segregated	-	-	-

Note: Segregated = Individual Securities

Plan Information

Summary of Investment Objectives

Blended Benchmark Composition

E&O Insurance Fund Benchmark

Components	Weight (%)
Mar-2006	
S&P/TSX Composite	15.00
S&P 500 (CAD)	15.00
FTSE TMX Short Term Bond	70.00
Jul-2009	
S&P/TSX Composite	15.00
FTSE TMX Short Term Bond	85.00
FTSE TMX 91-Day T-Bill	0.00

Compensation Fund Benchmark

Components	Weight (%)
Jun-2003	
S&P/TSX Composite	7.50
S&P 500 (CAD)	7.50
FTSE TMX Short Term Bond	85.00
Jan-2004	
S&P/TSX Composite	7.50
S&P 500 (CAD)	7.50
FTSE TMX Universe Bond	85.00
Jul-2009	
S&P/TSX Composite	13.00
FTSE TMX Universe Bond	87.00
Apr-2010	
S&P/TSX Composite	15.00
FTSE TMX Short Term Bond	85.00
FTSE TMX 91-Day T-Bill	0.00

General Fund Benchmark

Components	Weight (%)
Mar-2004	
S&P/TSX Composite	7.50
S&P 500 (CAD)	7.50
FTSE TMX Short Term Bond	85.00
Jul-2009	
S&P/TSX Composite	13.00
FTSE TMX Short Term Bond	87.00
Apr-2010	
S&P/TSX Composite	15.00
FTSE TMX Short Term Bond	85.00
FTSE TMX 91-Day T-Bill	0.00

Compensation Fund Fixed Income Benchmark

Components	Weight (%)
Jun-2003	
FTSE TMX Short Term Bond	100.00
Jan-2004	
FTSE TMX Universe Bond	100.00
Apr-2010	
FTSE TMX Short Term Bond	100.00

Appendix B - Manager Updates

Manager Updates

Manager Updates

As of 31 December 2016

Foyston, Gordon & Payne ("FGP")

Q4 2016

Business
FGP opened an office in Montreal to serve clients in Quebec.

Staff
Robert Laughton joined FGP's client servicing team as a Vice President in the new Montreal office. His 35 years of experience included senior positions at Aon Hewitt, Jarislowsky Fraser Ltd., Bear Stearns & Co., and Manulife Financial.

Valentino De Franco, a foreign equity analyst, left the firm.

Q3 2016

Business
There were no significant events.

Staff
Stephen Mitchell joined FGP on 7 September 2016 to manage the global and international equity portfolios, replacing Andrew Fernow who left the firm in August 2016. Mitchell also became an FGP shareholder. He was previously with Burgundy Asset Management.

Mark Thompson, Chief Operating Officer and Chief Compliance Officer, announced his retirement effective 30 June 2017.

Appendix C - Capital Markets Environment

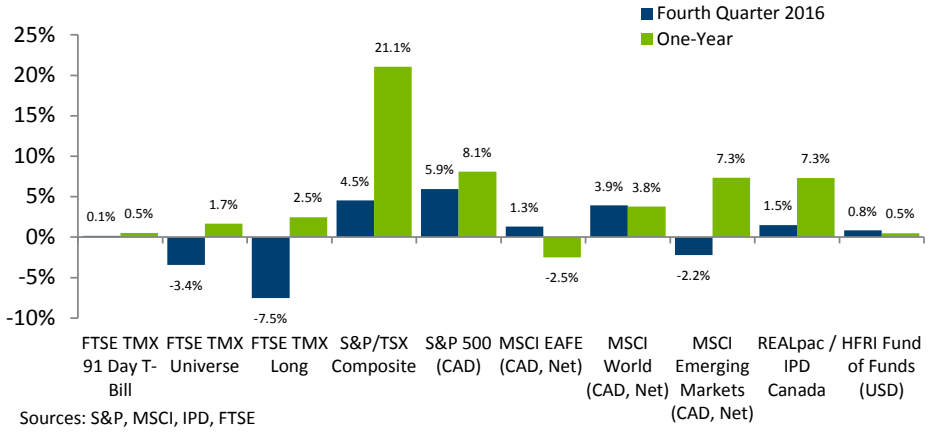
Capital Markets Environment

Capital Markets Environment

As of 31 December 2016

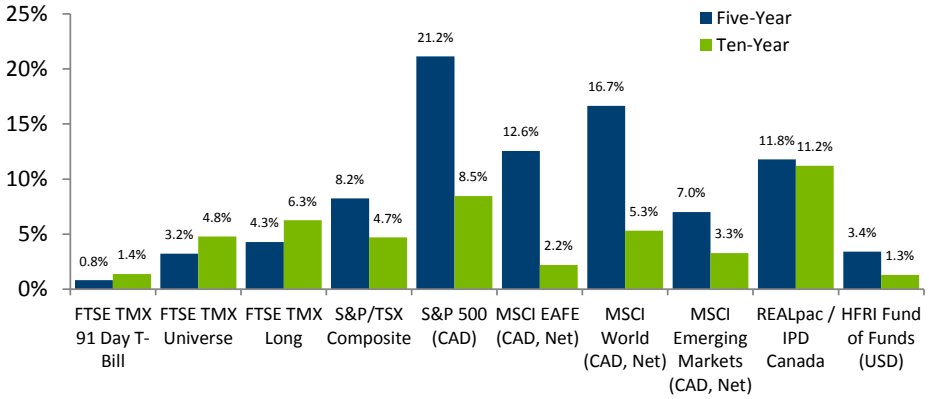
- Global equities rallied in the fourth quarter of 2016 with the MSCI All Country World Index returning +4.1% in local currency terms. The Index returned +3.3% in Canadian dollar terms over the quarter. Global markets were boosted by: better than expected economic data from the U.S., Europe and China; improving company earnings across many regions; expectations of greater fiscal stimulus; and the election of Donald Trump in November's U.S. election. Political uncertainty in the U.S and Europe, with the Italian constitutional referendum and ongoing Brexit debate, was shrugged off by investors. Oil prices surged to end the year at $55/bbl. following OPEC and Russia's agreement to cut production.
- The U.S. Federal Reserve raised the federal funds rate target by 0.25% to a range of 0.50% to 0.75%. Further rate hikes are expected in 2017, as investors increased their inflation expectations on higher commodity prices and promises of greater fiscal spending. The European Central Bank extended its quantitative easing program but at a slower rate of €60 billion of asset purchases per month.
- The Canadian economy rebounded in Q3 2016, growing at a quarter on quarter annualized rate of 3.5%, driven by household consumption and exports. However, the economy started the fourth quarter on a disappointing note as the October GDP data indicated a contraction in the economy, with the manufacturing sector a particular drag.
- The Bank of Canada kept monetary policy unchanged over the quarter, but maintained a dovish tone. The central bank trimmed growth forecasts for 2016 and 2017.

SHORT TERM RETURNS AS OF 12/30/2016



Sources: S&P, MSCI, IPD, FTSE

LONG TERM ANNUALIZED RETURNS AS OF 12/30/2016



Sources: S&P, MSCI, IPD, FTSE

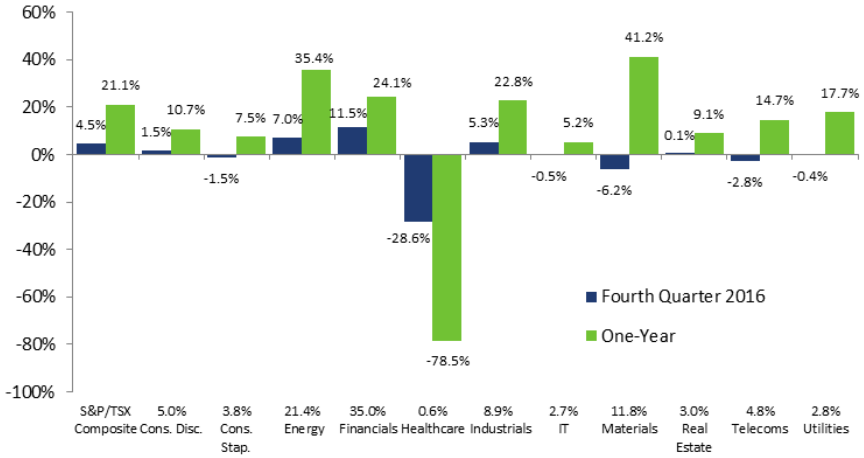
Capital Markets Environment

Capital Markets Environment

As of 31 December 2016

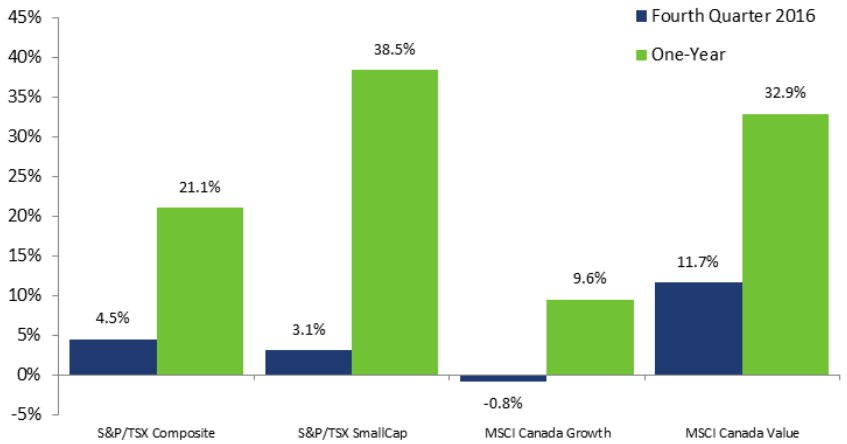
Canadian Equity Markets

S&P/TSX COMPOSITE GICS SECTOR RETURNS (CAD) AS OF 12/30/2016



Source: S&P

CANADIAN EQUITY STYLE/SIZE RETURNS (CAD) AS OF 12/30/2016



Source: S&P, MSCI

- The S&P/TSX Index returned +4.5% during the quarter, driven by Energy and Financials, which benefited from increases in crude oil prices and a steepening yield curve. The Index returned +21.1% over the year.
- During the quarter, the best performing sectors were Financials (+11.5%), Energy (+7.0%) and Industrials (+5.3%) while Healthcare was the worst performing sector, falling by 28.6%. Moreover, it was the only sector to post negative returns over the year (-78.5%).
- In Q4 2016, Canadian value stocks rose sharply by 11.7%, outperforming growth stocks (-0.8%). The quarter capped off a lopsided year where Canadian value stocks outperformed growth stocks by 23.3%.
- Canadian Large Cap stocks (+4.5%) outperformed Small Cap stocks (+3.1%) in Q4 2016.

** The one year Financials sector return includes Real Estate names up until 31 August 2016.*
*** The Real Estate GICS sector came into effect on 1 September 2016. The one year return includes the Real Estate subsector return that was previously accounted for under the Financials sector.*

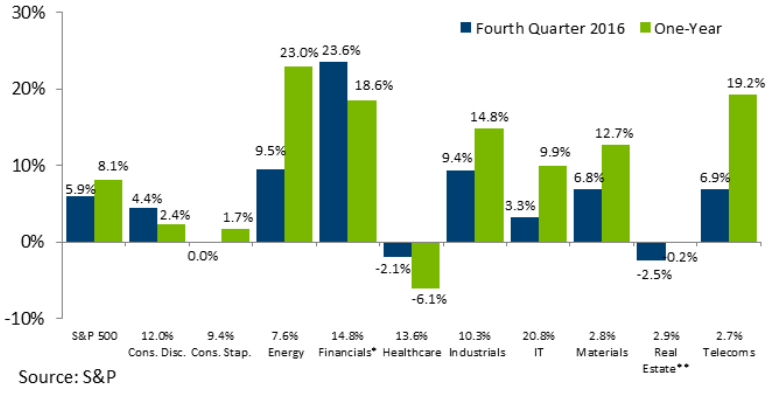
Capital Markets Environment

Capital Markets Environment

As of 31 December 2016

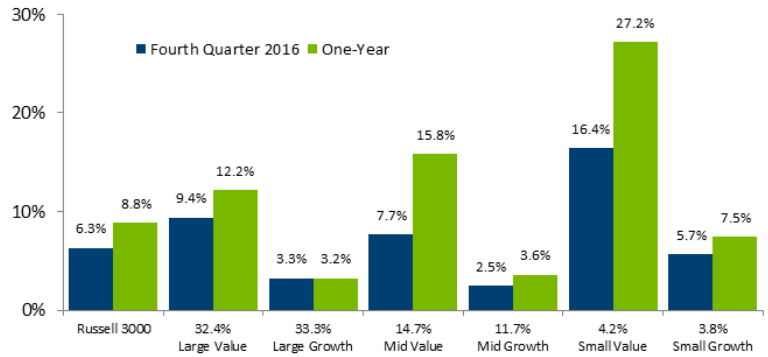
U.S. Equity Markets

S&P 500 GICS SECTOR RETURNS (CAD) AS OF 12/30/2016



Source: S&P

RUSSELL STYLE RETURNS (CAD) AS OF 12/30/2016



Source: Russell Indexes

- U.S. equities rallied following the November election, as prospects of inflationary policies under the Trump administration bolstered the equity market and encouraged investors to rotate out of bonds into equities. Macroeconomic data released over the quarter portrayed a strong U.S. economy as economic growth for Q3 2016 picked up to an annualized 3.5% (quarter-on-quarter basis). A steepening yield curve led to previous laggards, such as Financials, outperforming Information Technology stocks, which were the previous market leaders. Over the quarter, U.S. equities, as measured by the S&P 500 Index, returned +3.8% in local currency terms. Returns for unhedged Canadian investors increased to +5.9% as the Canadian dollar weakened against the U.S. dollar. Over the year, the Index returned +8.1% in Canadian dollar terms.
- With the exception of the Real Estate (-2.5%) and Healthcare sectors (-2.1%), all sectors posted positive returns last quarter. The top performing sectors were Financials (+23.6%), Energy (+9.5%) and Industrials (+9.4%).
- Performance across the style spectrum was positive in Q4 2016 and over the year, with value stocks outperforming growth stocks across the cap spectrum.

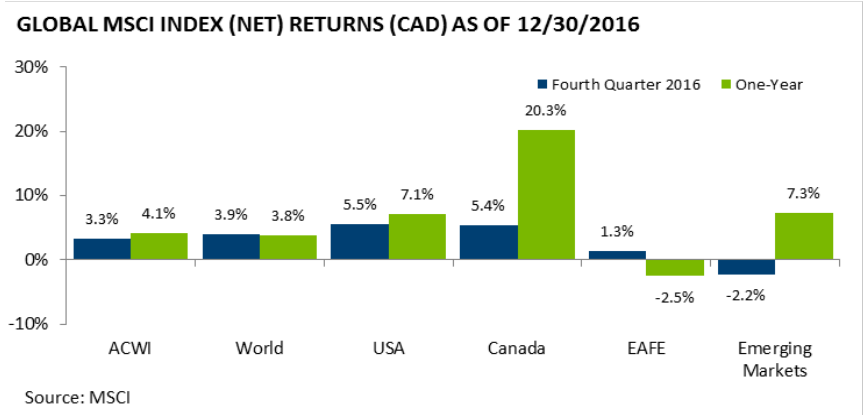
** The one year Financials sector return includes Real Estate names up until 31 August 2016.*
*** The Real Estate GICS sector came into effect on 1 September 2016. The one year return includes the Real Estate subsector return that was previously accounted for under the Financials sector.*

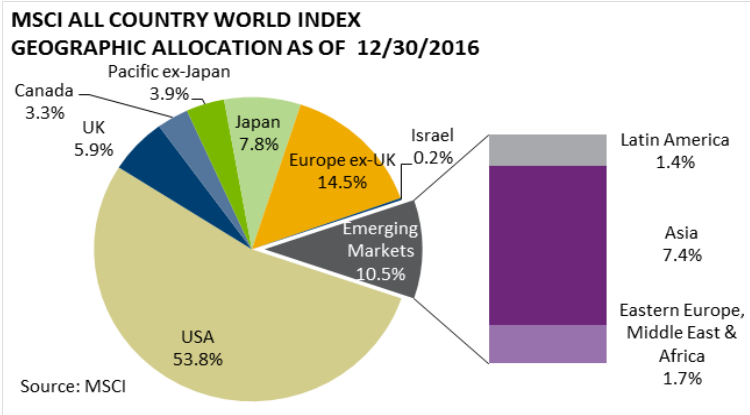
Capital Markets Environment

Capital Markets Environment

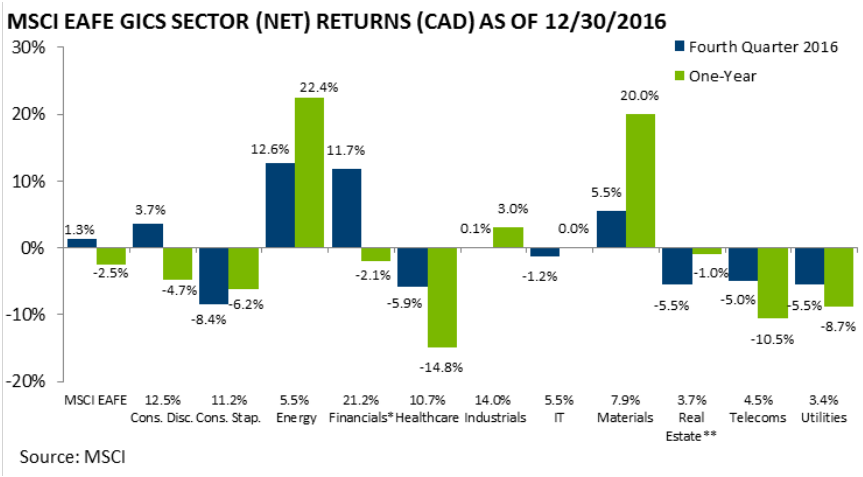
As of 31 December 2016

Global Equity Markets





- The MSCI ACWI Index (CAD) rose 3.3% during the quarter and returned +4.1% over the year.
- EAFE equities rose by 7.1% in local currency terms in Q4 2016, as strong performance of both European and Japanese equities continued. Japanese equities rose sharply, aided primarily by a sharp weakness in the yen which provides a boost for exports. European financials contributed to performance as concerns over bank profitability receded. Expectations that the Italian government would support the struggling banking sector eased fears of a banking crisis while rising bond yields improved prospects for net interest margins. The strength in the Canadian dollar, however, pushed down quarterly returns for the MSCI EAFE Index to +1.3%.
- Emerging market equities fell 1.4% in local currency terms. Uncertainty surrounding the outlook of the region rose following the U.S. election and President Trump's protectionist policies providing a boost to the U.S. dollar and interest rates. Rising commodity prices and receding fears of a hard landing in China provided some support. Appreciation of the Canadian dollar compounded weak returns, pushing down the returns in Canadian dollar terms to -2.2%.
- EAFE sectors had mixed quarterly returns in Canadian dollar terms, with Energy (+12.6%) being the strongest performing sector and Consumer Staples (-8.4%) being the worst performing sector.



** The one year Financials sector return includes Real Estate names up until 31 August 2016.*

*** The Real Estate GICS sector came into effect on 1 September 2016. The one year return includes the Real Estate subsector return that was previously accounted for under the Financials sector.*

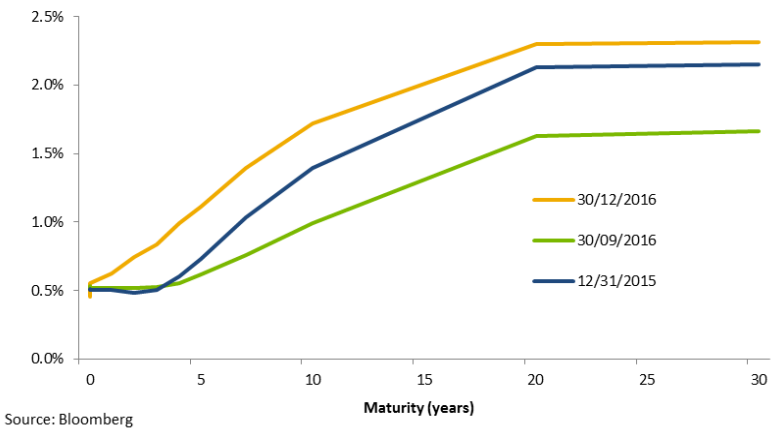
Capital Markets Environment

Capital Markets Environment

As of 31 December 2016

Canada Fixed Income Markets

CANADIAN FEDERAL YIELD CURVE



Source: Bloomberg

CANADIAN 30-YEAR FEDERAL YIELDS

Source: Bloomberg

- The Canadian yield curve shifted sharply upwards over the quarter with yields rising across all maturities, except at the very short end of the curve.
- Despite a dovish monetary policy stance taken by the Bank of Canada, yields rose sharply, following the lead of the U.S. bond market, as better than expected global economic data and rising commodity prices pushed up inflation expectations.

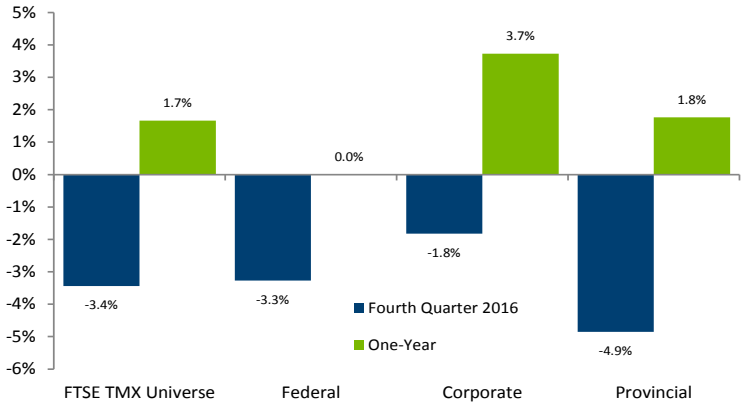
Capital Markets Environment

Capital Markets Environment

As of 31 December 2016

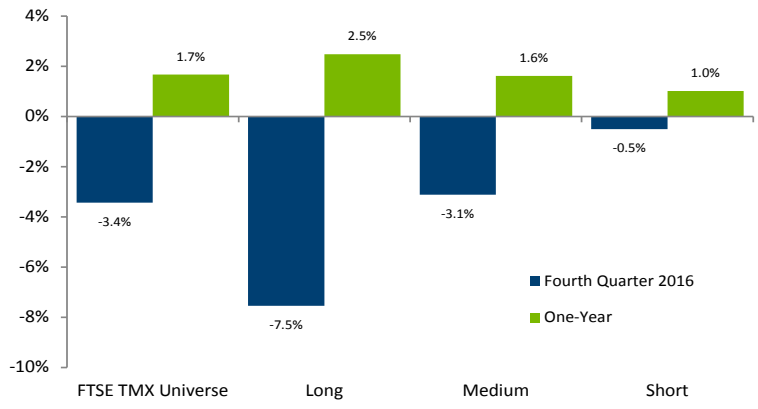
Canada Fixed Income Markets

FTSE TMX RETURNS BY SECTOR AS OF 12/30/2016



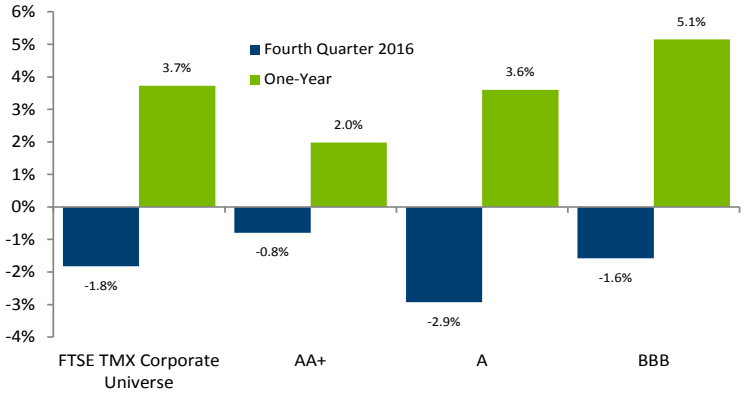
Source: FTSE

FTSE TMX RETURNS BY MATURITY AS OF 12/30/2016



Source: FTSE

FTSE TMX RETURNS BY CREDIT QUALITY AS OF 12/30/2016



Source: FTSE

- Bond market returns were negative over the quarter. Corporate bonds outperformed both Provincial and Federal bonds.
- In the investment grade corporate bond market, returns were negative across all grades of credit quality during the quarter. AA+ rated bonds outperformed both A and BBB rated bonds.
- With yields rising sharply over the quarter, short duration bonds outperformed both medium and long duration bonds.

Capital Markets Environment

Capital Markets Environment

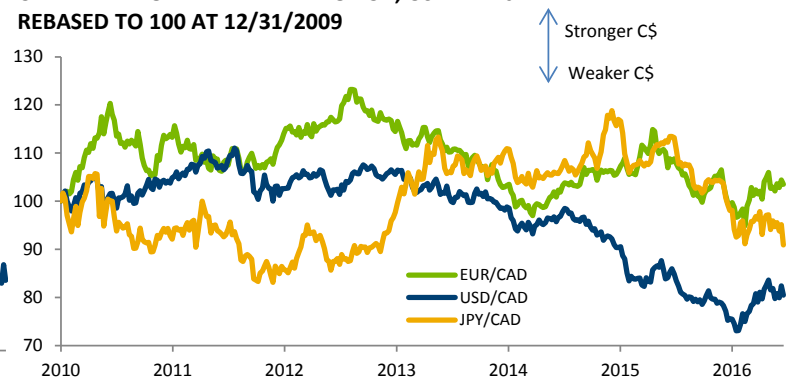
As of 31 December 2016

Currency

TRADE WEIGHTED CANADIAN DOLLAR INDEX (1997 = 100)

Source: Bank of England

CANADIAN DOLLAR RELATIVE TO EUR, USD AND JPY REBASED TO 100 AT 12/31/2009



Source: DataStream

- As measured by the broad trade weighted Canadian dollar index, the Canadian dollar depreciated 0.9% during the quarter. The weakness in the Canadian dollar on a trade weighted basis was mainly a result of the depreciation of the currency against the U.S. dollar.
- The U.S. dollar appreciated by 8.0% on a trade-weighted basis on the back of expectations of greater fiscal spending and tighter monetary policy. The U.S. dollar appreciated by 2.5% against the Canadian dollar.
- The euro, on a trade-weighted basis, fell by 0.9% and also weakened by 4.2% against the Canadian dollar over the quarter as the ECB's quantitative easing program was extended.
- The yen depreciated by 11.1% on a trade-weighted basis and fell sharply by10.9% against the Canadian dollar over the quarter.

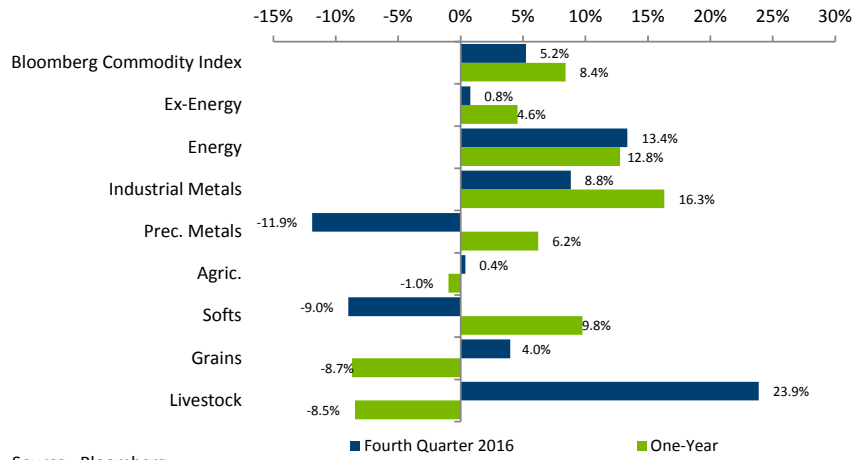
Capital Markets Environment

Capital Markets Environment

As of 31 December 2016

Commodities

COMMODITY RETURNS (CAD) AS OF 12/30/2016



Source: Bloomberg

- The Bloomberg Commodity Index rose in Q4 2016, returning +5.2%. This was largely driven by the strong gains in the energy markets, as the price of Brent crude oil surged to end the year at $55/bbl following OPEC's agreement to cut oil production. The Commodity Index (excluding energy markets) returned only +0.8% in comparison.
- Over the quarter, the best performing commodity segment was Livestock +23.9%.
- Precious metals was the worst performing sector during the quarter, returning -11.9%. The price of gold fell by 12.5% and ended the year at US$1,153/oz.

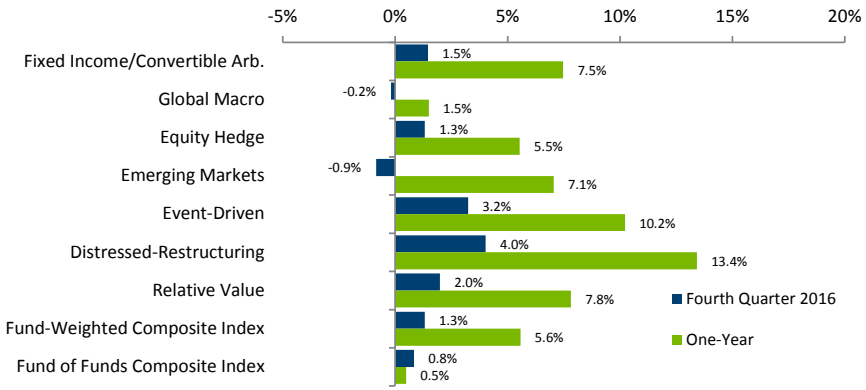
Capital Markets Environment

Capital Markets Environment

As of 31 December 2016

Hedge Fund Markets Overview

HEDGE FUND PERFORMANCE (USD) AS OF 12/30/2016



Note: Latest 5 months of HFR data are estimated by HFR and may change in the future.
Source: HFR

- Hedge fund performance was positive over the quarter across all strategies, with the exception of Global Macro and Emerging Markets strategies.
- The HFRI Fund-Weighted and Fund of Funds Composite Indices returned +1.3% and +0.8%, respectively, in the quarter.
- Distressed-Restructuring was the strongest performing hedge fund strategy over the quarter, returning +4.0%, while Emerging Markets strategies returned the least, falling by 0.9%.

Appendix D - Description of Market Indices and Statistics

Description of Market Indices and Statistics

Index Definitions

S&P/TSX Composite

S&P/TSX Composite Index comprises approximately 71 percent of market capitalization for Canadian-based, Toronto Stock Exchange listed companies. It is calculated on a float market capitalization and is the broadest Canadian equity index available. The index also serves as the premier benchmark for Canadian pension funds and mutual market funds.

S&P 500

Standard and Poor's 500 Composite Stock Index consists of 500 large companies in the United States chosen for market size, liquidity and industry group representation. It is a market-value weighted index, with each stock's weight in the index proportionate to its market value. For the purposes of this report, the S&P 500 Index returns are converted from U.S. dollars into Canadian dollars, and therefore reflect currency gains or losses.

FTSE TMX Universe Bond (formerly DEX Universe Bond)

The FTSE TMX Universe Bond Index covers all marketable Canadian bonds with term to maturity of more than one year. The Universe contains approximately one thousand marketable Canadian bonds with an average term of 10.5 years and an average duration of 7.6 years. The purpose of the index is to reflect the performance of the broad "Canadian Bond Market" in a similar manner to the S&P/TSX Composite Index in the Canadian Equity Market.

FTSE TMX 91-Day T-Bill (formerly DEX 91-Day T-Bill)

Canada Treasury Bills represent the highest quality short-term instruments available. The index is constructed by selling and repurchasing Government of Canada T-Bills with an average term to maturity of 91 days. The 91-Day Treasury Bill Index is calculated and marked to market daily.

Description of Market Indices and Statistics

Statistic Definitions

As of 31 December 2016

Active Return

Arithmetic difference between the portfolio return and the benchmark return over a specified time period.

Active Weight

The difference between the portfolio weight and the benchmark weight, where the weight is based on the beginning of period weights for the sector/region/asset class for a certain periodicity (monthly or quarterly, depending upon the reporting frequency), adjusted by the relative return for the sector/region/asset class.

Annualized Value Added

A portfolio's excess return over a benchmark, annualized as it is recorded.

Asset Allocation

The value added or subtracted by under or over weighting sectors/regions/asset classes versus the benchmark weights. Asset allocation measures the impact on performance attributed only to the sector/region/asset class weighting decisions by the manager. It assumes that the manager holds the same securities in each sector/region/asset class and in the same proportion as in the benchmark. Any differences in return can be attributed to differences in sector weights between the manager's fund and the benchmark.

Batting Average

The frequency, expressed in percentage terms, of the portfolio's return equaling or exceeding the benchmark's return.

Beta

A measure of the sensitivity of a portfolio to the movements in the market. It is a measure of a portfolio's non-diversifiable or systematic risk.

Correlation

Also called coefficient of correlation, it is a measure of the co-movements of two sets of returns. Indicates the degree in which two sets of returns move in tandem.

Cumulative Added Value

The geometrically linked excess return of a portfolio over a benchmark.

Down Market Capture

The portfolio's average return as a percentage of the benchmark return, during periods of negative benchmark return. Lower values indicate better portfolio performance.

Downside Risk

A measure similar to standard deviation, but focuses only on the negative movements of the return series. It is calculated by taking the standard deviation of the negative quarterly set of returns. The higher the factor, the riskier the portfolio.

Description of Market Indices and Statistics

Statistic Definitions

As of 31 December 2016

Duration

A measure of a bond portfolio's sensitivity to movements in interest rates.

EPS

Earnings Per Share

Excess Return

Arithmetic difference between the managers return and the risk-free return over a specified time period.

Excess Risk

A measure of the standard deviation of a portfolio's performance relative to the risk free return.

Information Ratio

Measured by dividing the active rate of return by the tracking error. The higher the Information Ratio, the more value-added contribution by the manager.

Return

Compounded rate of return for the period.

R-Squared

The percentage of a portfolio's performance explained by the behaviour of the appropriate benchmark. High R-Square means a higher correlation of the portfolio's performance to the appropriate benchmark.

Security Selection

The value added or subtracted by holding securities at weights which differ from those in the benchmark, including securities not in the benchmark or a zero weight. The security selection return assumes the manager weights for each sector/region/asset class in the portfolio are in the same proportion as in the overall benchmark, and excess returns are due to security selection. That is, differences in returns between the manager's fund and the benchmark are attributed to the securities the manager has chosen.

Sharpe Ratio

Represents the excess rate of return over the risk free return divided by the standard deviation of the excess return. The result is the absolute rate of return per unit of risk. The higher the value, the better the portfolio’s historical risk-adjusted performance.

Simple Alpha

The difference between the portfolio's return and the benchmark's return.

Description of Market Indices and Statistics

Statistic Definitions

As of 31 December 2016

Sortino Ratio

Represents the excess return over the risk-free rate divided by the downside deviation (i.e. the standard deviation of negative asset returns). Therefore, the Sortino Ratio differentiates harmful volatility from general volatility. A large Sortino Ratio indicates there is a low probability of a large loss.

Standard Deviation

A statistical measure of the range of a portfolio's performance, the variability of a return around its average return over a specified time period.

Tracking Error

A measure of the standard deviation of a portfolio's performance relative to the performance of an appropriate benchmark.

Treynor Ratio

Similar to Sharpe ratio, but focuses on beta rather than excess risk (standard deviation). Represents the excess rate of return over the risk free rate divided by the beta. The result is the absolute rate of return per unit of risk. The higher the value, the better the portfolio’s historical risk-adjusted performance.

Up Market Capture

The portfolio's average return as a percentage of the benchmark return, during periods of positive benchmark return. Higher values indicate better portfolio performance.

Appendix E - Fee Analysis

Fee Analysis

Manager Fees

Account	Fee Schedule	Market Value	Percentage of Portfolio	Estimated Annual Fee ($)	Estimated Annual Fee (%)
Total		**$71,629,026**	**100.0%**	**$89,025**	**0.124%**
FGP - Equities	0.450% of the first $50 Million 0.300% of the next $25 Million 0.200% of the balance	$13,302,561	18.6%	$59,862	0.450%
FGP - Fixed Income & Short-Term	0.050% of the balance	$58,326,465	81.4%	$29,163	0.050%

Appendix F - Compliance

Compliance

E&O Insurance Fund, Compensation Fund and General Fund

Category	Guidelines	Dec-16
General	Confirm whether the following transactions have occurred in the portfolio:	
	Use of non-taxable accounts.	no
	Use of derivatives.	no
	Short selling investments.	no
	Use of margin.	no
	Direct investment in real estate.	no
Money Market Investments	Investments have a minimum rating of R1 or equivalent, by DBRS, Moody's or Standard and Poor.	yes
	Investments have a maximum maturity of 1 year (364 days).	yes
	Money Market/Short Term Investments are only in these type of investments: • Federal Government T-Bills (including Federal and Provincial agencies) • Bankers Acceptance • Commercial Paper	yes
	No more than 8% of the total portfolio has been invested with any single issuer other than Government of Canada securities.	yes
Fixed Income Investments	Investments have a minimum rating of BBB for bonds and debentures or P2 for preferred stocks or equivalent by DBRS, Moody's or Standard and Poors.	yes
	Investments are in Canadian Currency.	yes
	No more than 10% of the market value of the fixed income portfolio has been invested with any one security or issuer other than holdings with Federal and Provincial Governments and their guarantees.	yes
	Portfolio's weighted average duration is between 1 to 5 years and in-line with the Benchmark (FTSE TMX Short Term Bond Index).	yes
	Fixed Income Investments are only in these type of investments: • Bonds, Debentures, Notes, Non-Convertible Preferred Stocks, Term Deposits and GICs • Bonds of Foreign Issuers denominated in Canadian Dollars • NHA-insured Mortgage-Backed Securities or Collateralized Mortgage-Backed Securities • Marketable Private Placement of Bonds	yes
	Confirm whether the fixed income portion of the portfolio's asset mix has been within the ranges defined below for the previous month:	
	Minimum holding in Government of Canada Debt Obligations: Benchmark Weight minus 20%	yes
	Provincial Government Debt and Municipal Government Debt Obligations: Benchmark Weight plus or minus 20%	yes
	Maximum Total Corporate Debt Obligations: Benchmark weight plus 20%	yes
	Maximum Total Corporate BBB Issues: Benchmark weight plus 10%	yes
	Foreign Issuer or Canadian Issuer in foreign currency: Max 10%	yes
Equity Securities	Stocks are listed on one of the major stock exchanges.	
	No more than 10% of market value of the total portfolio is invested with a single issuer.	yes
Asset Mix (based on market value)	Confirm whether the portfolio asset mix has been within the ranges defined below for the previous month:	
	Money Market: Min 0%, Max 15%	yes
	Canadian Fixed Income: Min 60%, Max 95%	yes
	Total Fixed Income: Min 75%, Max 95%	yes
	Canadian Equities: Min 5%, Max 25%	yes

Appendix G - Latest Thinking

Executive Summary

Latest Thinking

During the last quarter, we have produced papers on the following topics. Although these topics may not be directly applicable to your plan, they may be of general interest and provide some insight into Aon Hewitt's global research. For more details, please contact your Aon Hewitt Investment Consultant.

Topic	Summary
Global Invested Capital Market	The concept of a world market portfolio plays an important role in many financial theories and models. Knowledge of each asset's share of the invested capital markets is both useful information and a good starting point for investors considering the appropriate allocation to the asset. This paper looks at the size and growth of the current world market portfolio from a Canadian perspective. www.aon.ca/pubs/ic/2017/Global-Invested-Capital-Market-Canada-2016.pdf
Putting "Watch Lists" on Watch	Many institutional investors use "watch lists" as part of their process for monitoring investment managers. While some people believe watch lists are a key component of the fiduciary process, others believe watch lists can facilitate poor decision-making regarding investment managers, driving increased turnover. This paper looks at *traditional* watch lists and suggests an alternative process for monitoring investment managers. This paper is written from a U.S. perspective. www.aon.ca/pubs/ic/2017/Putting-Watch-Lists-on-Watch.pdf

For more timely access to our latest thinking, please visit and subscribe to the Aon Hewitt Retirement & Investment Blog:
https://retirementandinvestmentblog.aon.com/

Appendix H - Disclosure

Disclosure

Statement of Disclosure

As of 31 December 2016

Aon Hewitt Inc. reconciles the rates of return with each investment manager quarterly. Aon Hewitt Inc. calculates returns from the custodian/trustee statements while the managers use different data sources. Occasionally discrepancies occur because of differences in computational procedures, security prices, "trade date" versus "settlement date" accounting, etc. We monitor these discrepancies closely and find that they generally do not tend to persist over time. However, if a material discrepancy arises or persists, we will bring the matter to your attention after discussion with your money manager.

This report may contain slight discrepancies due to rounding in some of the calculations.

TAB 2.4.6

FOR INFORMATION

INVESTMENT COMPLIANCE REPORTING

52. Investment Compliance Statements as at December 31, 2016 are for information and follow on the next page.

LAW SOCIETY OF UPPER CANADA
STATEMENT OF INVESTMENT COMPLIANCE
SHORT TERM
As at December 31, 2016

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 days	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

Wendy Tysall, CPA, CA
Chief Financial Officer

LAW SOCIETY OF UPPER CANADA
STATEMENT OF INVESTMENT COMPLIANCE
LONG TERM
As at December 31, 2016

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	5 - 25%	15%	Yes	Yes	Yes
Bonds	60 - 95%	85%	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 bond	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	8-18%	8%	Yes	Yes	Yes

W. Tysall

Wendy Tysall, CPA, CA
Chief Financial Officer

The Law Society of Upper Canada Compensation Fund

Manager: Foyston, Gordon & Payne Inc.

Compliance Report

(Period ending December 31, 2016)

1. Asset Mix:	Min.	Mid-Point	Max.	Compliance* (Y/N)
Cash & Short Term	0%	0%	15%	Y
Bonds	60%	85%	95%	Y
Total Fixed Income	**75%**	**85%**	**95%**	**Y**
Canadian Equity	**5%**	**15%**	**25%**	**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 May 2016.

*If policy not complied with, comment on specifics.

Jan 26, 2017

Date:

Colin Ripsman

Colin Ripsman
Vice President & Portfolio Manager – Institutional Client Services

The Law Society of Upper Canada
General Fund
Manager: Foyston, Gordon & Payne Inc.
Compliance Report
(Period ending December 31, 2016)

1. Asset Mix:	Min.	Mid-Point	Max.	Compliance* (Y/N)
Cash & Short Term	0%	0%	15%	Y
Bonds	60%	85%	95%	Y
Total Fixed Income	**75%**	**85%**	**95%**	**Y**
Canadian Equity	**5%**	**15%**	**25%**	**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 May 2016.

*If policy not complied with, comment on specifics.

Jan 26, 2017
Date:

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

FOYSTON, GORDON & PAYNE INC.
INVESTMENT COUNSEL

January 2017

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 May 2016, for the quarter ending December 31, 2016.

Yours truly,

Colin Ripsman
Vice President & Portfolio Manager –
Institutional Client Services

P.O. Box 200, 1 Adelaide Street East, Suite 2600, Toronto Ontario M5C 2V9
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