



TAB 2

**Report to Convocation
September 28, 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
Michelle Haigh
David Howell
Vern Krishna
Jan Richardson
Cathy Strosberg
Tanya Walker

Purpose of Report: Decision and Information

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

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COMMITTEE PROCESS

1. The Audit & Finance Committee (“the Committee”) met by phone on August 25, 2017 on an in-camera matter.
2. The Committee also met on September 13, 2017. Committee members in attendance were Chris Bredt, (chair), Suzanne Clément, (v.chair), Teresa Donnelly, (v.chair) (phone), Peter Beach, Paul Cooper, Janis Criger, Seymour Epstein, David Howell, Vern Krishna and Cathy Strosberg.
3. Law Society staff in attendance: Robert Lapper, Wendy Tysall, Fred Grady and Andrew Cawse.
4. Also in attendance: Kathleen Waters, CEO and President, Steve Jorgensen, Chief Financial Officer from LAWPRO.

FOR DECISION

CHANGES TO LAW SOCIETY ADMINISTRATIVE FEES

Motion:

5. **That Convocation approve increases to the Reinstatement Fee, the Late Payment Fee, the Late Filing Fees for the Lawyer Annual Report/Paralegal Annual Report and Continuing Professional Development (CPD) and the service fee for returned cheques with effect from January 1, 2018.**

Rationale

6. The Law Society introduced late payment and late LAR/PAR filing fees effective January 1, 2013.
7. The late filing fee for CPD reporting was introduced in 2015.
8. Late fees were initially established at \$100 and have remained at that amount since inception.
9. The Reinstatement Fee for return from administrative suspension for non-payment of the annual fee established in 1993 at \$150 plus applicable taxes has remained unchanged since inception.

Key Issues and Considerations

10. Late fees were introduced to encourage compliance with payment and filing deadlines. In addition, the revenue generated from the fees for non-compliance would help to offset the administrative overhead associated with the administrative suspension process. It was assumed that a monetary penalty for non-compliance, even a nominal amount of \$100, would greatly increase licensee compliance.

Late Filing Fees

11. Compliance still remains an issue with up to 7,000 licensees failing to make payment in full by the due date and approximately 3,000 failing to file their CPD requirements or annual report by the due date.
12. A review of late filing fees shows that fees charged by the Law Society are significantly less than other law societies. For example the Law Society of British Columbia applies late reporting fees of \$200 for CPD filing and \$200 for late filing of the annual trust report.
13. In an effort to increase reporting compliance, it is recommended that the Law Society increase Late Filing fees for the annual report and CPD to \$200.

Late Payment Fees

14. With increases in the annual fee the late fee as a percentage of the total annual fee has declined. The current \$100 was implemented with the intention of increasing compliance with the payment due date. With approximately 7,000 licensees not complying with the payment deadline, an increase in the penalty to \$150 is recommended to improve compliance and ensure licensees are up to date with their annual fees and remain eligible to be licensees of the Law Society.

Reinstatement Fees

15. The Law Society currently imposes a reinstatement fee of \$150 for non-payment of the annual fee. The Law Societies of British Columbia and Alberta charge significantly higher fees for reinstatement, depending on the reason for suspension, with the fees ranging up to \$1,610 in Alberta and the fee in British Columbia at \$415.
16. For 2018 it is proposed that the reinstatement fee for non-payment of the annual fee be doubled to \$300. This amount is not out of line when comparing with other law societies in Canada.

Administration

17. Many licensees contact the Law Society requesting exceptional treatment relating to annual fees, late fees or reinstatement fees, citing personal circumstances and financial hardship. While acknowledging the issues, the Committee considered that the Law Society's fee structure works only if it applies to everyone equally. It is administered without a complicated process for analyzing individual situations and making exceptions, so that front line staff are not typically expected to evaluate individual situations to determine if an exception should be made.

Returned Cheque Fee

18. The Law Society charges an administrative processing fee of \$25 for returned cheques that cannot be processed. This fee has been unchanged for twenty plus years. To bring this fee in line with industry standards, the fee is recommended to increase to \$50.
19. The projected impact of the fee increases is summarized below:

Fee Category	Current Fee	Annual Revenue	Recommended Fee	Annual Revenue
Late Payment	\$100	\$690,000	\$150	\$825,000
Late Filing CPD	\$100	\$270,000	\$200	\$350,000
Late Filing LAR/PAR	\$100	\$72,000	\$200	\$125,000
Reinstatement	\$150	\$40,000	\$300	\$80,000
NSF	\$25	\$13,000	\$50	\$26,000
Total		\$1,085,000		\$1,406,000

TAB 2.2

REPORTS FOR INFORMATION

TAB 2.2.1

FOR INFORMATION**LAWPRO FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30,
2017**

20. The Audit & Finance Committee recommends that Convocation receive the LAWPRO financial statements for the second quarter of 2017 for information.

Rationale

21. The Law Society provides mandatory professional liability insurance to lawyers through LAWPRO, a provincially licensed insurer and wholly-owned subsidiary of the Law Society. There is a quarterly financial reporting schedule to the shareholder. These interim statements convey the performance of LAWPRO before the end of the year. Unlike annual statements, the interim statements are not audited.
22. 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 Law Society to fund the anticipated costs of professional liability claims made in each annual policy period.
23. Paralegals typically 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.
24. LAWPRO administers the operations of the E&O Fund at no charge, under an administrative services agreement.

Key Issues and Considerations

25. Each September, LAWPRO reports to Convocation on changes to the Law Society's professional liability insurance program for the following calendar year. The timing of this report is necessitated by the logistics of renewing over 24,000 policies effective January 1, and the need to negotiate and place any related or corollary reinsurance treaties. This report is also an opportunity for LAWPRO's Board to review with Convocation issues of importance to its insurance operations and receive policy direction where necessary.

Financial Impact

26. As an information item, the interim financial statements have no direct financial impact but LAWPRO's financial results in 2017 influence insurance premiums in future years. The base premium for professional liability insurance coverage for Ontario lawyers is \$2,950 in 2017, down \$400 from the 2016 premium. The annual policy limits for each of

the years effective January 1, 1995 to December 31, 2017 have been \$1 million per claim and \$2 million in aggregate per member.

Stakeholder Response/Reaction

27. The statements have been approved by LAWPRO's board.



Report to the Audit and Finance
Committee of The Law Society of Upper
Canada

September 13, 2017



***Report to the Audit and Finance Committee – Law Society
September 13, 2017***

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KEY POINT SUMMARY

- LAWPRO has sufficient assets to discharge its claims and other liabilities.
- At June 30, 2017, LAWPRO held investment assets totaling \$684.4 million, inclusive of cash and cash equivalents and investment income due and accrued. These funds have been invested in accordance with the Company's investment policy. LAWPRO was in compliance with its policy during the six months ended June 30, 2017 (see pages 11 and 12).
- LAWPRO's net income for the six months ended June 30, 2017 was \$1.0 million compared to a budgeted loss of \$2.2 million and a net income of \$5.2 million for the same period in 2016. During the six months ended June 30, 2017 LAWPRO experienced a total comprehensive loss of \$3.6 million, which reflects a decrease in unrealized gains of \$4.5 million on its surplus investments, compared to a budgeted loss of \$1.1 million and an income of \$3.2 million for the same period in 2016.
- Overall, earned premiums on the mandatory program were above expected levels, primarily due to real estate transaction levies being \$1.7 million higher than budget. Investment income of \$15.1 million for the six months of 2017 was higher than budgeted levels by \$5.0 million, mainly due to \$6.6 million of realized gains. Current year investment income was above the results for the same period in 2016 by \$3.2 million, primarily due to the sizable realized gains in the current period.
- Claims and adjustment expenses for the six months ended June 30, 2017 were \$3.0 million higher than budget and \$6.4 million higher than the same period last year, primarily due to \$8.7 million more favourable prior year development in the E&O program experienced during 2016. General expenses for the six months ended June 30, 2017 were \$0.2 million lower than budget though \$0.4 million higher than the same period in 2016.
- LAWPRO is in compliance with all regulatory requirements regarding solvency and filing of financial information. A summary of LAWPRO's position with respect to its Risk Appetite Statement (including standard insurance ratios) at June 30 is included on page 10.

Lawyers' Professional Indemnity Company
STATEMENT OF FINANCIAL POSITION

Stated in thousands of Canadian dollars

UNAUDITED

	As at June 30 2017	As at December 31 2016
Assets		
Cash and cash equivalents	16,915	15,911
Investments	664,852	646,413
Investment income due and accrued	2,653	2,434
Due from reinsurers	280	503
Due from insureds	3,710	2,288
Due from the Law Society of Upper Canada	43,125	8,024
Reinsurers' share of provisions for:		
Unpaid claims and adjustment expenses	45,552	43,794
Unearned premiums	3,557	-
Deferred policy acquisition expenses	1,666	-
Other receivables	2,240	1,766
Other assets	2,097	2,487
Property and equipment	744	984
Intangible asset	768	877
Income taxes recoverable	2,564	-
Deferred income tax asset	5,351	5,236
Total assets	796,074	730,717
Liabilities		
Provision for unpaid claims and adjustment expenses	483,177	472,168
Unearned premiums	56,664	1,027
Unearned reinsurance commissions	741	-
Due to reinsurers	2,370	673
Due to insureds	36	280
Expenses due and accrued	2,833	1,456
Income taxes due and accrued	-	1,181
Other taxes due and accrued	363	466
	546,184	477,251
Equity		
Capital stock	5,000	5,000
Contributed surplus	30,645	30,645
Retained earnings	183,183	182,222
Accumulated other comprehensive income	31,062	35,599
Total liabilities and equity	796,074	730,717

Lawyers' Professional Indemnity Company
STATEMENT OF PROFIT OR LOSS

Stated in thousands of Canadian dollars

UNAUDITED

<u>For six months ended June 30</u>	<u>2017</u>	<u>2016</u>
Income		
Gross written premiums	111,399	115,748
Premiums ceded to reinsurers	<u>(7,127)</u>	<u>(7,378)</u>
Net written premiums	104,272	108,370
(Increase) decrease in unearned premiums	<u>(52,080)</u>	<u>(53,771)</u>
Net premiums earned	52,192	54,599
Net investment income	15,064	11,820
Ceded commissions	<u>738</u>	<u>722</u>
	<u>67,994</u>	<u>67,141</u>
Expenses		
Gross claims and adjustment expenses	56,996	47,921
Reinsurers' share of claims and adjustment expenses	<u>(1,910)</u>	<u>806</u>
Net claims and adjustment expenses	55,086	48,727
Operating expenses	10,076	9,694
Premium taxes	<u>1,677</u>	<u>1,757</u>
	<u>66,839</u>	<u>60,178</u>
Profit (loss) before income taxes	<u>1,155</u>	<u>6,963</u>
Income tax expense (recovery) - current	309	1,515
- deferred	<u>(115)</u>	<u>242</u>
	194	1,757
Profit (loss)	<u>961</u>	<u>5,206</u>
Other comprehensive income / (loss)		
Unrealized gains / (losses) - bonds	(707)	(19)
- equities	(3,830)	(2,027)
Defined benefit remeasurements	<u>-</u>	<u>-</u>
	<u>(4,537)</u>	<u>(2,046)</u>
Total comprehensive income	<u>(3,576)</u>	<u>3,160</u>

Lawyers' Professional Indemnity Company
STATEMENT OF COMPREHENSIVE INCOME

Stated in thousands of Canadian dollars

UNAUDITED

<u>For six months ended June 30</u>	2017	2016
Profit (loss)	961	5,206
Other comprehensive income, net of income tax:		
<u>Items that will not be reclassified subsequently to profit or loss:</u>		
Remeasurements of defined benefit plans, net of income tax expense (recovery) of (\$0) [2016: (\$0)]	-	-
<u>Items that may be reclassified subsequently to profit or loss:</u>		
<i>Available-for-sale assets</i>		
Net changes unrealized gains (losses), net of income tax expense (recovery) of (\$6) [2016: (\$56)]	(11)	(154)
Reclassification adjustment for (gains) losses recognized in profit or loss, net of income tax (expense) recovery of (\$1,853) [2016: (\$893)]	(5,141)	(2,477)
Reclassification adjustment for impairments, recognized in profit or loss, net of income tax expense of \$222 (2016: \$211)	615	585
Other comprehensive income	(4,537)	(2,046)
Comprehensive income	(3,576)	3,160

Lawyers' Professional Indemnity Company**STATEMENT OF CHANGES IN EQUITY**

Stated in thousands of Canadian dollars

UNAUDITED

	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Equity
Balance at December 31, 2015	5,000	30,645	173,484	28,924	238,053
Total comprehensive income for the year	-	-	8,639	6,774	15,413
Transfer of defined benefit remeasurements from OCI to retained earnings			99	(99)	-
Balance at December 31, 2016	5,000	30,645	182,222	35,599	253,466
Total comprehensive income for the year	-	-	961	(4,537)	(3,576)
Transfer of defined benefit remeasurements from OCI to retained earnings			-	-	
Balance at June 30, 2017	5,000	30,645	183,183	31,062	249,890

**LAWYERS' PROFESSIONAL INDEMNITY COMPANY
REPORT TO AUDIT AND FINANCE COMMITTEE - LAW SOCIETY OF UPPER
CANADA
MANDATORY E&O INSURANCE PROGRAM
SIX MONTHS ENDED JUNE 30, 2017**

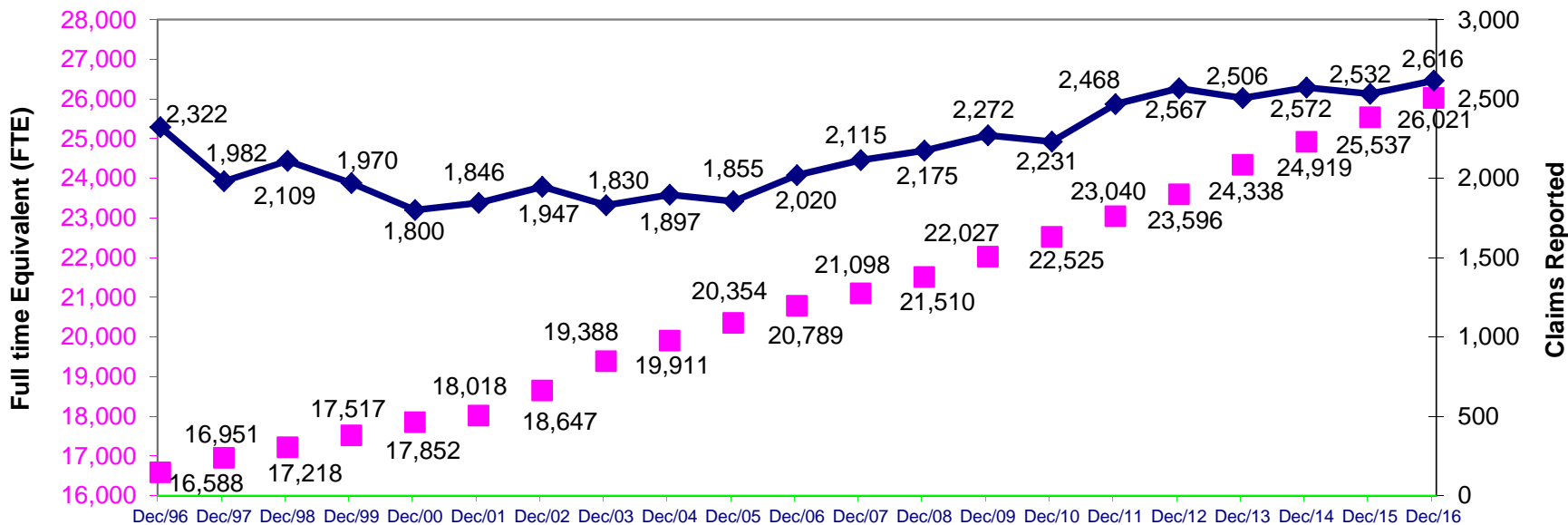
PREMIUMS

- The 2017 Ontario mandatory professional liability program performed slightly better than expected. Overall, written premiums were slightly above expected levels. At June 30, 2017, there were 26,306 full-time equivalent practitioners, a level which were slightly below the budgeted amount of 26,700, as all of this year's new calls have not yet been included in the Program.
- For 2017, transaction levies were \$1.7 million above budget, and \$0.6 million above the results for the same period in 2016. Transaction levies collected during the first half of 2017 was \$12.7 million, compared to \$11.9 million collected during the same period prior year.

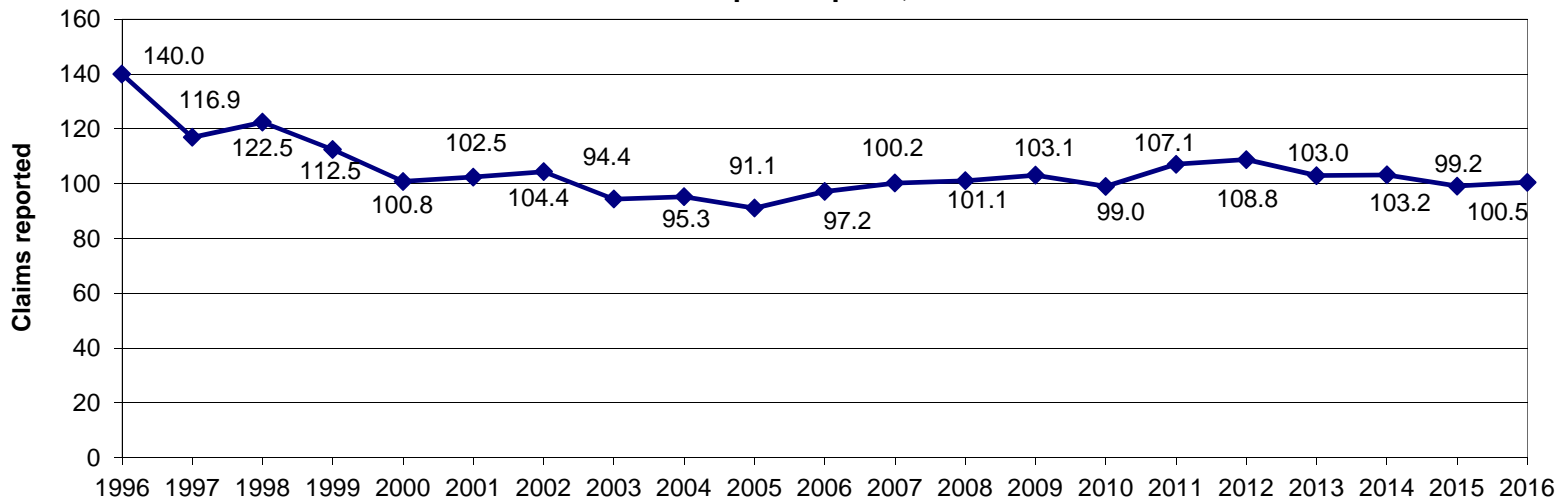
CLAIMS & ADJUSTMENT EXPENSES

- In the year of 2017, there were 1,121 new 2017 fund year claim files reported compared with 1,069 new 2016 fund year claim files reported in 2016.
- The number of files remaining open at June 30, 2017 was 3,889, higher than the 3,766 files remaining open at June 30, 2016.
- For all fund years, 1,525 new files were activated through June 30, 2017 (including 95 which were reopened) and 1,363 closed. The comparable figures for the six months ended June 30, 2016 were 1,434 claims files activated (including 112 which were reopened) and 1,276 closed.
- On an aggregate basis, for the first six months of 2017 there has been a net favorable development on claims of prior years (in particular fund years 2015 and 2016, offset somewhat by an unfavourable development for the fund years 2011, 2012 and 2014). Regarding prior year development, in the same period in 2016, there was a significant net favourable development on claims of prior years (in particular fund years 2013 through 2015).

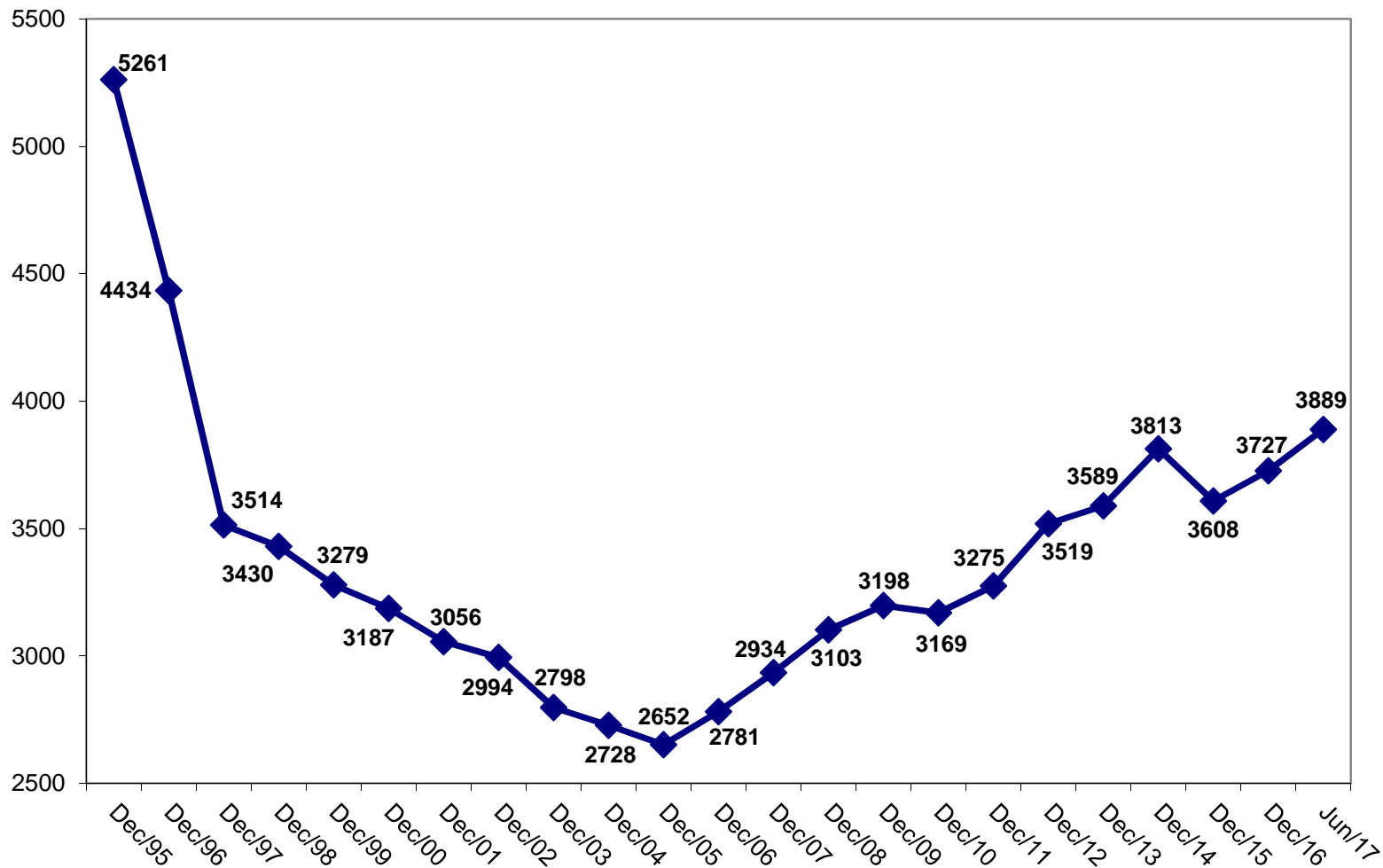
New Claims Reported & Full Time Equivalents by Fund Year



Claims reported per 1,000 FTE



Open Claims (for fund years 1995 and forward)



Lawyers' Professional Indemnity Company - Management Commentary
 Financial Results for the six months ended June 30, 2016

INSURANCE RATIOS¹

TEST	RECOMMENDED RANGE	JUN 2017	DEC 2016	JUN 2016	DEC 2015
I. Solvency Ratios					
1. Minimum Capital Test					
<i>(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.)</i>	Preferred: 215-240% Minimum: 170%	236%	253%	251%	268%
2. Loss reserves to equity					
<i>(Measures unpaid claim and adjustment reserves as a percentage of surplus and provides a simple test of the leveraged position of the company.)</i>	Preferred: < 225% Maximum: 250%	175%	169%	174%	175%
II. Other Select Ratios					
1. Liabilities as a % of liquid assets					
<i>(Liabilities as a percentage of Cash and other liquid assets-measures company's ability to meet its financial demands.)</i>	Preferred: < 80% Maximum: 105%	73%	65%	73%	66%
2. Net premiums written as a % of surplus					
<i>(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.)</i>	Preferred: < 80% Maximum: 100%	42%	46%	45%	51%
3. Comprehensive return on equity					
<i>(Measures an insurer's comprehensive income as a percentage of equity. The higher the ratio, the greater the return to shareholders per unit of invested capital. Sustainability of earnings is more important than periods of high returns followed by periods of low returns or losses.)</i>	Greater than 0%	(3%)	6%	3%	13%
4. General expense ratio					
<i>(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.</i>	Up to small insurance company benchmark (29% as at Dec 2016)	23%	20%	21%	18%
5. Optional business segment					
<i>(Excess program and TitlePLUS title insurance is planned to achieve break-even or better on a trailing 4 year average basis).</i>	Greater than \$0 (stated in \$'000s)	564	995	750	494

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

July 25, 2017

Subject: Quarterly Compliance Report as at June 30, 2017
for Lawyers' Professional Indemnity Company

As of and for the quarter ending June 30, 2017, we hereby certify that to the best of our knowledge the investments in the Lawyers' Professional Indemnity Company portfolio were in compliance, based on our records which are issued on a trade date basis, in accordance with the Investment Policy Statement dated January 1, 2017.

Yours truly,

A handwritten signature in black ink, appearing to read "Deborah Lewis", written in a cursive style.

Deborah Lewis, CFA
First Vice-President



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July 20th, 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 June 30th, 2017, Letko Brosseau was in compliance with the requirements of the Statement of Investment Policies and Procedures, effective January 1st, 2017. To the best of our knowledge, we have no reason to believe that we were not in compliance with all such requirements at any other time during such period.

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

Regards,

Original letter signed by Daniel Brosseau

Daniel Brosseau
Letko Brosseau & Associates Inc.
DB/mn

TAB 2.2.2

FOR INFORMATION

**LAW SOCIETY OF UPPER CANADA FINANCIAL STATEMENTS FOR THE SIX
MONTHS ENDED JUNE 30, 2017**

28. **The Audit & Finance Committee recommends that Convocation receive the financial statements for the second quarter of 2017 for information.**

Rationale

29. This is part of the quarterly financial reporting schedule to Convocation. These interim statements convey the performance of the Law Society before the end of the year. Unlike annual statements, interim statements are not audited.

**Law Society of Upper Canada Financial Statements
For the six months ended June 30, 2017**

Financial Statement Highlights

30. The Lawyer General Fund generated a surplus of \$1.7 million at the end of the second quarter of 2017(2016: \$3.4 million).
31. The Paralegal General Fund generated a surplus of \$195,000 at the end of the second quarter of 2017 (2016: \$991,000).
32. For both revenues and expenses, there are consistent positive variances compared to budget in all major categories. While some variances from budget are attributable to timing differences, it is still too early to say whether this will be representative of the remainder of the year.
33. The Law Society's restricted funds report a deficit of \$5.7 million (2016: \$2.1 million) primarily because of a \$5.5 million deficit in the Lawyer Compensation Fund and amortization of \$1.1 million in the Invested in Capital and Intangible Assets Fund. The Compensation Fund's adverse claims experience in recent years continues in 2017 and the fund balance (\$7.3 million) is well below the minimum (\$13 million) required by the Fund Balance Management Policy. If the current trend in claims incurred continues for the remainder of the year it will have significant implications for the 2018 funding requirements of the Lawyer Compensation Fund. The Finance Department will continue to monitor claims made against the Fund and report to the Committee going forward.
34. For the General Fund, the first half of the year has resulted in greater than budgeted revenues and less than budgeted expenses. The Law Society is on track to exceed its 2017 budget expectations and its financial position remains strong with the exception of the adverse claims experience in the lawyer Compensation Fund.

Background

35. The Financial Statements are prepared under Generally Accepted Accounting Principles for Canadian not-for-profit organizations using the restricted fund method of accounting.
36. The Financial Statements for the six months ended June 30, 2017 comprise the following statements:
 - Balance Sheet
 - Statement of Revenues and Expenses and Change in Fund Balances, detailing results of operations for lawyers and paralegals
 - Schedule of Restricted Funds

- Supplemental schedules include Schedules of Revenues and Expenses for the Combined General Fund, Lawyer and Paralegal General Funds, the Compensation Fund and the Errors and Omissions Insurance Fund

Statement of Revenues and Expenses and Change in Fund Balances

37. The Lawyer General Fund had a surplus of \$1.7 million at the end of the second quarter of 2017 (2016: \$3.4 million). The 2017 budget incorporates \$4.8 million of the lawyer General Fund Balance to mitigate fee increases in 2017 and also incorporates \$600,000 in funding from surplus investment income in the E&O Fund. Actual use of the fund balance and the E&O Fund transfer is contingent on a deficit occurring.
38. The Paralegal General Fund had a surplus of \$195,000 (2016: \$991,000). The 2017 budget incorporates the use of \$1 million in funding from the paralegal Fund Balance to provide for a budgeted operating deficit. Actual use of the fund balance is contingent on a deficit occurring.
39. The Law Society's restricted funds report a deficit of \$5.7 million for the period (2016: \$2.1 million). The material components are:
 - a \$5.5 million deficit in the Lawyer Compensation Fund due to an increase in grants anticipated to be closed with payment
 - a \$94,000 loss in the E&O Fund brought about by investment related income being lower than projected.
 - the \$1.1 million amortization expense in the Invested in Capital & Intangible Assets Fund
40. The 2017 budget included an annual fee increase for lawyers and paralegals of \$50 for an annual fee of \$1,916 and \$1,046 respectively and an increase of 700 in the number of lawyers to a Full Fee Paying Equivalent total of 40,200 and an increase of 550 in the number of paralegals to a Full Fee Paying Equivalent total of 5,600. Annual fees recognized in the second quarter of \$40 million have increased by \$2 million due to the increase in licensees and the increases in the annual fees. Both lawyer and paralegal annual fees exceed budget by a small amount. Annual fee revenue is recognized on a monthly basis.
41. Although the annual fee increased by \$50 in total, for lawyers the General fee component decreased by \$42, the Compensation Fund component increased by \$35 and the Capital component increased by \$57 with similar changes for paralegals. The LibraryCo levy paid by lawyers was unchanged. This explains the variations across the funds.
42. LAWPRO's base premium (\$2,950) decreased by \$400 from 2016, leading to a \$3 million decline in E&O Fund premium and levy revenue to \$49.7 million.

43. Professional development and competence revenue comprises licensing process and continuing professional development revenue:
- At \$8.2 million, lawyer and paralegal licensing process revenue is \$600,000 more than last year and more than budget because of more lawyer candidates within the process for instance, with more exam rewrites. The total lawyer Licensing Process fee including the fees for the initial application, the Barrister and Solicitor Licensing Examinations and the Call to the Bar, is \$4,710, unchanged from last year and the paralegal license fee is also unchanged.
 - Lawyer and paralegal continuing professional development revenue of \$3.9 million is less than last year (2016: \$4.4 million) and less than budget. The timing of some large programs has changed this year and the ratio of nominal fee programs to traditional fee generating programs also varies between periods. Traditionally, fall has been CPD's busiest period and registrations will continue to be closely monitored for trends and budgeting for 2018 will be adjusted
44. Total investment income, comprising interest and dividends of \$957,000 has been offset by the \$1.1 million negative change in the fair value of investments since the beginning of the year. Only \$64,000 of this capital loss has been realized. These results are a reflection of the broad fixed income and Canadian equity markets during the period. The benchmark of the FTSE TMX Short Term Bond Index comprises 68% of the Law Society's portfolio. In the second quarter, the fixed income markets anticipated the Bank of Canada raising the key interest rate for the first time in nearly seven years in July leading to a fall in bond prices. The FTSE TMX Short Term Bond Index, lost 0.42% in the second quarter. The Law Society's fixed income investments lost slightly less at 0.2% in the quarter. The portfolio manager believes interest rates will slowly increase over the next few years, and has positioned the portfolio accordingly. In February this year, Convocation approved a revised Investment Policy for the Law Society which increased the benchmark Canadian equity component from 15% to 30%. Equities were at 32% of the asset mix at the end of June. The Law Society's equity investments lost 2.9% in the second quarter, a little worse than the benchmark S&P/TSX Composite Index loss of 1.6%.
45. Other revenue totalling \$4.6 million (2016: \$5.4 million) includes Ontario Report royalties (\$816,000), catering revenues (\$559,000) and administrative fees such as late fees (\$860,000), professional corporation and payment plan fees. The decrease from 2016 is due to a reduction in ordered costs and the end of the funding from the Law Foundation of Ontario for the Treasurer's Access to Justice Group. (It is still intended to complete TAG's intended mandate for the year using savings in other areas of the External Relations budget). Other revenue for the period still exceeds budget.
46. Professional Regulation, Tribunals and Compliance expenses totaling \$14.1 million (2016: \$13.5 million) are more than last year as budgeted but are \$1.6 million less than budget due to staff vacancies associated with the department's reorganization. The variance is spread across all areas. There has been an increased use of outside counsel

as a measure to counter the staff vacancies and recruiting continues with an additional recruiter included in the 2018 budget.

47. There is at least a reasonable possibility that one or more other cost awards from the Law Society's regulatory proceedings may be awarded against the Law Society but the amount of any losses cannot be reliably estimated at this time. The Society has determined that the ultimate settlement for these costs awards could range from nil to approximately \$1 million, and because of the uncertainty no provision has been made in compliance with accounting standards.
48. Total professional development and competence expenses are \$14.8 million (2016: \$13.8 million) and are effectively the same as budget. The variances from the prior year are due to increased activity in the Licensing Process and expenses for the new coach and advisor program have started as budgeted. Licensing process expenses are over budget but this negative variance is offset by the positive variance in licensing process revenues and other also positive variances in other PD&C departments such as the Library, Spot Audit and Practice Review. With the high number of candidates, licensing process administrative expenses such as invigilation and facilities rental are higher than budgeted. Significant resources continue to be devoted to candidate's special needs and accommodation requirements. In the last five years, requests for accommodations have doubled for lawyers and tripled for paralegals.
49. Corporate services expenses of \$12.6 million (2016: \$11.4 million), primarily comprise Information Technology, Finance, Legal, Human Resources, Facilities and other administrative expenses and are less than budget. The main fluctuation is in unplanned severance which at \$1.1 million exceeds budget for the entire year of \$500,000 and the 2016 comparative of \$290,000 with a number of departmental reorganizations initiated during the current period. All other areas are under budget, particularly Facilities which is \$500,000 under budget with savings in most areas.
50. All the significant components of convocation, policy and outreach expenses of \$3.3 million (2016: \$4.2 million) are under budget and less than last year primarily because of staff vacancies arising from departmental reorganizations. The contingency allocated to the period of \$441,000 has also not been used.

Balance Sheet

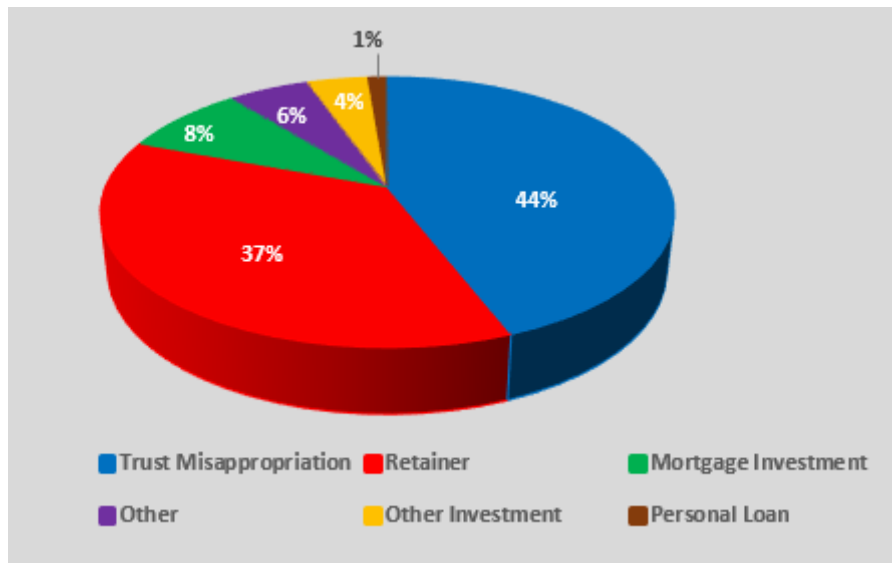
51. The decline in the total of cash and short-term investment balances can attributed to the relatively high Compensation Fund grant payments during the period.
52. Most of the prepaid expense balance of \$54.5 million relates to annual E&O insurance premiums paid or payable for the year, which are expensed over the full year.

53. The investment in subsidiaries represents the 100% ownership of LAWPRO totaling \$35.6 million and the 100% ownership of LibraryCo totaling \$200.
54. Portfolio investments are shown at fair value of \$65.5 million, a nominal decrease from 2016 because of a withdrawal of capital of \$1 million by the E&O Fund and unrealized capital losses.
55. Deferred revenue (\$86.5 million) is made up of annual fees, licensing process revenues and insurance premiums which are recognized over the full year. The balance has declined slightly from the same time in 2016 as, within the E&O Fund, the base premium for professional liability insurance coverage for Ontario lawyers decreased \$400 from the 2016 premium.
56. Due to LAWPRO (\$43.1 million) will decline by year-end as insurance premiums and levies collected are paid to LAWPRO.
57. The provision for unpaid grants of \$22.5 million (2016 - \$20.5 million) represents the estimate for unpaid claims and inquiries against the Compensation Fund, supplemented by the costs for processing these claims. The Fund continues to process some large alleged defalcations on the part of certain licensees but the underlying volume of grant applications continues at a high level. The paralegal Compensation Fund provision for unpaid grants comprises \$258,000 of the total Compensation Fund provision for unpaid grants.
58. The Law Society Act permits a member who has dormant trust funds, to apply for permission to pay the money to the Law Society. Money paid to the Law Society is held in trust in perpetuity for the purpose of satisfying the claims of the persons who are entitled to the capital amount. At the end of June, unclaimed money held in trust amounts to \$4.9 million, compared to \$4.6 million in the prior year.
59. The operating surpluses in the lawyer and paralegal General Funds have increased the fund balances to \$25.2 million and \$5.3 million respectively, still within the parameters established by Convocation's fund balance administration policy.
60. The lawyer Compensation Fund's deficit in the period of \$5.5 million continues to erode the lawyer Compensation Fund balance to \$7.3 million a reduction of \$6.3 million over the twelve month period. The increase in the Compensation Fund levy in 2017 to replenish the fund balance has only slowed the decrease. The fund balance is below the minimum level which is required by Convocation's fund balance administration policy, approximately \$13 million. The fund balance policy requires the minimum benchmark to be restored within three years.
61. The Compensation Fund balance policy will be addressed as part of 2018 budget deliberations. Professional Regulation prepared an analysis of the ongoing adverse

claims experience including the types of claims - 81% of claims to the Fund between 2007 and 2016 raised trust misappropriation or retainer issues.

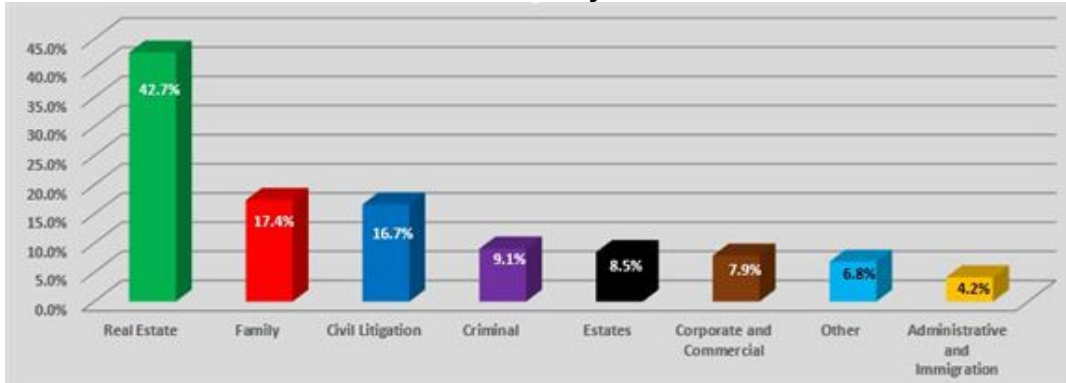
- With respect to trust misappropriation issues:
 - 50% related to real estate proceeds
 - 23% related to estate funds
 - 17% related to other kinds of trust misappropriations; and
 - 10% related to settlement funds
- Retainer issues related mainly to the lawyer's failure to either do any work on the matter and/or to account for the retainer monies provided.

Type of Issues Identified in Claims to the Fund Received in 2007 to 2016



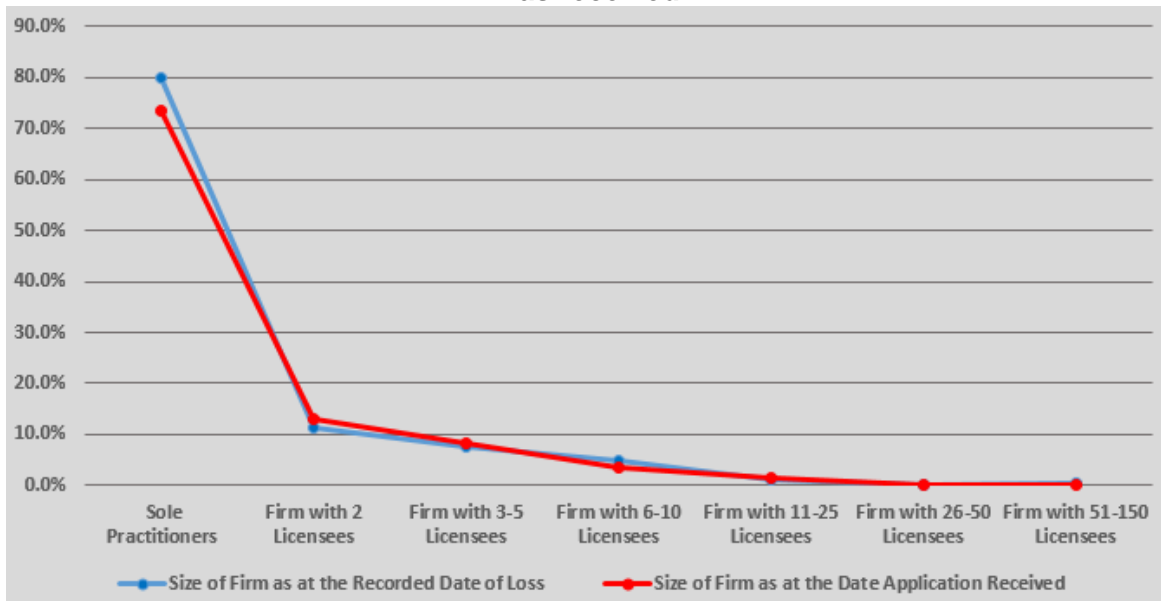
62. In assessing the areas of law identified in claims received by the Fund, real estate law, family law and civil litigation are the three areas of law identified in the highest proportion of claims / complaints received.

Area of Law – Claims Received by the Fund in 2007 to 2016



63. The majority of claims received by the Fund between 2007 and 2016 were against sole practitioners.

**Size of firm in which the Lawyer practised
As at the date of the recorded date of loss vs as at the date the claim application
was received**



Restricted Funds

64. A supplementary income and expense schedule for the Compensation Fund is provided with variances analyzed above.

65. A supplementary income and expense schedule for the Errors and Omissions Insurance (E&O) Fund is also provided with some variances analyzed above. The E&O Fund accounts for the mandatory professional liability insurance program of the Law Society which is administered by LAWPRO. The insurance premium expense, as well as related levies and income from their investment are tracked within this fund. The Law Society is insured for lawyers' professional liability and recovers annual premium costs from lawyers through a combination of annual base levies and additional levies that are charged based on a lawyer's claims history, status, and real estate and litigation levies. The fund is reporting a deficit of \$94,000 (2016 – surplus of \$540,000) due to investment related income being lower than projected. There are no premium contributions to mitigate the base insurance levy for lawyers in 2017. Revenue from insurance premiums and levies is recognized on a monthly basis. LAWPRO's base premium of \$2,950 is \$400 less than the \$3,350 in prior years, offsetting the increase in number of insureds for a net decrease in premium and levy revenue to \$49.7 million from \$52.6 million. This trend is matched in the expenses in the Errors and Omissions Insurance Fund.

THE LAW SOCIETY OF UPPER CANADA

Balance Sheet

Unaudited

Stated in thousands of dollars

As at June 30

	2017	2016
Assets		
Current Assets		
1 Cash	30,339	34,811
2 Short-term investments	43,762	41,356
3 Accounts receivable	40,478	39,958
4 Prepaid expenses	54,463	56,045
5 Total current assets	169,042	172,170
6 Investment in subsidiaries	35,642	35,642
7 Portfolio investments	65,533	65,785
8 Capital assets	8,122	9,029
9 Intangible assets	494	704
10 Total Assets	278,833	283,330
Liabilities and Fund Balances		
Current Liabilities		
11 Accounts payable and accrued liabilities	10,721	11,734
12 Deferred revenue	86,469	87,556
13 Due to LAWPRO	43,125	42,887
14 Total current liabilities	140,315	142,177
15 Provision for unpaid grants/claims	22,460	20,511
16 Unclaimed trust funds	4,961	4,580
17 Total Liabilities	167,736	167,268
Fund Balances		
General funds		
18 Lawyers	25,194	24,799
19 Paralegals	5,260	4,857
Restricted funds		
20 Compensation - lawyers	7,320	13,631
21 Compensation - paralegals	580	567
22 Errors and omissions insurance	55,490	54,882
23 Capital allocation	7,852	6,794
24 Invested in capital and intangible assets	8,616	9,733
25 County libraries	(49)	(80)
26 Other	834	879
27 Total Fund Balances	111,097	116,062
28 Total Liabilities and Fund Balances	278,833	283,330

30/08/2017

THE LAW SOCIETY OF UPPER CANADA**Statement of Revenues and Expenses and Change in Fund Balances***Unaudited**Stated in thousands of dollars**For the six months ended June 30*

	2017	2016	2017	2016	2017	2016	2017	2016
	General Fund Lawyer		General Fund Paralegal		Restricted Funds		Total	
Revenues								
1 Annual fees	25,789	25,887	2,112	2,068	12,387	10,260	40,288	38,215
2 Insurance premiums and levies	-	-	-	-	49,734	52,570	49,734	52,570
3 Professional development and competence	10,354	10,311	1,660	1,643	-	-	12,014	11,954
4 Investment income	292	298	32	28	633	660	957	986
5 Change in fair value of investments	(241)	138	(27)	13	(859)	513	(1,127)	664
6 Other	4,094	4,289	594	570	(86)	558	4,602	5,417
7 Total revenues	40,288	40,923	4,371	4,322	61,809	64,561	106,468	109,806
Expenses								
8 Professional regulation, tribunals and compliance	12,514	12,346	1,569	1,169	-	-	14,083	13,515
9 Professional development and competence	13,520	12,716	1,272	1,057	-	-	14,792	13,773
10 Corporate services	11,345	10,416	1,270	982	-	-	12,615	11,398
11 Convocation, policy and outreach	3,037	3,850	278	310	-	-	3,315	4,160
12 Services to members and public	1,922	1,801	143	117	-	-	2,065	1,918
13 Allocated to Compensation Fund	(3,772)	(3,588)	(356)	(304)	-	-	(4,128)	(3,892)
14 Restricted	-	-	-	-	67,510	66,633	67,510	66,633
15 Total expenses	38,566	37,541	4,176	3,331	67,510	66,633	110,252	107,505
16 Surplus (Deficit)	1,722	3,382	195	991	(5,701)	(2,072)	(3,784)	2,301
17 Fund balances, beginning of year	23,602	21,407	5,065	3,866	86,214	88,488	114,881	113,761
18 Interfund transfers	(130)	10	-	-	130	(10)	-	-
19 Fund balances, end of period	25,194	24,799	5,260	4,857	80,643	86,406	111,097	116,062

30/08/2017

THE LAW SOCIETY OF UPPER CANADA

Schedule of Restricted Funds

Unaudited

Stated in thousands of dollars

For the six months ended June 30

	2017							2016	
	Compensation Fund		Errors and omissions insurance	Capital allocation	Invested in capital and intangible assets	County libraries	Other restricted	Total Restricted funds	Total
	Lawyer	Paralegal							
1 Fund balances, beginning of year	12,825	597	55,584	6,529	9,711	-	968	86,214	88,488
Revenues									
2 Annual fees	5,748	425	-	2,355	-	3,859	-	12,387	10,260
3 Insurance premiums and levies	-	-	49,734	-	-	-	-	49,734	52,570
4 Investment income	368	41	224	-	-	-	-	633	660
5 Change in fair value of investments	(471)	(52)	(336)	-	-	-	-	(859)	513
6 Other	(163)	12	-	65	-	-	-	(86)	558
7 Total revenues	5,482	426	49,622	2,420	-	3,859	-	61,809	64,561
Expenses									
8 Allocated expenses	3,772	356	-	-	-	-	-	4,128	3,892
9 Direct expenses	7,215	87	49,716	1,197	1,095	3,908	164	63,382	62,741
10 Total expenses	10,987	443	49,716	1,197	1,095	3,908	164	67,510	66,633
11 (Deficit) Surplus	(5,505)	(17)	(94)	1,223	(1,095)	(49)	(164)	(5,701)	(2,072)
12 Interfund transfers	-	-	-	100	-	-	30	130	(10)
13 Fund balances, end of period	7,320	580	55,490	7,852	8,616	(49)	834	80,643	86,406

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

Unaudited

Stated in thousands of dollars

For the six months ended June 30

	2016 Actual	2017 Actual	Budget YTD	Variance
REVENUES				
1 Annual fees	27,955	27,901	27,355	546
2 Professional development and competence	11,954	12,014	11,246	768
3 Investment income	326	324	388	(64)
4 Change in fair value of investments	151	(268)	-	(268)
5 Other	4,859	4,688	4,394	294
6 Total revenues	45,245	44,659	43,383	1,276
EXPENSES				
7 Professional regulation, tribunals and compliance	13,515	14,083	15,736	1,653
8 Professional development and competence	13,773	14,792	14,869	77
9 Corporate services	11,398	12,615	13,667	1,052
10 Convocation, policy and outreach	4,160	3,315	5,248	1,933
11 Services to members and public	1,918	2,065	2,266	201
12 Allocated to Compensation Fund	(3,892)	(4,128)	(4,441)	(313)
13 Total expenses	40,872	42,742	47,345	4,603
14 Surplus (Deficit)	4,373	1,917	(3,962)	5,879

30/08/2017

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

Unaudited

Stated in thousands of dollars

For the six months ended June 30

	2016 Actual	2017 Actual	Budget YTD	Variance
REVENUES				
1 Annual fees	25,887	25,789	25,283	506
2 Professional development and competence	10,311	10,354	9,869	485
3 Investment income	298	292	349	(57)
4 Change in fair value of investments	138	(241)	-	(241)
5 Other	4,289	4,094	3,914	180
6 Total revenues	40,923	40,288	39,415	873
EXPENSES				
7 Professional regulation, tribunals and compliance	12,346	12,514	14,201	1,687
8 Professional development and competence	12,716	13,520	13,378	(142)
9 Corporate services	10,416	11,345	12,249	904
10 Convocation, policy and outreach	3,850	3,037	4,784	1,747
11 Services to members and public	1,801	1,922	2,127	205
12 Allocated to Compensation Fund	(3,588)	(3,772)	(4,058)	(286)
13 Total expenses	37,541	38,566	42,681	4,115
14 Surplus (Deficit)	3,382	1,722	(3,266)	4,988

30/08/2017

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

Unaudited

Stated in thousands of dollars

For the six months ended June 30

	2016 Actual	2017 Actual	Budget YTD	Variance
REVENUES				
1 Annual fees	2,068	2,112	2,072	40
2 Professional development and competence	1,643	1,660	1,377	283
3 Investment income	28	32	39	(7)
4 Change in fair value of investments	13	(27)	-	(27)
5 Other	570	594	480	114
6 Total revenues	4,322	4,371	3,968	403
EXPENSES				
7 Professional regulation, tribunals and compliance	1,169	1,569	1,535	(34)
8 Professional development and competence	1,057	1,272	1,491	219
9 Corporate services	982	1,270	1,418	148
10 Convocation, policy and outreach	310	278	464	186
11 Services to members and public	117	143	139	(4)
12 Allocated to Compensation Fund	(304)	(356)	(383)	(27)
13 Total expenses	3,331	4,176	4,664	488
14 Surplus (Deficit)	991	195	(696)	891

30/08/2017

THE LAW SOCIETY OF UPPER CANADA**Compensation Fund****Schedule of Revenues and Expenses and Change in Fund Balances***Unaudited**Stated in thousands of dollars**For the six months ended June 30*

	2017			2016		
	Lawyers	Paralegals	Total	Lawyers	Paralegals	Total
Revenues						
1 Annual fees	5,748	425	6,173	4,911	366	5,277
2 Investment income	368	41	409	375	36	411
3 Change in fair value of investments	(471)	(52)	(523)	268	25	293
4 Recoveries	(163)	12	(151)	337	41	378
5 Total Revenues	5,482	426	5,908	5,891	468	6,359
Expenses						
6 Provision for unpaid grants	7,070	71	7,141	3,393	11	3,404
7 Spot audit	1,960	218	2,178	1,862	176	2,038
8 Share of investigation and discipline	977	54	1,031	989	55	1,044
9 Administrative	840	100	940	750	100	850
10 Salaries and benefits	140	-	140	269	-	269
11 Total Expenses	10,987	443	11,430	7,263	342	7,605
12 (Deficit) Surplus	(5,505)	(17)	(5,522)	(1,372)	126	(1,246)
13 Fund balances, beginning of year	12,825	597	13,422	14,905	441	15,346
14 Fund Balances, end of period	7,320	580	7,900	13,533	567	14,100

30/08/2017

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

Unaudited

Stated in thousands of dollars

For the six months ended June 30

	2017	2016
	Actual	Actual
REVENUES		
1 Insurance premiums and levies	49,734	52,570
2 Investment income	224	249
3 Change in fair value of investments	(336)	220
4 Total revenues	49,622	53,039
EXPENSES		
5 Claims	(18)	(71)
6 Insurance	49,734	52,570
7 Total expenses	49,716	52,499
8 (Deficit) Surplus	(94)	540
9 Change in fund balance	(94)	540
10 Fund balance, beginning of year	55,584	54,342
11 Fund balance, end of period	55,490	54,882

30/08/2017

TAB 2.2.3

FOR INFORMATION

**LIBRARYCO INC. FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED
JUNE 30, 2017**

66. **The Audit & Finance Committee recommends that Convocation receive the LibraryCo financial statements for the second quarter of 2017 for information.**

Rationale

67. LibraryCo Inc. is the central manager of the Ontario county courthouse library system in accordance with the objectives, policies and principles established and approved by the Law Society, in consultation with the County and District Law Presidents' Association and the Toronto Lawyers' Association. LibraryCo is a wholly-owned subsidiary of the Law Society. There is a quarterly financial reporting schedule to the shareholder. These interim statements convey the performance of LibraryCo before the end of the year. Unlike annual statements, interim statements are not audited.
68. The Law Society provides administrative services to LibraryCo, for a fee, under an administrative services agreement.

Stakeholder Response/Reaction

69. The statements have been approved by LibraryCo's board.



LIBRARYCO INC.
FINANCIAL REPORT
For the six months ended June 30, 2017

KEY POINT SUMMARY

Overall Results

70. Results for the second quarter identify a surplus of \$57,326 compared to a budgeted deficit of \$64,956 for the 6 months. The 2017 budget envisages a \$158,572 deficit for the year through the use of the General Fund balance.
71. One-third (\$42,500) of the positive variance from budget of \$122,282 relates to unspent transition expenses.
72. The balance of the current remaining positive variances are spread across a number of expense categories particularly consulting fees, publications, the group benefit plan and the bursaries, capital and special needs expenses.

Revenues

73. The Law Society grant (line 1) includes amounts for central administration and quarterly transfers to the 48 libraries. The actual grant from the Law Society was \$3,907,650 and matched budgeted amounts for the period.
74. Interest income (line 2) is earned on LibraryCo's cash and short term investments.

Expenses

75. Total expenses (line 16) were \$3,852,739 compared to a budget of \$3,972,606 for the period.
76. Administration expenses (line 4) of \$152,500 represents the service fee paid to the Law Society and equals budget. The fee remained at the 2016 rate.
77. Professional fees (line 5) include audit expenses and consulting fees. The consulting fee budget remains unspent which has resulted in a positive variance of \$8,637.
78. Transition expenses (line 6) budgeted at \$42,500 for the quarter were unspent.
79. Totalling \$9,469, other head-office expenses (line 7) are lower than budget for the period by \$16,579 primarily as a result of underspending for the production of the Annual Report, board of directors' meetings, web initiatives, toll free telephone charges and miscellaneous expenses.

80. Electronic product expenses of \$169,500 (line 9) are in line with the agreement with LexisNexis and budget.
81. Group benefits and insurance (line 10) of \$156,315 consist of the Group Benefits for enrolled library staff and library D&O and property insurance. Group benefits and insurance are lower than budget by \$14,735 as group benefits premiums are negotiated after the budget and these are budgeted conservatively. Given that both the D&O and property insurance policies expired at the end of April, a conservative increase in insurance for the remainder of 2017 was also taken into consideration when budgeting for 2017.
82. Other centralized expenses (line 11) of \$35,264 includes continuing education bursaries for library staff, library courier costs for inter-library loans of materials, publications provided by the Law Society to each of the 48 law libraries, and the Federation of Ontario Law Associations' (FOLA) meeting expenses for their Library Committee. Other centralized expenses are lower than budget by \$25,038 due to underspending in continuing education bursaries, publications and courier costs.
83. County and District law libraries grants (line 13) are in line with budget at \$3,306,362 and increased from 2016.
84. Bursaries, capital and special needs grants (line 14) consist of computer refreshment grants, special needs grants and conference bursaries for library staff. Computer purchases by the libraries during the year do not follow a pattern but this is expected to be fully expended by year end.

Balance Sheet

85. Short-term investments (line 2) of \$401,151 consists of a one year GIC and accrued interest.
86. Accounts receivable (line 3) are long term disability benefits premiums paid by LibraryCo on the libraries' behalf for the past quarter. These receivables are usually repaid early in the next quarter.
87. Prepaid expenses (line 4) primarily represents the property and D&O insurance policies for LibraryCo and the libraries which were renewed at the end of April.
88. Accounts payable and accrued liabilities (line 6) are \$9,667 lower than 2016. This variance is a result of timing of expenses.
89. The General Fund has increased to \$236,683. The 2017 budget forecasted a decrease of \$158,572 during the year. A projection of year-end revenues and expenses is attached estimating a surplus of just over \$31,000 to bring the year end General Fund

balance to approximately \$210,000. This estimate is likely if no transition or consulting expenses are incurred in 2017.

90. The Reserve Fund has a balance at the end of June 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 in accordance with Board policy.

LIBRARYCO INC.**Schedule of Actual and Budgeted Revenues and Expenses**

Stated in Dollars

For the six months ended June 30

Unaudited

	2017 Actual	YTD Budget	Variance	Annual Budget	2016 Actual
REVENUES					
1 Law Society of Upper Canada grant	3,907,650	3,907,650	-	7,815,240	3,831,006
2 Interest income	2,415	-	2,415	-	2,465
3 Total revenues	3,910,065	3,907,650	2,415	7,815,240	3,833,471
EXPENSES					
Head office/administration					
4 Administration	152,500	152,500	-	305,000	152,500
5 Professional fees	6,363	15,000	8,637	30,000	6,270
6 Transition expenses	-	42,500	42,500	85,000	18,397
7 Other	9,469	26,048	16,579	48,400	10,139
8 Total Head office/administration expenses	168,332	236,048	67,716	468,400	187,306
Law Libraries - centralized purchases					
9 Electronic products and services	169,500	169,500	-	339,000	169,500
10 Group benefits and insurance	156,315	171,050	14,735	352,000	156,777
11 Other	35,264	60,302	25,038	156,800	37,273
12 Total Law Libraries - centralized purchases	361,079	400,852	39,773	847,800	363,550
13 County and District law libraries - grants	3,306,362	3,306,362	-	6,612,724	3,238,382
14 Bursaries, capital and special needs grants	16,966	29,344	12,378	44,888	22,883
15 Total County and District Law Libraries Expenses	3,323,328	3,335,706	12,378	6,657,612	3,261,265
16 Total expenses	3,852,739	3,972,606	119,867	7,973,812	3,812,121
17 Surplus (Deficit)	57,326	(64,956)	122,282	(158,572)	21,350

This statement includes the revenues and expenses of the LibraryCo entity only.

LIBRARYCO INC.**Balance Sheet****Stated in Dollars***As at June 30***Unaudited**

	2017	2016
Assets		
Current Assets		
1 Cash	274,522	321,755
2 Short-term investments	401,151	401,151
3 Accounts receivable	19,513	17,970
4 Prepaid expenses	75,477	77,202
5 Total Assets	770,663	818,078
Liabilities, Share Capital and Fund Balances		
Current Liabilities		
6 Accounts payable and accrued liabilities	33,780	43,447
7 Total Liabilities	33,780	43,447
Share Capital and Fund Balances		
8 Share capital	200	200
9 General fund	236,683	274,431
10 Reserve fund	500,000	500,000
11 Total Share Capital and Fund Balances	736,883	774,631
12 Total Liabilities, Share Capital and Fund Balances	770,663	818,078

This Balance Sheet includes the financial resources of the LibraryCo entity only.

LIBRARYCO INC.
Statement of Changes in Fund Balances
Stated in Dollars
For the six months ended June 30

	2017		2016	
	General Fund	Reserve Fund	Total	Total
1 Balance, beginning of year	179,357	500,000	679,357	753,081
2 Surplus (Deficit)	57,326	-	57,326	21,350
3 Balance, end of period	236,683	500,000	736,683	774,431

This statement includes the fund balances of the LibraryCo entity only.

LIBRARYCO INC.

FOR INTERNAL USE ONLY

Schedule of Actual and Budgeted Revenues and Expenses

Stated in Dollars

Unaudited

	2017 6 month Actual	2017 Year-end Proforma	2017 Annual Budget	2017 Proforma Variance	2016 Year-end Actual
REVENUES					
1 Law Society of Upper Canada grant	3,907,650	7,815,240	7,815,240	-	7,662,000
2 Interest income	2,415	4,830	-	4,830	4,915
3 Total revenues	3,910,065	7,820,070	7,815,240	4,830	7,666,915
EXPENSES					
Head office/administration					
4 Administration	152,500	305,000	305,000	-	305,000
5 Professional fees	6,363	12,700	30,000	17,300	12,540
6 Transition expenses	-	-	85,000	85,000	122,646
7 Other	9,469	29,000	48,400	19,400	23,402
8 Total Head office/administration expenses	168,332	346,700	468,400	121,700	463,588
Law Libraries - centralized purchases					
9 Electronic products and services	169,500	339,000	339,000	-	339,000
10 Group benefits and insurance	156,315	322,700	352,000	29,300	310,756
11 Other	35,264	123,000	156,800	33,800	134,338
12 Total Law Libraries - centralized purchases	361,079	784,700	847,800	63,100	784,094
13 County and District law libraries - grants	3,306,362	6,612,724	6,612,724	-	6,476,764
14 Bursaries, capital and special needs grants	16,966	44,888	44,888	-	16,194
15 Total County and District Law Libraries Expenses	3,323,328	6,657,612	6,657,612	-	6,492,957
16 Total expenses	3,852,739	7,789,012	7,973,812	184,800	7,740,639
17 Surplus (Deficit)	57,326	31,058	(158,572)	189,630	(73,724)

This statement includes the revenues and expenses of the LibraryCo entity only.

TAB 2.2.4

FOR INFORMATION

INVESTMENT COMPLIANCE REPORTING

91. Investment Compliance Statements as at June 30, 2017 are for information and follow on the next page.

**LAW SOCIETY OF UPPER CANADA
STATEMENT OF INVESTMENT COMPLIANCE
LONG TERM
As at June 30, 2017**

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



Fred Grady
Senior Manager, Finance

**LAW SOCIETY OF UPPER CANADA
STATEMENT OF INVESTMENT COMPLIANCE
SHORT TERM
As at June 30, 2017**

Investment Parameters	Guidelines for Both	COMPENSATION	GENERAL
		Compliance	Compliance
1. <u>Asset Mix</u>			
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. <u>Quality Requirements</u>			
Commercial paper rating	Min. R1	N/A	N/A
Liquidity	Max. term to maturity of 365	Yes	Yes
3. <u>Quantity Restrictions</u>			
Commercial paper of a single corporate issuer	Max. 8% of Fund	Yes	Yes
4. <u>Other Restrictions</u>			
Equity securities	None	Yes	Yes
Direct investments in:			
resource properties	None	Yes	Yes
mortgages and mortgage-backed securities	None	Yes	Yes
real estate	None	Yes	Yes
venture capital financings	None	Yes	Yes
Derivatives	None	Yes	Yes



Fred Grady
Senior Manager, Finance

**The Law Society of Upper Canada
Compensation Fund
Manager: Foyston, Gordon & Payne Inc.
Compliance Report
(Period ending June 30, 2017)**

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

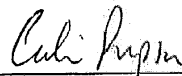
Note: In mid-June 2014 Law Society Compensation Fund moved into the FGP Short Term Bond Fund from the segregated Short Term Bonds.

Investment policy dated February 23, 2017.

*If policy not complied with, comment on specifics.

July 27, 2017

Date:



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 June 30, 2017)**

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

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

Investment policy dated February 23, 2017.

*If policy not complied with, comment on specifics.

July 27, 2017
Date:

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



July 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 February 23, 2017, for the quarter ending June 30, 2017.

Yours truly,

Colin Ripsman
Vice President & Portfolio Manager –
Institutional Client Services

TAB 2.2.5

FOR INFORMATION

OTHER COMMITTEE WORK

92. The Committee was updated on the status of the Benchers Remuneration & Expense Reimbursement Working Group. All benchers have been requested to complete the related survey on Diligent Boards.
93. The Committee reviewed the LibraryCo Inc. 2018 budget for incorporation into the Law Society's budget.
94. The Committee reviewed the draft 2018 Law Society budget.
95. The Committee reviewed a letter from the Lawyers' Professional Indemnity Company ("LAWPRO") summarizing the implications of the 2018 insurance program on the Errors & Omissions Insurance Fund.