The Alberta Lawyers Insurance Association

Financial Statements
December 31, 2017

February 26, 2018

Independent Auditor's Report

To the Directors of the Alberta Lawyers Insurance Association

We have audited the accompanying financial statements of the Alberta Lawyers Insurance Association, which comprise the statement of financial position as at December 31, 2017 and the statements of revenues, expenses and unrestricted net assets 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Lawyers Insurance Association as at December 31, 2017 and its financial performance 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

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The Alberta Lawyers Insurance Association

Statement of financial position

As at December 31, 2017

	2017 $	2016 $
Assets		
Cash and cash equivalents (note 2)	6,300,741	4,336,333
Investments (note 3)	127,786,299	121,445,131
Accounts receivable (note 4)	5,097,112	5,546,705
Prepaid expenses	3,263,400	2,638,165
Accrued interest receivable	24,346	24,136
Total Assets	142,471,898	133,990,470
Liabilities and Net Assets		
Accounts payable and accrued liabilities	220,406	127,232
Due to related parties (note 7)	15,483	8,005
Unearned premiums	15,650,795	13,484,749
Premium deficiency (note 13)	1,286,205	3,588,629
Pension plan payable (note 11)	146,722	211,310
Provision for claims and related costs – Professional liability (note 6)	98,395,000	87,008,000
Provision for claims and related costs – Trust safety (note 6)	2,454,000	2,302,000
Total liabilities	118,168,611	106,729,925
Net Assets		
Unrestricted	24,303,267	27,260,525
Share capital (note 5)	20	20
Total Net Assets	24,303,287	27,260,545
Total Liabilities and Net Assets	142,471,898	133,990,470

Commitments (note 16)

Approved by the Advisory Board

_Original signed by Steve Raby, QC__Director _Original signed by Don Thompson, QC ___Director

The accompanying notes are an integral part of the financial statements.

The Alberta Lawyers Insurance Association

Statement of Revenue, Expenses and Unrestricted Net Assets

For the year ended December 31, 2017

	2017 $	2016 $
Revenue		
Premium - Professional liability	25,861,105	24,852,861
Premium - Trust safety	3,359,647	3,085,380
Premium ceded	(1,141,387)	(1,241,388)
Net premium	28,079,365	26,696,853
Investment income	7,754,054	6,207,510
Unrealized gain (loss) on the fair market value of investments	1,182,565	(2,158,843)
Voluntary excess insurance administration fee	131,341	134,704
Management fee (note 7)	308,000	200,000
	37,455,325	31,080,224
Expenses		
Provision for claims and related costs – Professional liability (note 6)	25,426,822	27,216,548
Provision for claims and related costs – Trust safety (note 6)	118,561	172,128
Premium deficiency (note 13)	(2,302,424)	2,585,659
Premium paid to the Alberta Lawyers Insurance Exchange – Professional liability (note 7)	4,200,000	3,550,000
Premium paid to the Alberta Lawyers Insurance Exchange - Trust safety (note 7)	560,000	550,000
Premium paid to the Canadian Lawyers Insurance Association (note 16)	635,524	635,524
Salaries and employee benefits	2,706,728	2,756,141
Management fee (note 7)	3,040,000	2,674,000
Provision for input tax credits	607,997	583,165
Investment counsel fees	303,024	276,432
Bank and credit card fees	398,245	324,953
Professional fees	272,859	134,809
Risk management	335,402	187,508
Administration	39,282	45,411
Bad debts	70,563	4,526
	36,412,583	41,696,804
Excess (deficiency) of revenue over expenses for the year	1,042,742	(10,616,580)
Unrestricted net assets – beginning of year	27,260,545	37,877,125
Less: Contribution to the Alberta Lawyers Insurance Exchange (note 7)	4,000,000	-
Unrestricted net assets – end of year	24,303,287	27,260,545

The Alberta Lawyers Insurance Association

Statement of Cash Flows

For the year ended December 31, 2017

	2017 $	2016 $
Cash provided by (used in)		
Operating activities		
(Deficiency) excess of revenue over expenses for the year	(2,957,258)	(10,616,580)
Items not affecting cash		
Gain on sale of investments	(4,226,441)	(2,548,715)
Unrealized loss (gain) on fair market value of investments	(1,182,565)	2,158,843
Provision for claims and related costs – Professional liability (note 6)	25,426,822	27,216,548
Provision for claims and related costs – Trust safety (note 6)	118,561	172,128
	17,179,119	16,382,224
(Decrease) increase in pension plan payable (note 11)	(64,588)	31,538
Changes in non-cash working capital items	(211,578)	(1,048,648)
Claims and related costs paid Professional liability – net of recoveries (note 6)	(14,039,822)	(13,602,548)
Claims and related costs paid Trust safety– net of recoveries (note 6)	33,439	(340,129)
	2,896,570	1,422,437
Investing activities		
Sale of investments	90,179,552	94,173,194
Purchase of investments	(91,111,714)	(94,857,088)
	(932,162)	(683,894)
Increase in cash	1,964,408	738,543
Cash – beginning of year	4,336,333	3,597,790
Cash – end of year	6,300,741	4,336,333
Cash and cash equivalents include:		
Cash	3,067,487	3,190,664
Treasury bills	3,233,254	1,145,559
	6,300,741	4,336,333
Interest received	2,041,269	1,969,893

The accompanying notes are an integral part of the financial statements.

1 Nature of operations

The Alberta Lawyers Insurance Association (the Association) is a wholly owned subsidiary of the Law Society of Alberta (the Law Society). Pursuant to section 99(1) of the *Legal Profession Act of Alberta*, the Association administers a program under which active members of the Law Society in private practice (insured lawyers) are required to purchase coverage under the Alberta Lawyers' Professional Liability and Trust Safety Insurance Group Policy (the Policy).

The Association is licensed in Alberta and is an entity domiciled in Canada and the address of its registered office is Suite 500, 919 11th Avenue, SW, Calgary, Alberta, T2R 1P3.

The financial statements were authorized for issue by the Board of the Association on February 26, 2018.

Professional Liability Insurance

Under the Professional Liability section (or Part A) of the Policy, insured lawyers have coverage for claims and potential claims arising from negligent acts, errors or omissions for $1,000,000 per occurrence, with an annual aggregate limit of $2,000,000 per insured lawyer.

Prior to July 1, 2014 the Association contracted with the Canadian Lawyers Insurance Association (CLIA) for group Professional Liability coverage subject to a group deductible of $500,000 for each claim. The Association was subject to premiums and other assessments that arose from the agreement with CLIA. The Association withdrew from CLIA effective June 30, 2014. In its place, the Alberta Lawyers Insurance Exchange (the Exchange) was created effective July 1, 2014. The Exchange is a reciprocal insurance exchange through which the Law Society, the Association and insured lawyers entered into agreements of mutual indemnification. The Exchange provides the Association with group coverage subject to a deductible of $500,000 for each claim.

For the 2017 and 2016 policy years (beginning July 1 to June 30), the Association and Exchange have obtained stop-loss reinsurance in the amount of $10,000,000 to cover annual aggregate payments over $26,000,000 to a maximum of $36,000,000. This $10,000,000 coverage layer is co-insured with the reinsurer paying 80% of losses and the Association paying 20%.

Trust Safety Insurance

Effective July 1, 2014, the Trust Safety Insurance section (or Part B) of the Policy provides defined insurance coverage for misappropriation of money or other property entrusted to and received by insured lawyers in their capacity as barristers and solicitors and in relation to the provision of professional services. For the 2016 and 2017 policy years, there is a $5,000,000 per misappropriation limit and a $25,000,000 profession-wide annual aggregate limit. This coverage is subject to a $3,000,000 group deductible with the Association paying the first $500,000 of a misappropriation claim and the Exchange paying the next $2,500,000.

For the 2017 and 2016 policy years, the Association and the Exchange have purchased excess insurance in the amount of $22,000,000 to cover aggregate payments over $3,000,000.

Claims for trust misappropriation arising before July 1, 2014 were covered under the provisions of the Law Society's Assurance Fund.

2 Summary of significant accounting policies

The principal accounting policies applied in the presentation of these financial statements are set out below. These policies have been consistently applied to the periods presented.

a) Basis of preparation

These financial statements are prepared in accordance with Canadian Accounting Standards for not for profit organizations (ASNPO) as issued by the Canadian Accounting Standards Board.

The statement of financial position is presented on a non-classified basis. Assets expected to be realized and liabilities expected to be settled within the Association's normal operating cycle of one year would typically be considered as current, including the following balances: cash and cash equivalents, treasury bills included in investments, prepaid expenses, accrued interest receivable, accounts receivable, due to related parties, accounts payable and accrued liabilities, and unearned premiums.

The following balances are generally comprised of current and non-current amounts: bonds and equity investments included in investments, and the provision for claims and related costs. The current and non-current portions of such balances are disclosed, where applicable, throughout the notes to the financial statements.

b) Use of estimates and judgment

The preparation of the financial statements in conformity with ASNPO requires management to make estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates.

Information about judgments, estimates and assumptions that have the most significant effect on the amounts reflected in the financial statements is included in note 6 – Provision for claims and related costs.

c) Functional and presentation currency

The financial statements are presented in Canadian dollars, which is also the Association's functional currency.

d) Financial instruments

The Association initially measures financial assets and financial liabilities at cost. It subsequently measures its investments at fair value. The financial assets subsequently measured at amortized cost include cash and cash equivalents, accounts receivable and accrued interest receivable. The financial liabilities subsequently recorded at amortized cost include accounts payable and accrued liabilities.

The Association's investments consist of equity securities, corporate bonds, municipal government bonds, provincial government bonds and federal government bonds. The investment in equity securities which are traded on active markets are recorded at fair value. The Association has elected to record the investments in corporate bonds, municipal government bonds, provincial government bonds and federal government bonds at fair value. Changes in fair value of the investments are recorded on the statement of revenue, expenses and unrestricted net assets.

Financial assets are tested for impairment at the end of each reporting period and when there are indications that the assets may be impaired.

e) Revenue recognition

The Association follows the deferral method for revenue recognition. Amounts received or receivable from insured lawyers that pertain to the period subsequent to fiscal year end are recorded as unearned premiums and recorded as revenue in the next fiscal year.

f) Premium income

Premiums are determined annually prior to July 1^{st}, the commencement of the policy year, and amounts are due from insured lawyers prior to that date. Premium revenue is recorded evenly throughout the policy year as the services are rendered.

g) Investment income

Investment income comprises interest, dividends, fund distributions, and gains and losses realized on the disposal of investments. Interest and dividends earned on investments are included as revenue on an accrual basis. The change in fair value of investments is recorded in the statement of revenue, expenses and unrestricted net assets as an unrealized gain (loss) on the fair market value of investments.

h) Provision for claims and related costs

The provision for claims and related costs is based upon the change from year to year in the reserve for claims and related costs. The reserve amount is the actuarially determined discounted cost of possible claims and related costs as at the end of the fiscal year.

The Association has engaged a third party actuary to provide an annual valuation of the reserve for claims and related costs in accordance with the standards of practice adopted by the Canadian Institute of Actuaries. For the purpose of the actuarial valuation, the actuary uses information contained in the Association's financial records.

i) Premium ceded

The Association enters into reinsurance treaties for contracts with coverage in excess of certain maximum amounts. Estimates of any amounts recoverable from reinsurers on unpaid claims will be recorded separately from other estimated amounts payable. Amounts recoverable from reinsurers are estimated in a manner consistent with the liabilities associated with the reinsurance policy.

Ceded reinsurance arrangements do not relieve the Association from its obligations to policyholders.

Reinsurance assets and liabilities are derecognized when the contractual rights are extinguished or expire, or when the contract is transferred to another party.

As of December 31, 2017, no reinsurance assets have been recorded.

j) Recoveries

Recoveries for claims and related costs from insurers and other third parties are recorded when they can be reasonably estimated and collectability is reasonably assured. Otherwise, the recovery is recorded when received.

k) Cash and cash equivalents

Cash includes cash on deposit with banks and other highly liquid short-term investments comprised of treasury bills with an original term to maturity of three months or less.

l) Donated services

A portion of the Association's work is dependent on the services of volunteers, in particular the significant contribution of the Benchers of the Law Society, the Advisory Board of the Exchange and committees of the Benchers and the Advisory Board. These services are not normally purchased by the Association and, due to the difficulty in determining their fair value, donated services are not recognized in these financial statements.

m) Unearned premiums

Insurance premiums for each fiscal year are billed in advance and recognized as revenue on a monthly basis during the fiscal year. Unearned premiums represent the portion of premiums remaining to be earned at the reporting date.

n) Income taxes

The Association meets the qualifications of a non-profit organization as defined in the *Income Tax Act* and, as such, is exempt from income taxes.

o) Comparative figures

Certain prior year figures have been reclassified to conform to current year's presentation.

3 Investments

The Association's investments are governed by a Statement of Investment Policies and Goals as approved by the Benchers of the Law Society and managed under contract with an investment manager. The Association's investments are carried at fair market value and the statement of revenue, expenses and unrestricted net assets reports both realized and unrealized gains and losses on investments. The Association's investments, which are denominated in Canadian dollars, consist of T-bills, pooled bond funds, and individual and pooled equity investments.

Investments are as follows:

	2017 **$**	**2016** **$**
T-Bills	14,711,296	15,995,101
Bonds	65,857,288	60,426,111
Equities	47,217,715	45,023,919
	127,786,299	**121,445,131**

4 Accounts Receivable

Accounts receivable consists of the following amounts:

	2017 **$**	**2016** **$**
Premiums due from insured lawyers	2,207,448	1,799,830
Reinsurance recoverables due from CLIA	2,880,091	3,734,801
Expenses due from ALIEX	9,573	12,074
	5,097,112	**5,546,705**

5 Share capital

On January 30, 2006, the Association was converted from a company limited by guarantee to a company limited by shares. As a result of this conversion, share capital of $20 was issued representing four common shares; three shares issued to the Law Society and one common share issued to the person from time to time holding the office of Executive Director of the Law Society, as bare trustee for the Law Society.

6 Provision for claims and related costs

The change in the Professional liability provision for claims and related costs is summarized as follows:

	2017 $	2016 $
Provision for claims and related costs, Professional liability – beginning of year	87,008,000	73,394,000
Claims paid and accrued	(13,412,666)	(14,026,456)
Related costs paid and accrued	(6,987,397)	(6,813,403)
Recoveries	6,360,241	7,237,311
	(14,039,822)	(13,602,548)
Increase due to claims experience	25,426,822	27,216,548
Provision for claims and related costs, Professional liability – end of year	98,395,000	87,008,000
Case reserves	65,998,000	62,744,000
Provision for adverse deviation	11,837,000	11,585,000
Provision for incurred but unreported claims	20,560,000	12,679,000
Provision for claims and related costs, Professional liability	98,395,000	87,008,000

The change in the Trust safety provision for claims and related costs is summarized as follows:

	2017 $	2016 $
Provision for claims and related costs, Trust safety – beginning of year	2,302,000	2,470,000
Claims paid and accrued	53,141	(298,471)
Related costs paid and accrued	(19,702)	(41,657)
	33,439	(340,128)
Increase due to claims experience	118,561	172,128
Provision for claims and related costs, Trust safety – end of year	2,454,000	2,302,000
Case reserves	887,000	1,129,000
Provision for adverse deviation	249,000	289,000
Provision for incurred but unreported claims	1,318,000	884,000
Provision for claims and related costs, Trust safety	2,454,000	2,302,000

Included in the Provision for claims and related costs on the statement of revenue, expenses and unrestricted net assets is the increase due to claims experience of $25,426,822 for Professional liability (2016 - $27,216,548) and $118,561 for Trust safety (2016 - $172,128).

The discount rate applied by the actuary at December 31, 2017 is 1.85% (2016 – 2.505%) which is based on the expected market yield of the Association's investment portfolio. The Professional liability undiscounted provision balance at December 31, 2017 is $91,434,000 (2016 – $85,525,000) and the Trust safety undiscounted provision balance at December 31, 2017 is $2,322,000 (2016 - $2,152,000).

Actuarial analysis

The process of determining actuarial liabilities necessarily involves the risk that actual results may vary from assumed results. The risk varies in proportion to the length of period covered by each assumption and the potential volatility of the actual results.

The provision for incurred but not reported claims has been estimated for the period using actuarial methods and is based on expected claims development patterns and expected losses.

Claims development tables

A review of the historical development of the Association's insurance estimates provides a measure of the Association's ability to estimate the ultimate value of claims. The top half of the following tables illustrates how the Association's estimate of total undiscounted claim costs for each year has changed at successive year-ends. The bottom half of the tables reconcile the cumulative claims to the amount appearing in the statement of financial position.

Historical Estimate of Ultimates – Part A
Net of Reinsurance ('000$)

Fund Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
After 6 months	-	7,864	8,110	8,044	7,807	6,153	7,596	7,460	7,747	9,553	9,238	
One year later	15,322	18,384	19,083	14,325	15,582	12,855	17,392	16,102	18,984	23,188		
Two year later	14,665	19,730	19,427	15,047	16,715	12,754	18,002	17,169	21,665			
Three year later	15,019	20,295	20,764	15,733	19,731	12,930	20,833	15,506				
Four year later	15,386	20,189	20,814	15,784	20,300	15,917	19,995					
Five year later	17,572	20,182	20,768	16,327	19,538	16,178						
Six year later	17,875	20,185	20,779	16,143	19,717							
Seven year later	17,452	20,173	20,846	16,110								
Eight year later	16,977	20,214	20,577									
Nine year later	16,781	20,073										
Ten year later	17,358											
Current Estimate of Cumulative Claims	17,358	20,073	20,577	16,110	19,717	16,178	19,995	15,506	21,665	23,188	9,238	199,606
Cumulative payments to date	(16,245)	(20,123)	(20,710)	(12,661)	(14,465)	(10,942)	(9,894)	(5,108)	(4,705)	(2,294)	(273)	(117,419)
Net Liability	1,113	(50)	(133)	3,449	5,252	5,236	10,102	10,398	16,961	20,894	8,965	82,187
Net Liability in Respect of Prior Years												1,667
Net Liability - Internal Claims Admin. Expenses												7,580
Net Liability - Effect of Discounting and PfAD												6,961
Liability recoverable from reinsurers												-
Total Net Liability												98,395

Historical Estimate of Ultimates – Part B
Net of Reinsurance (‘000$)

Reported/Calendar Year	2014	2015	2016	2017	Total
End of year	-	1,591	373	489	
One year later	-	1,423	319		
Two year later	-	982			
Three year later	-				
Current Estimate of Cumulative Claims	-	982	319	489	1,790
Cumulative payments to date	-	(299)	(6)	(5)	(310)
Net Liability	-	683	313	484	1,480
Net Liability in Respect of Prior Years					-
Net Liability - Internal Claims Admin. Expenses					842
Net Liability - Effect of Discounting and PfAD					132
Liability recoverable from reinsurers					-
Total Net Liability					2,454

Sensitivity analysis

The sensitivity analysis below is based on a change in assumption while holding all other conditions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may not be correlated. The table below provides the impact on net income of the most significant assumption changes.

Assumption	**Income and equity impact December 31, 2017**	**Income and equity impact December 31, 2016**
	$	**$**
10% increase in incurred but not reported claims	(3,345,000)	(1,807,000)
10% decrease in incurred but not reported claims	3,345,000	1,807,000
1% increase in discount rate impact on claims provision	2,789,000	2,650,000
1% decrease in discount rate impact on claims provision	(2,954,000)	(2,824,000)
1% increase in interest rate impact on bond values	(4,756,000)	(4,441,000)
1% decrease in interest rate impact on bond values	4,756,000	4,441,000

7 Related party transactions

As described in note 4 the Association is a wholly owned subsidiary of the Law Society. During the year, the Association paid the Law Society $3,040,000 (December 2016 – $2,674,000) for management fees and $300,475 (2016 - $187,700) for risk management fees. The balance payable to the Law Society at December 31 of $15,483 is non-interest bearing and due on demand (2016 - $8,005).

Prior to the July 1, 2014 commencement of the operations of the Exchange, the Association provided $5,000,000 in contributed capital to the Exchange. The Association contributed an additional $4,000,000 in 2017. During the year, the Association also paid the Exchange $5,420,000 (2016 - $4,100,000) for insurance premiums of which $2,710,000 (2016 - $2,050,000) was expensed during the year with the balance of $2,710,000 recorded as prepaid expense. The Exchange paid the Association $308,000 (2016 - $200,000) for management fees during the year. The Association provides and performs certain management, claims management and administrative duties and services to the Exchange as outlined in a management agreement.

The elected Benchers of the Law Society and members of the Advisory Board include lawyers drawn from law firms across the province. These law firms may at times be engaged by the Association in the normal course of business. During the year ended December 31, 2017, expenses of $3,200,900 (2016 - $2,695,400) were incurred with these law firms. The Benchers and Advisory Board members are not involved in retaining these firms.

8 Financial instruments

The Association recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments measured at amortized cost. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Association has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation is discharged, cancelled, or has expired.

The Association’s investments are classified as held for trading or designated at fair value through profit or loss (FVTPL) at inception. A financial asset or financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the short term; or if, on initial recognition, it is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

Gains and losses arising from changes in the fair value of FVTPL financial instruments are presented in the statement of revenue, expenses and unrestricted net assets as net changes in unrealized gain (loss) on fair market value of investments in the period in which they arise.

All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract’s effective interest rate.

Fair value hierarchy

A fair value hierarchy presented below distinguishes the significance and objectivity of the inputs used in determining the fair value measurements of financial instruments. The hierarchy contains the following levels based on the nature of the pricing inputs:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that are publicly available at the measurement date.

Level 2 – Inputs other than quoted prices that are observable for the assets or liabilities either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 – Inputs that are largely unobservable. Fair value requires significant management estimate and judgment.

The following table illustrates the fair value classification of the Association's financial instruments within the fair value hierarchy as at December 31, 2017:

	Estimated fair value (2017)			**Estimated fair value (2016)**		
	Level 1	**Level 2**	**2017 Total**	**Level 1**	**Level 2**	**2016 Total**
	$	**$**	**$**	**$**	**$**	**$**
T-Bills	14,711,296	-	14,711,296	15,995,101	-	15,995,101
Bonds	-	65,857,288	65,857,288	-	60,426,111	60,426,111
Equities	11,589,322	35,628,393	47,217,715	10,866,652	34,157,267	45,023,919
Total Investments	26,300,618	101,485,681	127,786,299	26,861,753	94,583,378	121,445,131

Investments classified as Level 2 are held in pooled funds, the underlying assets of which are traded in active markets. The pooled funds are valued based on the net asset value per share of the pooled fund. The Association did not have any transfers between levels and no level 3 investments in the years ended December 31, 2017 and December 31, 2016.

9 Reinsurance

The Association and the Exchange have entered into stop loss reinsurance and excess insurance contracts as described in Note 1.

As of December 31, 2017 there were no claims above the Exchange's Professional Liability and Trust Safety coverage of $1,000,000 and $3,000,000 respectively and no claims above these levels considered to be incurred but not reported as determined by the appointed actuary (2016 - NIL). As such, no assets for the reinsurance or excess insurance contracts have been recognized in the statement of financial position.

10 Insurance and financial risk management

In the normal course of business, the Association enters into contracts that transfer insurance risk. The Association monitors and manages these risks relating to the operations of the Association through internal risk reports which analyze exposures by degree and magnitude of risk.

Insurance risk

The insurance risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The key risk related to insurance is that the actual claims payment amounts or timing are different from expectations.

The Association manages insurance risk rating within an overall risk management framework that includes a focus on rating, use of reinsurance and surplus management. Reinsurance is purchased to mitigate the effect of potential loss to the Association from individual large events. Reinsurance policies are written with reinsurers who meet the Association's standards for financial strength. Reinsurers and reinsurer security is monitored on a continuous basis.

Financial risk

The Association is exposed to a range of financial risks. The key financial risk is that in the long term its investment proceeds are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are market risk, credit risk and liquidity risk.

Market risk

Market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market prices. The Association separates market risk into three categories: foreign exchange risk, price risk, and interest rate risk.

Foreign exchange risk

Foreign exchange risk arises from the possibility that changes in the price of foreign currencies will result in losses. The Association holds assets and liabilities, including cash and investments, in Canadian dollars. The Association is exposed to foreign exchange risk through its investments in pooled funds.

Price risk

General economic conditions affect the market value of equity investments and currency exchange rates impact the market value of the investments denominated in currencies other than the Canadian dollar. The risk is managed by engaging an investment manager for the long term portfolio investments and by investing other funds in short term fixed rate products with high credit ratings. The Association's investment policy specifies limits to the exposure to equity markets.

A 10% increase in the market value of equities would result in an increase in the excess of revenue over expenses for the year ended December 31, 2017 of $4,721,772 (2016 - $4,502,392). A 10% decrease in the market value of equities would result in a decrease in the excess of revenue over expenses for the year ended December 31, 2017 of $4,721,772 (2016 - $4,502,392).

Interest rate risk

Interest rate risk is the risk of financial loss arising from changes in interest rates. Fluctuations in interest rates will impact the market value of the fixed income portion of the investment portfolio. The Association is exposed to interest rate risk if the cash flows from investments are not matched to the liabilities they support. The Association manages the interest rate risk on fixed income bonds by engaging an investment manager who operates subject to investment parameters designed to mitigate this risk.

An interest rate sensitivity analysis is provided in Note 6.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Association's financial assets exposed to credit risk consist of investments in bonds, accrued interest receivable and accounts receivable. The maximum exposure of the Association to credit risk is the carrying amount of these financial instruments as disclosed in the financial statements at December 31, 2017.

The Association manages credit risk by maintaining bank accounts with reputable financial institutions, only investing in securities that are highly rated and traded in active markets. Accounts Receivable are from insured lawyers for their annual assessments.

The credit quality of the Association's investment in bonds, which is held in a pooled fund, is described in the following table:

Securities:	**2017** **$**	**2016** **$**
Bonds – AAA rating	27,882,616	24,811,960
Bonds – AA rating	16,186,789	14,623,886
Bonds – A rating	14,303,047	12,609,098
Bonds – BBB rating	7,341,963	8,007,672
T-Bills	142,873	373,495
	65,857,288	60,426,111

Liquidity risk

Liquidity risk is risk that the Association will be unable to meet its obligations when they fall due, or that it may be required to settle its obligations on terms that are disadvantageous. The Association engages an investment manager to administer the investments it plans to hold for a long period of time. These investments are subject to liquidity risk if the Association is required to sell at a time the market for these investments is unfavourable or the investments are illiquid.

The maturity dates and interest rate ranges of the underlying bond holdings are as follows:

	2017		**2016**	
Maturity dates (from balance sheet date)	**Interest rate range**	**Market value $**	**Interest rate range**	**Market value $**
Within five years	1.25-7.56%	20,662,689	0.87-5.65%	14,975,349
Greater than five years but less than ten years	1.00-4.86%	30,364,271	1.50-7.56%	30,790,058
Greater than ten years	2.80-4.65%	14,830,328	1.00-4.65%	14,660,704
		65,857,288		60,426,111

The following tables present a comparison of the estimated maturities of the assets and liabilities of the Association as at December 31, 2017:

Terms to maturity of assets	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
Cash and cash equivalents	6,300,741				6,300,741
Investments	14,711,296	20,662,689	45,194,599	47,217,715	127,786,299
Accounts receivable	5,097,112				5,097,112
Prepaid expenses	3,263,400				3,263,400
Accrued interest receivable	24,346				24,346
Total	29,396,895	20,662,689	45,194,599	47,217,715	142,471,898

Terms to maturity of liabilities and equity	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
Accounts payable and accrued liabilities	220,406				220,406
Due to related parties	15,483				15,483
Unearned premiums	15,650,795				15,650,795
Premium deficiency	1,286,205				1,286,205
Pension plan payable				146,722	146,722
Claims liabilities - Professional liability	25,425,000	55,606,000	17,364,000		98,395,000
Claims liabilities - Trust safety	675,000	1,371,000	408,000		2,454,000
Equity				24,303,287	24,303,287
Total	43,272,889	56,977,000	17,772,000	24,450,009	142,471,898

11 Pension Plan

a. Pension plan payable

	2017 $	2016 $
Pension accrued liability	146,722	211,310

Prior to June 1, 2006, the Association provided a non-contributory defined benefit pension plan (the Plan) to eligible management employees based on earnings and years of service. The Plan is closed to new members and there were no active members of the Plan at December 31, 2017. Effective January 1, 2014 the Association adopted CICA 3463, and decided to use accounting valuation results.

As of December 31, 2017, and on advice of the actuary, the details of the Plan are as follows:

	2017 $	2016 $
Reconciliation of fair value of plan assets		
Fair value of plan assets – beginning of year	1,025,526	1,019,958
Actual return on plan assets	164,536	29,298
Less benefits paid during year to retirees	(23,920)	(23,730)
Fair value of plan assets – end of year	1,166,142	1,025,526
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of year	1,236,836	1,199,730
Interest on accrued benefit obligation	45,320	45,733
Actuarial loss (gain) during year	54,628	15,103
Less benefits paid during year to retirees	(23,920)	(23,730)
Accrued benefit obligations – end of year	1,312,864	1,236,836
Plan deficit	(146,722)	(211,310)
Pension cost		
Interest cost on accrued benefit obligation	45,320	45,733
Actual return on plan assets	(164,536)	(29,298)
Net actuarial (gains) losses	54,628	15,103
Pension cost recognized during year	(64,588)	31,538
Accrued benefit asset		
Beginning balance – Accrued benefit liability	(211,310)	(179,772)
Less pension cost during year	64,588	(31,538)
Ending balance – Accrued benefit liability	(146,722)	(211,310)
Reconciliation of accrued benefit liability		
Funded status (plan deficit)	(146,722)	(211,310)
Accrued benefit liability	(146,722)	(211,310)

Plan assets

The plan assets are invested in a balanced fund that consists of the following asset mix:

	2017	2016
Fixed income	30.5%	16.0%
Foreign equities	44.0%	44.0%
Canadian equity	16.5%	34.0%
Cash and cash equivalents	8.7%	6.0%
Other	0.3%	-
	100%	100%

Assumptions

The actuary used the following rates in their calculations:

	2017	**2016**
Discount rate – beginning of period	3.70%	3.85%
Discount rate – end of period	3.35%	3.70%
Expected long-term rate of return on plan assets	3.35%	3.70%
Rate of compensation increase	3.50%	3.50%

12 Equity in Canadian Lawyers Insurance Association

Effective June 30, 2014, the Association withdrew as a subscriber to the Canadian Lawyers Insurance Association (CLIA), a reciprocal insurance exchange through which the law societies of ten provinces and territories (or their associated liability insurance entities) entered into agreements of mutual indemnification. Separate reserves are maintained by CLIA with respect to risks assumed by each member of the exchange. The Association will maintain an interest in surpluses in these reserves until such time that the Association and CLIA reach mutually agreeable terms of winding up claims that existed prior to July 1, 2014. CLIA prepares annual Subscriber Accounts, as at the end of CLIA's fiscal year (December 31), which are approved by the CLIA Advisory Board. These accounts include a reserve for claims liabilities on a discounted basis. On that basis, the Subscriber Accounts of CLIA as at December 31, 2016 show the Association's equity to be approximately $10.2 million (December 31, 2015 – $11.2 million). The Association's equity in CLIA is not reflected in these financial statements.

13 Premium deficiency

The premium deficiency as at December 31, 2017 of $1,286,205 (December 31, 2016 - $3,588,629) represents the difference between the projected costs of the insurance program from January 1, 2018 to June 30, 2018 and unearned premiums recorded at December 31, 2017 as determined by the actuary. The premium deficiency does not include offsetting investment income that will accrue to the Association from January 1, 2018 to June 30, 2018.

14 Equity management

As at December 31, 2017 the Association's equity was $24,303,287 (December 31, 2016 - $27,260,545). The Association's objectives for managing the equity are for the prudent operation of the Association and to provide relatively stable premiums for insured lawyers over time.

15 Provision for input tax credits

The Canada Revenue Agency (CRA) had ruled the Association was not entitled to collect Goods and Services Tax (GST) or claim input tax credits (ITCs) for GST paid on expenses. The Association appealed this ruling to the Tax Court of Canada. Pending resolution of this issue with CRA, the Association has recorded ITCs paid from February 1, 2009 to December 31, 2017 as expense. The total amount recorded as expense for this period, including interest and penalties, is $4,359,730. Subsequent to the year end, CRA notified the Association that it does not intend to contest the Association's appeal in Tax Court. However, as at the time of issuance of these financial statements, the details of the settlement had not been finalized and the Tax Court action had not been formally discontinued.

16 Commitments

The Association is committed to paying a retroactive-assessment to CLIA in the amount of $5,084,188. One half (or $2,542,094) of this assessment was paid on July 1, 2014 and the third of four equal annual installments of $635,523 was paid on July 1, 2017 (2016 - $635,523). The final installment of $635,524 is due in 2018.

The ultimate amount of the assessment is uncertain.