

# **Alberta Lawyers Indemnity Association**

Financial Statements

**June 30, 2023**



## Independent auditor's report

To the Directors of Alberta Lawyers Indemnity Association

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### Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Alberta Lawyers Indemnity Association (the Association) as at June 30, 2023 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

#### What we have audited

The Association's financial statements comprise:

- the statement of financial position as at June 30, 2023;
- the statement of revenue, expenses and unrestricted net assets for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

#### Independence

We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the financial statements, management is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

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

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### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants

Calgary, Alberta  
September 29, 2023

# Alberta Lawyers Indemnity Association

## Statement of financial position

As at June 30, 2023

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	June 30, 2023 \$	June 30, 2022 \$
<b>Assets</b>		
Cash and cash equivalents (note 2)	19,801,578	19,158,398
Investments (note 3, 8)	212,299,936	180,067,918
Accounts receivable (note 4)	6,335,908	19,484,182
Prepaid expenses	997,918	23,266
Due from related parties (note 7)	3,607	5,831
	<hr/>	<hr/>
Total Assets	239,438,947	218,739,595
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities	520,382	615,322
Unearned premiums	984,608	-
Prepaid premiums	23,670,193	18,689,745
Provision for claims and related costs – Professional liability (note 6)	163,215,000	157,506,000
Provision for claims and related costs – Misappropriation indemnity (note 6)	2,883,000	2,797,000
	<hr/>	<hr/>
Total liabilities	191,273,183	179,608,067
<b>Net Assets</b>		
Unrestricted	48,165,744	39,131,508
Share capital	20	20
	<hr/>	<hr/>
Total Net Assets	48,165,764	39,131,528
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Total Liabilities and Net Assets	239,438,947	218,739,595

Approved by the Board of the Association

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Donald Cranston, KC Director

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Dale Spackman, KC Director

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

# Alberta Lawyers Indemnity Association

## Statement of Revenue, Expenses and Unrestricted Net Assets

For the year ended June 30, 2023

	<b>Jul 1, 2022 to June 30, 2023</b>	<b>Jul 1, 2021 to June 30, 2022</b>
	\$	\$
<b>Revenue</b>		
Premium - Professional liability	17,687,943	16,785,499
Premium – Misappropriation indemnity	1,570,024	2,843,684
Premium – Cyber Coverage	960,360	-
Civil Litigation Filing Levy (note 14)	1,911,375	1,923,525
Investment income (note 3)	7,651,131	14,799,146
Unrealized gain on the fair market value of investments	8,238,132	(38,361,284)
Voluntary excess insurance administration fee	98,387	212,557
	<u>38,117,352</u>	<u>(1,796,873)</u>
<b>Expenses</b>		
Provision for claims and related costs – Professional liability (note 6)	17,675,623	32,096,777
Provision for claims and related costs – Misappropriation indemnity (note 6)	125,038	(341,990)
Premium received from the Canadian Lawyers Insurance Association (note 12)	-	(14,753,172)
Salaries and employee benefits	3,907,032	3,614,598
Management fee (note 7)	3,048,485	2,820,600
Insurance – Professional Liability & Misappropriation	2,036,360	1,953,160
Insurance – Cyber Coverage	985,138	-
Investment counsel fees	440,719	462,629
Professional fees	315,130	285,416
Administration	261,588	269,911
Board Expense	172,889	95,953
Banking fees	115,114	117,042
	<u>29,083,116</u>	<u>26,620,924</u>
<b>Excess of revenue over expenses for the year</b>	9,034,236	(28,417,797)
<b>Total net assets – beginning of year</b>	<u>39,131,528</u>	<u>67,549,325</u>
<b>Total net assets – end of year</b>	<u>48,165,764</u>	<u>39,131,528</u>

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

# Alberta Lawyers Indemnity Association

## Statement of Cash Flows

For the year ended June 30, 2023

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	July 1, 2022 to June 30, 2023 \$	July 1, 2021 to June 30, 2022 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Excess of revenue over expenses for the year	9,034,236	(28,417,797)
Items not affecting cash		
Gain on sale of investments	(734,018)	(6,193,074)
Unrealized gain on fair market value of investments	(8,238,132)	38,361,284
Provision for claims and related costs – Professional liability (note 6)	17,675,623	32,096,777
Provision for claims and related costs – Misappropriation indemnity (note 6)	125,038	(341,990)
	<hr/>	<hr/>
	17,862,747	35,505,200
Decrease in pension plan payable (note 11)	-	1,229
Changes in non-cash working capital items	18,045,960	(13,989,184)
Claims and related costs paid Professional liability – net of recoveries (note 6)	(11,966,623)	(11,736,777)
Claims and related costs paid Misappropriation indemnity– net of recoveries (note 6)	(39,038)	(110,011)
	<hr/>	<hr/>
	23,903,046	9,670,457
<b>Investing activities</b>		
Sale of investments	58,839,777	92,814,964
Purchase of investments	(82,099,643)	(106,519,986)
	<hr/>	<hr/>
	(23,259,866)	(13,705,022)
<b>Increase (decrease) in cash and cash equivalents</b>	643,180	(4,034,565)
<b>Cash and cash equivalents – beginning of year</b>	<hr/>	<hr/>
	19,158,398	23,192,964
<b>Cash and cash equivalents – end of year</b>	<hr/>	<hr/>
	19,801,578	19,158,399
Cash and cash equivalents include:		
Cash	19,039,608	13,234,336
Treasury bills and bond cash	761,970	5,924,063
	<hr/>	<hr/>
	19,801,578	19,158,399
Interest received	4,315,842	3,154,740

# Alberta Lawyers Indemnity Association

Notes to the Financial Statements

For the year ended June 30, 2023

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## 1 Nature of operations

Alberta Lawyers Indemnity 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 (indemnified lawyers) are required to purchase coverage under the Alberta Lawyers' Professional Liability and Misappropriation Indemnity Group Policy (the Policy).

The Association is incorporated in Alberta and is an entity domiciled in Canada and the address of its registered office is Suite 700, 333 11th Avenue, SW, Calgary, Alberta, T2R 1L9.

The financial statements were authorized for issue by the Board of the Association on September 28, 2023.

### Professional Liability Indemnity

Under the Professional Liability section (or Part A) of the Policy, indemnified 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 indemnified 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 was a reciprocal insurance exchange through which the Law Society, the Association, and the members of the Law Society, entered into agreements of mutual indemnification. The Exchange provided the Association with group coverage subject to a deductible of \$500,000 for each claim until June 30, 2019. As at July 1, 2019, the Association assumed coverage for claims under this policy up to the \$1,000,000 per occurrence limit.

For the 2022-2023 and 2021-2022 policy years (for the period July 1 to June 30 annually), the Association obtained stop-loss insurance in the amount of \$10,000,000 to cover annual aggregate payments over \$27,000,000 to a maximum of \$37,000,000.

### Misappropriation Indemnity

Effective July 1, 2014, the Misappropriation Indemnity section (or Part B) of the Policy provides defined coverage for misappropriation of money or other property entrusted to and received by indemnified lawyers in their capacity as barristers and solicitors and in relation to the provision of professional services. For the 2019 and 2020 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. Until July 1, 2019 the Association paid the first \$500,000 of a misappropriation claim and the Exchange paid the next \$2,500,000.

For the 2022-2023 and 2021-2022 policy years, the Association purchased excess insurance in the amount of \$22,000,000 to cover aggregate payments over \$3,000,000, up to the profession-wide annual aggregate limit of \$25,000,000.

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



# Alberta Lawyers Indemnity Association

Notes to the Financial Statements

For the year ended June 30, 2023

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## Cyber Coverage

Effective December 31, 2022, the Association implemented universal cyber coverage for indemnified lawyers under a cyber insurance policy provided by a global insurer and administered by the Association. The aggregate policy limit of liability for each law firm is \$285,000. This includes coverage of \$250,000 per claim and aggregate limit per law firm. It also includes first party coverage of \$35,000 per claim and aggregate limit for each law firm for breach costs and cyber extortion.

## 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. Some comparative figures from the prior year have changed.

### 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.

# Alberta Lawyers Indemnity Association

## Notes to the Financial Statements

For the year ended June 30, 2023

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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 indemnified 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<sup>st</sup>, the commencement of the policy year, and amounts are due from indemnified 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) Insurance**

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

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

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

As of June 30, 2023, no insurance assets have been recorded.

# Alberta Lawyers Indemnity Association

Notes to the Financial Statements

For the year ended June 30, 2023

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## 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 and corporate bonds 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 and committees of 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 and prepaid premiums

Indemnity 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. Prepaid premiums are funds collected for a future policy year that has not started.

## n) Post-employment benefits

The Association maintains pension plans which provide defined benefit and defined contribution pension benefits. Pension costs and obligations for the defined benefit pension plans are determined using the projected benefit method and are charged to the statement of revenue, expense and change in fund balances based upon an actuarial valuation.

Pension plan assets of the registered pension plan (RPP) are measured at fair value and the expected return on pension plan assets is determined using market related values. The supplemental retirement plan (SRP) is an unfunded plan and does not hold any assets. The Association recognizes past service costs and actuarial gains and losses in the period they arise within re-measurements and other items. The Association measures the defined benefit obligation as of the balance sheet date using the most recently completed actuarial valuation prepared for accounting purposes.

## o) 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.

## 3 Investments

The Association's investments are governed by a Statement of Investment Policies and Goals as approved by the Board of the Association 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 pooled equity investments. The balance of pooled bond funds and pooled equity investments include undistributed interest and dividends, which are distributed annually and recognized as investment income when deemed receivable.

# Alberta Lawyers Indemnity Association

Notes to the Financial Statements

For the year ended June 30, 2023

Investments are as follows:

	<b>June 30, 2023</b>	<b>June 30, 2022</b>
	\$	\$
T-Bills	5,602,796	4,787,983
Bonds	132,022,136	108,689,470
Equities	74,675,004	66,590,465
	<b>212,299,936</b>	<b>180,067,918</b>

## 4 Accounts Receivable

Accounts receivable consists of the following amounts:

	<b>June 30, 2023</b>	<b>June 30, 2022</b>
	\$	\$
Premiums due from indemnified lawyers	6,303,524	4,505,055
Government Remittances	32,384	59,196
Subscriber Assets due from CLIA	-	14,753,172
Insurance recoverables due from CLIA	-	39,259
Voluntary excess due from CLIA	-	127,500
	<b>6,335,908</b>	<b>19,484,182</b>

## 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:

	<b>June 30, 2023</b>	<b>June 30, 2022</b>
	\$	\$
<b>Provision for claims and related costs, Professional liability – beginning of period</b>	<u>157,506,000</u>	<u>137,146,000</u>
Claims paid and accrued	(7,855,867)	(7,233,016)
Related costs paid and accrued	(5,177,221)	(6,375,697)
Recoveries	1,066,465	1,945,640
	<u>(11,966,623)</u>	<u>(11,663,073)</u>
Increase due to claims experience	<u>17,675,623</u>	<u>32,023,073</u>
<b>Provision for claims and related costs, Professional liability – end of period</b>	<u>163,215,000</u>	<u>157,506,000</u>

# Alberta Lawyers Indemnity Association

Notes to the Financial Statements

For the year ended June 30, 2023

Case reserves	110,085,000	98,353,000
Provision for adverse deviation	27,459,000	26,189,000
Provision for incurred but unreported claims	25,671,000	22,802,000
Case reserves – CLIA layer transferred to ALIA	-	10,162,000
<b>Provision for claims and related costs, Professional liability</b>	<b>163,215,000</b>	<b>157,506,000</b>

The change in the Misappropriation Indemnity provision for claims and related costs is summarized as follows:

	<b>June 30, 2023</b>	<b>June 30, 2022</b>
	\$	\$
<b>Provision for claims and related costs, Misappropriation Indemnity – beginning of period</b>	2,797,000	3,249,000
Claims paid and accrued	1,004	(278,681)
Related costs paid and accrued	(43,698)	(2,903)
Recoveries	3,656	171,574
	(39,038)	(110,011)
Increase due to claims experience	125,038	(341,990)
<b>Provision for claims and related costs, Misappropriation Indemnity – end of period</b>	<b>2,883,000</b>	<b>2,797,000</b>
Case reserves	368,000	150,000
Provision for adverse deviation	419,000	405,000
Provision for incurred but unreported claims	2,096,000	2,242,000
<b>Provision for claims and related costs, Misappropriation Indemnity</b>	<b>2,883,000</b>	<b>2,797,000</b>

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 \$17,675,623 for Professional liability (2022 - \$32,023,073) and \$125,038 for Misappropriation indemnity (2022 - \$341,990).

The discount rate applied by the actuary at June 30, 2023 is 4.50% (2022 – 4.06%) which is based on the expected market yield of the Association’s investment portfolio. The Professional liability undiscounted provision balance at June 30, 2023 is \$153,948,000 (2022 – \$147,208,000) and the Misappropriation indemnity undiscounted provision balance at June 30, 2023 is \$2,779,000 (2022 - \$2,671,000).

## 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.

# Alberta Lawyers Indemnity Association

## Notes to the Financial Statements

For the year ended June 30, 2023

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.

### 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 June 30, 2023	Income and equity impact June 30, 2022
	\$	\$
10% increase in incurred but not reported claims	(5,517,000)	(5,124,000)
10% decrease in incurred but not reported claims	5,517,000	5,124,000
1% increase in discount rate impact on claims provision	4,692,000	4,610,000
1% decrease in discount rate impact on claims provision	(4,991,000)	(4,907,000)
1% increase in interest rate impact on bond values	(9,806,000)	(8,576,000)
1% decrease in interest rate impact on bond values	9,806,000	8,576,000

### 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 – Professional Liability (Part A) Net of Reinsurance ('000\$)

	Policy Year (c)											Total
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
(1) One year later (a)	6,153	7,596	7,480	7,747	9,553	9,238	8,815	11,093	22,020	23,912	23,908	
(2) Two years later (a)	12,856	17,392	16,102	18,984	23,124	18,335	20,207	22,745	22,340	21,526		
(3) Three years later (a)	12,754	16,002	17,169	21,626	22,875	22,447	26,770	23,919	26,693			
(4) Four years later (a)	12,930	20,833	15,481	21,173	26,270	26,344	26,769	22,425				
(5) Five years later (a)	15,917	19,996	13,556	23,449	24,851	25,324	26,450					
(6) Six years later (a)	16,178	19,286	16,867	21,169	22,839	22,704						
(7) Seven years later (a)	15,480	19,705	15,242	20,929	21,847							
(8) Eight years later (a)	15,509	19,601	16,018	20,405								
(9) Nine years later (a)	15,882	23,534	15,179									
(10) Ten years later (a)	20,384	22,950										
(11) Eleven years later (b)	20,111											
(12) Current Estimate of Cumulative Claims (b)	20,111	22,950	15,179	20,405	21,847	22,704	26,450	22,425	26,693	21,526	23,908	244,197
(13) Cumulative payments to date (b)	(18,192)	(18,306)	(11,347)	(13,859)	(15,337)	(10,624)	(8,898)	(6,031)	(3,153)	(1,972)	(560)	(108,281)
(14) Net Liability	1,918	4,644	3,831	6,546	6,510	12,080	17,552	16,394	23,540	19,554	23,348	135,916
(15) Net Liability in Respect of Prior Years												7,715
(16) Net Liability - Internal Claims Admin. Expenses												10,317
(17) Net Liability - Effect of Discounting and PFAD												9,267
(18) Liability recoverable from insurers												0
(19) Total Net Liability												163,214

# Alberta Lawyers Indemnity Association

## Notes to the Financial Statements

For the year ended June 30, 2023

### Historical Estimate of Ultimates – Misappropriation Indemnity (Part B) Net of Reinsurance (‘000\$)

	Reported/Calendar Year (c)									Total
	2015	2016	2017	2018	2019	2020	2021	2022	2023	
(1) After 6 months (a)	1,591	373	489	349	500	1,105	382	367	334	
(2) One year later (a)	1,423	319	299	331	1,521	1,081	561	590		
(3) Two years later (a)	979	241	335	907	1,477	658	327			
(4) Three years later (a)	264	264	213	847	1,173	487				
(5) Four years later (a)	264	156	188	756	1,087					
(6) Five years later (a)	378	145	154	720						
(7) Six years later (a)	365	108	156							
(8) Seven years later (a)	381	108								
(9) Eight years later (a)	381									
(10) Current Estimate of Cumulative Claims (b)	381	108	156	720	1,087	487	327	590	334	4,190
(11) Cumulative payments to date (b)	(347)	(101)	(137)	(682)	(980)	(342)	(7)	0	0	(2,557)
(12) Net Liability	35	7	19	58	127	145	320	590	334	1,633
(13) Net Liability in Respect of Prior Years										0
(14) Net Liability - Internal Claims Admin. Expenses										1,146
(15) Net Liability - Effect of Discounting and PFAD										103
(16) Liability recoverable from insurers										0
(17) Total Net Liability										2,883

## 7 Related party transactions

As described in note 3 the Association is a wholly owned subsidiary of the Law Society. During the period, the Association paid the Law Society \$3,048,485 (2022 – \$2,820,600) for management fees. The balance receivable from the Law Society at June 30, 2023 of \$3,607 is non-interest bearing and due on demand (2022 – \$5,831).

The elected Benchers of the Law Society and members of the 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 period ended June 30, 2023, expenses of \$1,071,276.62 (2022 - \$2,259,633.25) were incurred with these law firms. The Benchers and 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.

# Alberta Lawyers Indemnity Association

## Notes to the Financial Statements

For the year ended June 30, 2023

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### 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 June 30, 2023:

	Estimated fair value (June 30, 2023)			Estimated fair value (June 30, 2022)		
	Level 1	Level 2	2023 Total	Level 1	Level 2	2022 Total
	\$	\$	\$	\$	\$	\$
T-Bills	-	5,602,796	5,602,796	-	4,787,983	4,787,983
Bonds	-	132,022,136	132,022,136	-	108,689,470	108,689,470
Equities	-	74,675,004	74,675,004	-	66,590,465	66,590,465
Total Investments	-	212,299,936	212,299,936	-	180,067,918	180,067,918

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. There were no transfers between levels in the period ended June 30, 2023. There were no level 3 investments in 2022 or 2023.

## 9 Insurance

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

As of June 30, 2023, there were no claims above the Professional Liability and Misappropriation Indemnity coverage of \$27,000,000 and \$3,000,000 respectively and no claims above these levels considered to be incurred but not reported as determined by the appointed actuary (2022 - NIL). As such, no assets for the insurance 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 or financial risk or both. 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.



# Alberta Lawyers Indemnity Association

Notes to the Financial Statements

For the year ended June 30, 2023

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## **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 insurance and surplus management. Insurance is purchased to mitigate the effect of potential loss to the Association from individual large events. Insurance policies are written with insurers who meet the Association's standards for financial strength. Insurers and insurer security are 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 disruptions associated with the COVID-19 pandemic have had a global impact, and uncertainty exists as to the long-term implications. Such disruptions can adversely affect the financial instruments risks associated with the Association.

## **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 period ended June 30, 2023 of \$7,467,500 (2022 - \$6,659,047). A 10% decrease in the market value of equities would result in a decrease in the excess of revenue over expenses for the period ended June 30, 2023 of \$7,467,500 (2022 - \$6,659,047).

# Alberta Lawyers Indemnity Association

## Notes to the Financial Statements

For the year ended June 30, 2023

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### 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 5.

### 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 June 30, 2023.

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 indemnified 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:

<b>Securities:</b>	<b>June 30, 2023 \$</b>	<b>June 30, 2022 \$</b>
Bonds – AAA rating	22,826,627	22,913,282
Bonds – AA rating	50,478,664	29,645,507
Bonds – A rating	40,780,318	39,968,096
Bonds – BBB rating	17,936,527	16,162,585
	<hr/>	<hr/>
	132,022,136	108,689,470

### 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.

# Alberta Lawyers Indemnity Association

Notes to the Financial Statements

For the year ended June 30, 2023

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

	June 30, 2023		June 30, 2022	
	Interest rate range	Market value \$	Interest rate range	Market value \$
<b>Maturity dates (from balance sheet date)</b>				
Within five years	0.25-5.72%	61,631,194	0.50-4.35%	42,242,297
Greater than five years but less than ten years	1.50-5.85%	31,576,706	0.50-6.25%	29,311,466
Greater than ten years	0-5.8%	38,814,236	1.90-5.75%	37,135,707
		<u>132,022,136</u>		<u>108,689,470</u>

The following tables present a comparison of the estimated maturities of the assets and liabilities of the Association as at June 30, 2023:

<i>Terms to maturity of assets</i>	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
Cash and cash equivalents	19,801,578				19,801,578
Investments	5,602,794	61,631,194	70,390,944	74,675,004	212,299,936
Accounts receivable	6,339,515				6,339,515
Prepaid expenses	997,918				997,918
Accrued interest receivable	-				-
<b>Total</b>	<b>32,741,805</b>	<b>61,631,194</b>	<b>70,390,944</b>	<b>74,675,004</b>	<b>239,438,947</b>

<i>Terms to maturity of liabilities and equity</i>	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
Accounts payable and accrued liabilities	520,382				520,382
Unearned premiums	984,608				984,608
Prepaid premiums	23,670,193				23,670,193
Pension plan payable				-	-
Claims liabilities - Professional liability	42,514,000	101,126,000	19,575,000		163,215,000
Claims liabilities - Trust safety	818,000	1,734,000	331,000		2,883,000
Equity				48,165,764	48,165,764
<b>Total</b>	<b>68,507,183</b>	<b>102,860,000</b>	<b>19,906,000</b>	<b>48,165,764</b>	<b>239,438,947</b>

# Alberta Lawyers Indemnity Association

Notes to the Financial Statements

For the year ended June 30, 2023

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## 11 Pension Plan

### a. Pension plan payable

	June 30, 2023 \$	June 30, 2022 \$
Pension accrued liability	-	-

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 June 30, 2021. Effective January 1, 2014 the Association adopted CICA 3463 and decided to use accounting valuation results.

As of June 30, 2023, and on advice of the actuary, the details of the Plan are as follows:

	June 30, 2023 \$	June 30, 2022 \$
<b>Reconciliation of fair value of plan assets</b>		
Fair value of plan assets – beginning of year	1,186,902	1,385,364
Actual return on plan assets	106,774	(129,527)
Less benefits paid during period to retirees	(71,265)	(68,935)
<b>Fair value of plan assets – end of period</b>	<u>1,222,411</u>	<u>1,186,902</u>
<b>Reconciliation of the accrued benefit obligation</b>		
Accrued benefit obligation – beginning of period	1,090,539	1,384,135
Interest on accrued benefit obligation	53,273	40,490
Actuarial (gain) loss during period	56,893	(265,151)
Less benefits paid during period to retirees	(71,265)	(68,935)
<b>Accrued benefit obligations – end of period</b>	<u>1,129,440</u>	<u>1,090,539</u>
<b>Plan surplus (deficit)</b>	92,971	96,363

# Alberta Lawyers Indemnity Association

Notes to the Financial Statements

For the year ended June 30, 2023

	June 30, 2023 \$	June 30, 2022 \$
<b>Pension cost</b>		
Interest cost on accrued benefit obligation	53,273	40,490
Actual return on plan assets	(106,774)	129,527
Net actuarial (gains) losses	56,893	(265,151)
Change in valuation allowance	(3,392)	96,363
	<hr/>	<hr/>
<b>Pension cost recognized during period</b>	-	1,229
	<hr/>	<hr/>
<b>Accrued benefit asset</b>		
Beginning balance – Accrued benefit liability	-	1,229
Less pension cost during period	-	(1,229)
	<hr/>	<hr/>
<b>Ending balance – Accrued benefit asset (liability)</b>	-	-
	<hr/>	<hr/>
<b>Reconciliation of accrued benefit asset (liability)</b>		
Funded status (plan deficit)	-	-
	<hr/>	<hr/>
<b>Accrued benefit asset (liability)</b>	-	-
	<hr/>	<hr/>

## Plan assets

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

	June 30, 2023	June 30, 2022
Fixed income	33.1%	32.6%
Foreign equities	42.2%	41.1%
Canadian equity	19.4%	20.6%
Cash and cash equivalents	5.3%	5.7%
	<hr/>	<hr/>
	100.0%	100.0%
	<hr/>	<hr/>

## Assumptions

The actuary used the following rates in their calculations:

	June 30, 2023	June 30, 2022
Discount rate – beginning of period	5.05%	3.00%
Discount rate – end of period	4.85%	5.05%
Expected long-term rate of return on plan assets	4.85%	5.05%
Rate of compensation increase	2.50%	2.50%

# Alberta Lawyers Indemnity Association

Notes to the Financial Statements

For the year ended June 30, 2023

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## 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. Effective June 30, 2022, the Association and CLIA agreed in principle to wind up claims that existed prior to July 1, 2014, resulting in the transfer and assignment from CLIA to ALIA of the claims policy liabilities and ALIA's Net Asset Balance in CLIA as at June 30, 2022 of \$14,792,431 and the actuarial determined claims valuation. The Net Asset Balance was received on October 1, 2022.

## 13 Equity management

As at June 30, 2023, the Association's equity was \$48,165,764 (2022 - \$39,131,528). The Association's objectives for managing the equity are for the prudent operation of the Association and to provide relatively stable premiums for indemnified lawyers over time.

## 14 Civil Litigation Filing Levy (CLFL)

Effective July 1, 2021, the Association implemented the CLFL, on a two-year pilot project basis, to generate revenue to be applied against the Professional Liability premium. The CLFL involves charging a levy of \$75 (plus GST) for commencing and responding to civil litigation in the Court of King's Bench of Alberta, which is self-reported by ALIA's subscribers. As at June 30, 2023 the Association's CLFL revenue was \$1,911,375 (June 30, 2022 - \$1,923,525).

## 15 Subsequent Event

The Association's Board of Directors approved amendments to its Statement of Investment Policies and Goals on February 21, 2023, providing for further diversification of its investment asset mix to include 5% investment in real estate and 10% investment in infrastructure. The Board approved \$10 million investment in the Fiera Real Estate CORE Fund and \$20 million investment in the IFM Global Infrastructure Fund.

On March 8, 2023, \$840 and on July 6, 2023, \$9,999,160 was invested in the Fiera Real Estate CORE Fund. The Association has also committed \$20 million investment in the IFM Global Infrastructure Fund.