The Alberta Lawyers Insurance Association

Non-consolidated Financial Statements
December 31, 2015

pwc

February 26, 2016

Independent Auditor's Report

To the Directors of the Alberta Lawyers Insurance Association

We have audited the accompanying non-consolidated financial statements of the Alberta Lawyers Insurance Association, which comprise the non-consolidated balance as at December 31, 2015 and the non-consolidated statements of net and comprehensive income and changes in equity and of 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 non-consolidated financial statements
Management is responsible for the preparation and fair presentation of these non-consolidated 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 non-consolidated 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 non-consolidated 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 non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated 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 non-consolidated 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 non-consolidated 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 non-consolidated financial statements present fairly, in all material respects, the financial position of the Alberta Lawyers Insurance Association as at December 31, 2015 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

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The Alberta Lawyers Insurance Association

Non-consolidated statement of financial position

	December 31, 2015 $	December 31, 2014 $
Assets		
Cash and cash equivalents	3,597,790	2,244,203
Investments (note 3)	120,371,365	109,069,818
Accounts receivable	2,910,217	5,504,821
Prepaid expenses	2,719,057	2,464,925
Accrued interest receivable	14,835	264,629
Capital assets (note 10)	920	3,852
Total Assets	129,614,184	119,552,248
Liabilities and Net Assets		
Accounts payable and accrued liabilities	233,502	158,032
Due to (from) related parties (note 6)	1,562	(410,336)
Unearned premiums	14,455,253	12,002,042
Premium deficiency (note 13)	1,002,970	1,697,770
Pension plan payable (note 11)	179,772	311,241
Provision for claims and related costs – Professional liability (note 5)	73,394,000	70,996,000
Provision for claims and related costs – Trust safety (note 5)	2,470,000	-
Total liabilities	91,737,059	84,754,749
Net Assets		
Unrestricted	37,877,105	34,797,479
Share capital (note 4)	20	20
Total Net Assets	37,877,125	34,797,499
Total Liabilities and Net Assets	129,614,184	119,552,248

Approved by the Board of Directors

Original signed by S. Raby, QC Director

Original signed by D. Thompson, QC Director

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

The Alberta Lawyers Insurance Association

Non-consolidated Statement of Revenue, Expenses and Unrestricted Net Assets

For the year ended December 31, 2015

	December 2015 $	December 2014 $
Revenue		
Premium - Professional liability	25,708,250	22,750,714
Premium - Trust safety	1,445,678	-
Premium ceded	(1,133,400)	(480,000)
Net premium	26,020,528	22,270,714
Investment income	11,986,834	9,688,604
Unrealized gain (loss) on the fair market value of investments	(3,183,188)	2,265,024
Voluntary excess insurance administration fee	151,004	140,705
Management fee (note 6)	200,000	100,000
	35,175,178	34,465,047
Expenses		
Provision for claims and related costs – Professional liability (note 5)	19,115,907	21,551,913
Provision for claims and related costs – Trust safety (note 5)	2,472,943	-
Premium paid to the Alberta Lawyers Insurance Exchange – Professional liability (note 6)	3,734,925	1,984,925
Premium paid to the Alberta Lawyers Insurance Exchange - Trust safety (note 6)	300,000	-
Premium paid to the Canadian Lawyers Insurance Association	635,524	4,415,714
Salaries and employee benefits	2,116,710	2,407,203
Management fee (note 6)	2,208,000	1,860,000
Provision for input tax credits	525,380	636,903
Fair value write-down of due from 1452597 Alberta Ltd. (note 6)	36,783	163,079
Investment counsel fee	272,170	277,636
Administration	92,237	154,049
Bank and credit card fees	275,682	66,473
Professional fees	248,329	113,358
Regulatory	34,215	-
Risk management	21,975	16,650
Amortization	2,932	10,011
Bad debt	1,840	7,821
	32,095,552	33,665,735
Excess of revenue over expenses for the year	3,079,626	799,312
Unrestricted net assets – beginning of year	34,797,499	38,998,187
Less: Contribution to the Alberta Lawyers Insurance Exchange (note 6)	-	5,000,000
Unrestricted net assets – end of year	37,877,125	34,797,499

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

The Alberta Lawyers Insurance Association

Non-consolidated statement of Cash Flows

For the year ended December 31, 2015

	December 2015 $	December 2014 $
Cash provided by (used in)		
Operating activities		
Excess (Deficiency) of revenue over expenses for the year	3,079,626	(4,200,688)
Items not affecting cash		
Amortization	2,932	10,011
Gain on sale of investments	(7,339,524)	(6,630,430)
Unrealized loss (gain) on fair market value of investments	3,183,188	(2,265,024)
Provision for claims and related costs – Professional liability (note 5)	19,115,907	21,551,913
Provision for claims and related costs – Trust safety (note 5)	2,472,943	-
	20,515,072	8,465,782
Increase (decrease) in pension plan payable	(131,469)	311,241
Changes in non-cash working capital items	5,132,704	(2,279,778)
Claims and related costs paid Professional liability – net of recoveries	(17,014,568)	(16,627,913)
Claims and related costs paid Trust safety– net of recoveries (note 5)	(2,943)	-
	8,498,796	(10,130,668)
Investing activities		
Sale of investments	152,853,214	107,656,317
Purchase of investments	(159,998,423)	(98,167,036)
	(7,145,209)	9,489,281
Increase (decrease) in cash	1,353,587	(641,387)
Cash – beginning of year	2,244,203	2,885,590
Cash – end of year	3,597,790	2,244,203
Interest received	721,159	1,983,111

1 Nature of operations

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

Professional Liability

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 2015 and 2016 policy years, 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 dishonest appropriation 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 2015 and 2016 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 2015 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 Society's Assurance Fund.

General

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 25, 2016.

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 from (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 reserve 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 – Reserve 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. The investments which are not traded on active markets are recorded at cost.

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 1st, 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 non-consolidated 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 reinsured 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, 2015, 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 a term to maturity of three months or less regardless of the financial reporting date.

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) Capital assets

Capital assets are recorded at cost net of accumulated amortization. Amortization is calculated on a straight-line basis at the following annual rates:

Furniture and equipment	20%
Computers	33 1/3%

p) Comparative figures

Prior year figures for Cash and cash equivalents and Investments have been reclassified to conform to the current year's presentation. Treasury bills have been reclassified from Cash and cash equivalents to Investments in the amount of $15,278,829.

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 non-consolidated statement of revenue, expenses and unrestricted net assets reports both realized and unrealized gains and losses on investments. The Association's investments consist of T-bills, pooled bond funds, and individual and pooled equity investments.

Investments are as follows:

	December 31, 2015 $	December 31, 2014 $
T-Bills denominated in Canadian dollars	16,406,800	15,278,828
Bonds denominated in Canadian dollars	60,895,373	53,244,443
Equities denominated in Canadian dollars	43,069,192	40,546,547
	120,371,365	**109,069,818**

4 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 Society and one common share issued to the person from time to time holding the office of Executive Director of the Society, as bare trustee for the Society.

5 Provision for claims and related costs

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

	December 31, 2015 $	December 31, 2014 $
Provision for claims and related costs, Professional liability – beginning of year	70,996,000	66,072,000
Claims paid and accrued	(16,312,584)	(15,054,909)
Related costs paid and accrued	(6,289,478)	(5,647,189)
Recoveries	5,884,155	4,074,185
	(16,717,907)_	(16,627,913)
Increase due to claims experience	19,115,907	21,551,913
Provision for claims and related costs, Professional liability – end of year	73,394,000	70,996,000
Provision for adverse deviation	59,570,000	60,362,000
Provision for incurred but unreported claims	13,824,000	10,634,000
Provision for claims and related costs, Professional liability	73,394,000	70,996,000

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

	December 31, 2015 $	December 31, 2014 $
Provision for claims and related costs, Trust safety – beginning of year	-	-
Claims paid and accrued	-	-
Related costs paid and accrued	(2,943)	-
Recoveries	-	-
	(2,943)	-
Increase due to claims experience	2,472,943	-
Provision for claims and related costs, Trust safety – end of year	2,470,000	-
Provision for adverse deviation	1,534,000	
Provision for incurred but unreported claims	936,000	-
Provision for claims and related costs, Trust safety	2,470,000	-

Included in the Provision for claims and related costs on the non-consolidated statement of revenue, expenses and unrestricted net assets is the increase due to claims experience of $19,115,907 for Professional liability (December 31, 2014 - $21,551,913) and $2,472,943 for Trust safety (December 31, 2014 - NIL).

A portion of the provision for claims and related costs is expected to be paid within the next fiscal year. This amount cannot be reasonably determined and therefore has not been included in current liabilities.

The discount rate applied by the actuary at December 31, 2015 is 2.30% (December 31, 2014 – 2.81%) which is based on the expected market yield of the Association's investment portfolio. The Professional liability undiscounted provision balance at December 31, 2015 is $68,303,000 (December 31, 2014 – $67,178,000) and the Trust safety undiscounted provision balance at December 31, 2015 is $2,300,000 (December 31, 2014 - NIL).

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.

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 be correlated. The table below provides the impact on net income of the most significant assumption changes.

Assumption	Income and equity impact December 31, 2015	Income and equity impact December 31, 2014
	$	$
10% increase in incurred but not reported claims	(1,605,000)	(1,281,000)
10% decrease in incurred but not reported claims	1,605,000	1,297,000
1% increase in discount rate	2,138,000	1,864,000
1% decrease in discount rate	(2,274,000)	(1,978,000)

6 Related party transactions

As described in note 4 the Association is a wholly owned subsidiary of the Society. During the year, the Association paid the Society $2,208,000 (December 2014 – $1,860,000) for management fees. The balance payable to the Society at December 31 of $1,935 is non-interest bearing and due on demand (December 2014 the Society owed the Association $10,336).

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. This amount has been recorded as a reduction in the Association’s unrestricted net assets in the prior year. During the year, the Association paid the Exchange $4,100,000 (2014 - $3,969,850) for insurance premiums of which $2,050,000 (2014 - $1,984,925) was expensed during the year with the balance of $1,984,925 recorded as prepaid expense. The Exchange paid the Association $200,000 (2014 - $100,000) 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, 2015, expenses of $2,372,700 (December 31, 2014 - $2,146,284) were incurred with these law firms. The Benchers and Advisory Board members are not involved in retaining these firms.

1452597 Alberta Ltd. (1452597) was a wholly owned subsidiary of the Association and was incorporated on February 12, 2009 under the Business Corporations Act. Share capital of $1 consists of 100 common shares. The balance due from 1452597 at December 31 was $374 (2014 - $400,000).

The sole purpose of 1452597 was to hold real property obtained under the terms of a claim settlement regarding the Association’s insurance coverage for insured lawyers. The claim was concluded in 2015 by selling the property and transferring the net proceeds to the Association at which time 1452597 was wound up.

The Association does not consolidate the results of 1452597 in its financial statements as permitted by CPA 4450 "Reporting Controlled and Related Entities by Not-for-Profit Organizations" and CPA 4460 "Disclosure of Related Party Transactions". A summary of 1452597's financial information at December 31 is as follows:

	December 31, 2015 $	December 2014 $
Assets	374	530,372
Liabilities	374	563,079
Net assets	-	(32,707)
Expenses	-	8,251
Deficiency of revenues over expenditures	-	(8,251)
Cash flows from operating activities	-	-
Increase in cash and cash equivalents	-	-

7 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 measured at fair value through profit or loss (FVTPL) and are classified as held for trading or designated at 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 non-consolidated 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, 2015

	Estimated fair value (2015)			**Estimated fair value (2014)**		
	Level 1	**Level 2**	**2015 Total**	**Level 1**	**Level 2**	**2014 Total**
	$	**$**	**$**	**$**	**$**	**$**
T-Bills	16,406,800		16,406,800	15,278,828		15,278,828
Bonds		60,895,373	60,895,373	53,244,443		53,244,443
Equities	9,263,285	33,805,907	43,069,192	9,256,810	31,289,737	40,546,547
Total Investments	**25,670,085**	**94,701,280**	**120,371,365**	**77,780,081**	**31,289,737**	**109,069,818**

Investments classified as Level 2 are held in pooled funds, the underlying assets of which are traded in active markets.

8 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, 2015 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 (2014 - NIL). As such, no assets for the reinsurance or excess insurance contracts have been recognized in the statement of financial position.

9 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 (including foreign exchange risk, interest rate risk and other price 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

The investments of the Association are subject to price risk because changing interest rates impact the market value of the fixed rate investments, 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.

A 10% increase in the fair value of the investment portfolio would result in an increase in the excess of revenue over expenses for the year ended December 31, 2015 of $1,203,714 (2014 - $1,090,698). A 10% decrease in the fair value of the investment portfolio would result in a decrease in the excess of revenue over expenses for the year ended December 31, 2015 of $1,203,714 (2014 - $1,090,698).

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 December 31, 2015.

The Association manages credit risk by maintaining bank accounts with reputable financial institutions, only investing in securities that are liquid, 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:	**December 31, 2015**	**December 31, 2014**
	$	**$**
Bonds – AAA rating	26,784,196	25,805,598
Bonds – AA rating	14,282,439	11,762,865
Bonds – A rating	13,354,230	15,675,980
Bonds – BBB rating	5,526,024	-
T-Bills	948,484	-
Total	60,895,373	53,244,443

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.

Included in investments are fixed income bonds in the amount of $60,895,373 (2014 - $53,244,443). The maturity dates and interest rate ranges are as follows;

Maturity dates (from balance sheet date)	**Interest rate range**	**Market value $**	**Interest rate range**	**Market value $**
	December 2015		**December 2014**	
Within five years	0.78-6.145%	18,787,815	1.824 – 5.68%	14,657,525
Greater than five years but less than ten years	0.75-4.60%	29,321,195	2.40 – 4.15%	33,206,620
Greater than ten years	1.50-7.56%	12,786,363	3.50 – 4.70%	5,380,298
		60,895,373		53,244,443

The following table presents the contractual terms as to maturity of the financial liabilities owed by the Exchange.

	Financial liability	**Carrying value**	**Contractual term to maturity**
December 31, 2015	Accounts payable and accrued liabilities and due to related parties	$235,064	Less than one year
December 31, 2014	Accounts payable and accrued liabilities	$158,032	Less than one year

10 Capital assets

	December 31, 2015			**December 31, 2014**
	Cost $	**Accumulated amortization** $	**Net** $	**Net** $
Furniture and equipment	20,053	19,133	920	3,852

11 Pension Plan

a. Pension plan payable

	2015 $	**2014** $
Pension accrued liability	179,772	205,991
Supplemental plan liability	-	105,250
	179,772	311,241

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, 2015. Effective January 1, 2014 the Association adopted CICA 3463, and decided to use accounting valuation results.

As of December 31, 2015, and on advice of the actuary, the details of the Plan are as follows:

	2015 $	2014 $
Reconciliation of fair value of plan assets		
Fair value of plan assets – beginning of year	877,158	752,876
Association contributions during year	35,330	34,717
Actual return on plan assets	131,054	112,864
Less benefits paid during year to retirees	(23,584)	(23,299)
Fair value of plan assets – end of year	1,019,958	877,158
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of year	1,083,149	901,723
Current service cost	59,459	50,334
Interest on accrued benefit obligation	42,392	42,559
Actuarial (loss) gain during year	38,314	111,832
Less benefits paid during year to retirees	(23,584)	(23,299)
Accrued benefit obligations – end of year	1,199,730	1,083,149
Plan deficit	(179,772)	(205,991)
Pension cost		
Current service cost	59,459	50,334
Interest cost on accrued benefit obligation	42,392	42,559
Actual return on plan assets	(131,054)	(112,864)
Amortization of past service cost	-	-
Net actuarial (gains) losses	38,314	111,832
Pension cost recognized during year	9,111	91,861
Accrued benefit asset		
Beginning balance – Accrued benefit liability	(205,991)	-
Adjustment for transition to CICA 3463 Jan 1, 2014	-	(148,847)
Plus contributions in the year	35,330	34,717
Less pension cost during year	(9,111)	(91,861)
Ending balance – Accrued benefit liability	(179,772)	(205,991)
Reconciliation of accrued benefit liability		
Funded status (plan deficit)	(179,772)	(205,991)
Unamortized net actuarial loss	-	-
Accrued benefit liability	(179,772)	(205,991)

Plan assets

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

	2015	**2014**
Fixed income	33%	31%
Foreign equities	46%	44%
Canadian equity	14%	17%
Cash and cash equivalents	7%	8%
	100%	100%

Assumptions

The actuary used the following rates in their calculations:

	2015	**2014**
Discount rate – beginning of period	3.85%	4.65%
Discount rate – end of period	3.85%	3.85%
Expected long-term rate of return on plan assets	3.85%	5.75%
Rate of compensation increase	3.50%	3.50%

b) Supplemental Retirement Plan

The Association provided eligible management employees a non-funded Supplemental Retirement Plan (SRP). The SRP is based on earnings and years of service, and has been implemented to top-up the pension payments for those that are above the Canada Revenue Agency maximum. There were no members of the Plan eligible for the SRP at December 31, 2015.

	2015 $	2014
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of period	105,250	56,049
Current service cost	9,261	5,419
Interest on accrued benefit obligation	4,230	2,732
Actuarial (gain) loss during period	(118,741)	41,050
Less benefits paid during period for retirees	-	-
Accrued benefit obligation – end of period	-	105,250
Pension cost		
Current service cost	9,261	5,419
Interest cost on accrued benefit obligation	4,230	2,732
Net actuarial (gain) losses	(118,741)	41,050
Pension cost recognized during period	(105,250)	49,201
Accrued benefit liability		
Beginning balance – accrued benefit liability	(105,250)	-
Adjustment for transition to CICA 3463 on Jan 1, 2014	-	(56,049)
Plus contributions in the period	-	-
Less pension cost recognized during period	105,250	(49,201)
Ending balance – Accrued benefit liability	-	(105,250)
Reconciliation of accrued benefit liability		
Funded status (plan deficit)	-	(105,250)
Unamortized net actuarial loss	-	-
Accrued benefit liability	-	(105,250)

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, 2014 show the Association's equity to be approximately $9.5 million (December 31, 2013 – $3.8 million). The Association's equity in CLIA is not reflected in these financial statements.

13 Premium deficiency

The premium deficiency represents the difference between the projected costs of the insurance program from January 1, 2016 to June 30, 2016 and unearned premiums recorded at December 31, 2015. The premium deficiency does not include offsetting investment income that will accrue to the Association from January 1, 2016 to June 30, 2016.

14 Provision for input tax credits

The Canada Revenue Agency (CRA) has initially ruled the Association is not entitled to collect Goods and Services Tax (GST) and claim input tax credits on expenses paid. The Association has filed a Notice of Objection with CRA but had not received a response prior or subsequent to the end of the current fiscal year. The Association has been required to remit input tax credits claimed to the end of the current fiscal period. These input tax credits have been recorded as expense in the current fiscal year.

15 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 first of four equal annual installments of $635,523 was paid on July 1, 2015. The balance of the assessment is due in equal annual installments as follows:

	$
2016	635,523
2017	635,524
2018	635,524