

# **Alberta Lawyers Indemnity Association**

Financial Statements

**June 30, 2024**



## 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, 2024 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, 2024;
- 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.

PricewaterhouseCoopers LLP  
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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  
October 3, 2024

# Alberta Lawyers Indemnity Association

## Statement of financial position

As at June 30, 2024

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	June 30, 2024 \$	June 30, 2023 \$
<b>Assets</b>		
Cash and cash equivalents (note 2)	20,939,092	19,801,578
Investments (note 3, 8)	220,083,188	212,299,936
Accounts receivable (note 4)	7,137,882	6,335,908
Prepaid expenses	40,588	997,918
Due from related parties (note 7)	3,172	3,607
	<hr/>	<hr/>
Total Assets	248,203,922	239,438,947
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities	636,838	520,382
Unearned premiums	-	984,608
Prepaid premiums	26,383,126	23,670,193
Provision for claims and related costs – Professional liability (note 6)	150,839,000	163,215,000
Provision for claims and related costs – Misappropriation indemnity (note 6)	2,522,000	2,883,000
	<hr/>	<hr/>
Total liabilities	180,380,964	191,273,183
<b>Net Assets</b>		
Unrestricted	67,822,938	48,165,744
Share capital	20	20
	<hr/>	<hr/>
Total Net Assets	67,822,958	48,165,764
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Total Liabilities and Net Assets	248,203,922	239,438,947

Approved by the Board of the Association

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Darlene Scott, KC Director

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Melanie Litoski 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, 2024

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	<b>Jul 1, 2023 to June 30, 2024 \$</b>	<b>Jul 1, 2022 to June 30, 2023 \$</b>
<b>Revenue</b>		
Premium - Professional liability	23,096,564	17,687,943
Premium – Misappropriation indemnity	1,600,655	1,570,024
Premium – Universal cyber coverage	1,044,498	960,360
Civil Litigation Filing Levy (note 14)	2,206,800	1,911,375
Investment income (note 3)	6,954,520	7,651,131
Unrealized gain on the fair market value of investments	9,021,264	8,238,132
Voluntary excess insurance administration fee	71	98,387
	<hr/>	<hr/>
	43,924,372	38,117,352
<b>Expenses</b>		
Provision for claims and related costs – Professional liability (note 6)	11,690,248	17,675,623
Provision for claims and related costs – Misappropriation indemnity (note 6)	(204,339)	125,038
Salaries and employee benefits	4,026,110	3,907,032
Management fee (note 7)	3,221,050	3,048,485
Insurance – Professional liability	1,525,000	1,590,000
Insurance – Misappropriation indemnity	446,360	446,360
Insurance – Universal cyber coverage	1,967,576	985,138
Investment counsel fees	600,433	440,719
Professional fees	394,383	315,130
Administration	354,439	261,588
Board Expense	132,893	172,889
Banking fees	113,025	115,114
	<hr/>	<hr/>
	24,267,178	29,083,116
<b>Excess of revenue over expenses for the year</b>	19,657,194	9,034,236
<b>Total net assets – beginning of year</b>	<hr/>	<hr/>
	48,165,764	39,131,528
<b>Total net assets – end of year</b>	<hr/>	<hr/>
	67,822,958	48,165,764

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, 2024

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	July 1, 2023 to June 30, 2024 \$	July 1, 2022 to June 30, 2023 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Excess of revenue over expenses for the year	19,657,194	9,034,236
Items not affecting cash		
Gain on sale of investments	(56,880)	(734,018)
Unrealized gain on fair market value of investments	(9,021,264)	(8,238,132)
Provision for claims and related costs – Professional liability (note 6)	11,690,248	17,675,623
Provision for claims and related costs – Misappropriation indemnity (note 6)	(204,339)	125,038
	<u>22,064,959</u>	<u>17,862,747</u>
Decrease in pension plan payable (note 11)	-	-
Changes in non-cash working capital items	1,998,685	18,045,960
Claims and related costs paid Professional liability – net of recoveries (note 6)	(24,066,247)	(11,966,623)
Claims and related costs paid Misappropriation indemnity– net of recoveries (note 6)	(156,661)	(39,038)
	<u>(159,264)</u>	<u>23,903,046</u>
<b>Investing activities</b>		
Sale of investments	98,241,590	58,839,777
Purchase of investments	(96,944,812)	(82,099,643)
	<u>1,296,778</u>	<u>(23,259,866)</u>
<b>Increase in cash and cash equivalents</b>	1,137,514	643,180
<b>Cash and cash equivalents – beginning of year</b>	<u>19,801,578</u>	<u>19,158,398</u>
<b>Cash and cash equivalents – end of year</b>	<u>20,939,092</u>	<u>19,801,578</u>
Cash and cash equivalents include:		
Cash	16,985,592	19,039,608
Treasury bills and bond cash	3,953,500	761,970
	<u>20,939,092</u>	<u>19,801,578</u>
Interest received	4,778,302	4,315,842

# Alberta Lawyers Indemnity Association

Notes to the Financial Statements

For the year ended June 30, 2024

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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 October 1, 2024.

### 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.

Since the 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.

Since the 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, 2024

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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.

The Board of the Association approved one-time funding of cyber coverage premiums (approximately \$1 million) from the Association's surplus for the policy period from December 31, 2023 to June 30, 2024, in order to align the Universal Cyber Coverage policy renewal with the Professional Liability and Misappropriation Indemnity policy renewals.

## 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.

# Alberta Lawyers Indemnity Association

## Notes to the Financial Statements

For the year ended June 30, 2024

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### **d) Financial instruments**

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

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

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

### **e) Revenue recognition**

The Association follows the deferral method for revenue recognition. Amounts received or receivable from 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.

# Alberta Lawyers Indemnity Association

Notes to the Financial Statements

For the year ended June 30, 2024

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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, 2024, no insurance 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 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.

# Alberta Lawyers Indemnity Association

Notes to the Financial Statements

For the year ended June 30, 2024

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## 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.

Investments are as follows:

	<b>June 30, 2024</b>	<b>June 30, 2023</b>
	\$	\$
T-Bills	1,240,297	5,602,796
Bonds	119,742,381	132,022,136
Equities	68,960,381	74,675,004
Real Estate	10,000,418	-
Infrastructure	20,139,711	-
	<hr/> <b>220,083,188</b>	<hr/> <b>212,299,936</b>

## 4 Accounts Receivable

Accounts receivable consists of the following amounts:

	<b>June 30, 2024</b>	<b>June 30, 2023</b>
	\$	\$
Premiums due from indemnified lawyers	7,117,544	6,303,524
Government Remittances	20,338	32,384
	<hr/> <b>7,137,882</b>	<hr/> <b>6,335,908</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:

# Alberta Lawyers Indemnity Association

Notes to the Financial Statements

For the year ended June 30, 2024

	<b>June 30, 2024</b>	<b>June 30, 2023</b>
	\$	\$
<b>Provision for claims and related costs, Professional liability – beginning of period</b>	163,215,000	157,506,000
Claims paid and accrued	(19,270,791)	(7,855,867)
Related costs paid and accrued	(6,132,884)	(5,177,221)
Recoveries	1,337,427	1,066,465
Increase due to claims experience	11,690,248	17,675,623
	<u>(12,376,000)</u>	<u>5,709,000</u>
<b>Provision for claims and related costs, Professional liability – end of period</b>	<u>150,839,000</u>	<u>163,215,000</u>
Case reserves	98,364,000	110,085,000
Provision for adverse deviation	23,721,000	27,459,000
Provision for incurred but unreported claims	<u>28,754,000</u>	<u>25,671,000</u>
<b>Provision for claims and related costs, Professional liability</b>	<u>150,839,000</u>	<u>163,215,000</u>

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

	<b>June 30, 2024</b>	<b>June 30, 2023</b>
	\$	\$
<b>Provision for claims and related costs, Misappropriation Indemnity – beginning of period</b>	2,883,000	2,797,000
Claims paid and accrued	(139,936)	1,004
Related costs paid and accrued	(16,725)	(43,698)
Recoveries	-	3,656
Increase due to claims experience	(204,339)	125,038
	<u>(361,000)</u>	<u>86,000</u>
<b>Provision for claims and related costs, Misappropriation Indemnity – end of period</b>	<u>2,522,000</u>	<u>2,883,000</u>
Case reserves	429,000	368,000
Provision for adverse deviation	323,000	419,000
Provision for incurred but unreported claims	<u>1,770,000</u>	<u>2,096,000</u>
<b>Provision for claims and related costs, Misappropriation Indemnity</b>	<u>2,522,000</u>	<u>2,883,000</u>

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 \$11,690,248 for Professional liability (2023 - \$17,675,623) and the decrease in claims experience of \$204,339 for Misappropriation indemnity (2023 - increase of \$125,038).

# Alberta Lawyers Indemnity Association

## Notes to the Financial Statements

### For the year ended June 30, 2024

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The discount rate applied by the actuary at June 30, 2024 is 4.05% (2023 – 4.50%) which is based on the expected market yield of the Association’s investment portfolio. The Professional liability undiscounted provision balance at June 30, 2024 is \$143,456,000 (2023 – \$153,948,000) and the Misappropriation indemnity undiscounted provision balance at June 30, 2024 is \$2,454,000 (2023 - \$2,779,000).

#### Actuarial analysis

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

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

#### 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.

<b>Assumption</b>	<b>Income and equity impact June 30, 2024</b>	<b>Income and equity impact June 30, 2023</b>
	\$	\$
10% increase in incurred but not reported claims	(5,441,000)	(5,517,000)
10% decrease in incurred but not reported claims	5,441,000	5,517,000
1% increase in discount rate impact on claims provision	4,414,000	4,692,000
1% decrease in discount rate impact on claims provision	(4,701,000)	(4,991,000)
1% increase in interest rate impact on bond values	(8,519,000)	(9,806,000)
1% decrease in interest rate impact on bond values	8,519,000	9,806,000

#### 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.

# Alberta Lawyers Indemnity Association

## Notes to the Financial Statements

### For the year ended June 30, 2024

#### Historical Estimate of Ultimates – Professional Liability (Part A)

##### Net of Reinsurance ('000\$)

	Policy Year (c)											Total
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
(1) One year later (a)	7,596	7,460	7,747	9,553	9,238	8,915	11,093	22,020	23,912	23,908	24,415	
(2) Two years later (a)	17,392	16,102	18,984	23,124	18,335	20,207	22,745	22,340	21,526	24,668		
(3) Three years later (a)	18,002	17,169	21,626	22,878	22,447	26,770	23,919	26,693	20,181			
(4) Four years later (a)	20,833	15,481	21,173	26,270	26,344	26,769	22,425	24,945				
(5) Five years later (a)	19,996	13,556	23,449	24,651	25,324	26,450	19,991					
(6) Six years later (a)	19,286	16,867	21,169	22,839	22,704	24,932						
(7) Seven years later (a)	19,705	15,242	20,929	21,847	19,055							
(8) Eight years later (a)	19,601	16,018	20,405	21,203								
(9) Nine years later (a)	23,534	15,179	20,066									
(10) Ten years later (a)	22,950	15,001										
(11) Eleven years later (b)	22,860											
(12) Current Estimate of Cumulative Claims (b)	22,860	15,001	20,066	21,203	19,055	24,932	19,991	24,945	20,181	24,668	24,415	237,318
(13) Cumulative payments to date (b)	(18,957)	(12,082)	(15,404)	(17,206)	(13,135)	(13,624)	(9,024)	(5,199)	(3,499)	(3,048)	(941)	(112,119)
(14) Net Liability	3,903	2,919	4,662	3,998	5,919	11,308	10,967	19,746	16,682	21,620	23,473	125,199
(15) Net Liability in Respect of Prior Years												7,298
(16) Net Liability - Internal Claims Admin. Expenses												10,959
(17) Net Liability - Effect of Discounting and PFAD												7,383
(18) Liability recoverable from insurers												0
(19) Total Net Liability												150,839

#### 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	2024	
(1) After 6 months (a)	1,591	373	489	349	500	1,105	382	367	334	211	
(2) One year later (a)	1,423	319	299	331	1,521	1,081	561	590	383		
(3) Two years later (a)	979	241	335	907	1,477	658	327	375			
(4) Three years later (a)	264	264	213	847	1,173	487	229				
(5) Four years later (a)	264	156	188	755	1,087	407					
(6) Five years later (a)	376	145	154	720	1,023						
(7) Six years later (a)	365	108	156	688							
(8) Seven years later (a)	361	108	151								
(9) Eight years later (a)	381	106									
(10) Nine years later (a)	375										
(11) Current Estimate of Cumulative Claims (b)	375	106	151	688	1,023	407	229	375	383	211	3,949
(12) Cumulative payments to date (b)	(362)	(101)	(137)	(662)	(977)	(360)	(60)	(53)	0	0	(2,712)
(13) Net Liability	13	5	13	26	46	47	169	322	383	211	1,237
(14) Net Liability in Respect of Prior Years											0
(15) Net Liability - Internal Claims Admin. Expenses											1,218
(16) Net Liability - Effect of Discounting and PFAD											68
(17) Liability recoverable from insurers											0
(18) Total Net Liability											2,522

## 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 \$3,221,050 (2023 – \$3,048,485) for management fees. The balance payable to the Law Society at June 30, 2024 of \$3,172 is non-interest bearing and due on demand (balance owing in 2023 – \$3,607).

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, 2024, expenses of \$1,522,214 (2023 - \$1,071,277) were incurred with these law firms. The Benchers and Board members are not involved in retaining these firms.

# Alberta Lawyers Indemnity Association

Notes to the Financial Statements

For the year ended June 30, 2024

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## 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.

On March 8, 2023, \$840 and on July 6, 2023, \$9,999,160 was invested in the Fiera Real Estate CORE Fund. On January 2, 2024 the Association also invested \$20 million in the IFM Global Infrastructure Fund.

### 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, 2024:



# Alberta Lawyers Indemnity Association

Notes to the Financial Statements

For the year ended June 30, 2024

	Estimated fair value (June 30, 2024)			Estimated fair value (June 30, 2023)		
	Level 1	Level 2	2024 Total	Level 1	Level 2	2023 Total
	\$	\$	\$	\$	\$	\$
T-Bills	-	1,240,297	1,240,297	-	5,602,796	5,602,796
Bonds	-	119,742,381	119,742,381	-	132,022,136	132,022,136
Equities	-	68,960,381	68,960,381	-	74,675,004	74,675,004
Real Estate	-	10,000,418	10,000,418	-	-	-
Infrastructure	-	20,139,711	20,139,711	-	-	-
Total Investments	-	220,083,188	220,083,188	-	212,299,936	212,299,936

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, 2024. There were no level 3 investments in 2023 or 2024.

## 9 Insurance

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

As of June 30, 2024, 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 (2023 - 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.

### 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.

# Alberta Lawyers Indemnity Association

Notes to the Financial Statements

For the year ended June 30, 2024

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## 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, 2024 of \$6,896,038 (2023 - \$7,467,500). 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, 2024 of \$6,896,038 (2023 - \$7,467,500).

## 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, 2024.

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:

# Alberta Lawyers Indemnity Association

Notes to the Financial Statements

For the year ended June 30, 2024

<b>Securities:</b>	<b>June 30, 2024</b>	<b>June 30, 2023</b>
	\$	\$
Bonds – AAA rating	23,907,921	22,826,627
Bonds – AA rating	38,915,703	50,478,664
Bonds – A rating	33,261,654	40,780,318
Bonds – BBB rating	23,657,103	17,936,527
	<u>119,742,381</u>	<u>132,022,136</u>

## Liquidity risk

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

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

	<b>June 30, 2024</b>		<b>June 30, 2023</b>	
	<b>Interest rate range</b>	<b>Market value \$</b>	<b>Interest rate range</b>	<b>Market value \$</b>
<b>Maturity dates (from balance sheet date)</b>				
Within five years	1.00-7.38%	48,056,528	0.25-5.72%	61,631,194
Greater than five years but less than ten years	1.50-5.75%	47,658,874	1.50-5.85%	31,576,706
Greater than ten years	0-5.8%	<u>24,026,979</u>	0-5.8%	<u>38,814,236</u>
		<u>119,742,381</u>		<u>132,022,136</u>

The following tables present a comparison of the estimated maturities of the assets and liabilities of the Association as at June 30, 2024:

<b>Terms to maturity of assets</b>	<b>Less than 1 year</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>	<b>No specific maturity</b>	<b>Total</b>
Cash and cash equivalents	20,939,092				20,939,092
Investments	1,240,297	48,056,528	71,685,853	99,100,510	220,083,188
Accounts receivable	7,137,882				7,137,882
Prepaid expenses	40,588				40,588
Due from related parties	3,172				3,172
<b>Total</b>	<u>29,361,031</u>	<u>48,056,528</u>	<u>71,685,853</u>	<u>99,100,510</u>	<u>248,203,922</u>

# Alberta Lawyers Indemnity Association

Notes to the Financial Statements

For the year ended June 30, 2024

<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	636,838				636,838
Unearned premiums	26,383,126				26,383,126
Claims liabilities – Professional liability	38,796,000	93,097,000	18,946,000		150,839,000
Claims liabilities – Misappropriation indemnity	765,000	1,495,000	262,000		2,522,000
Equity				67,822,958	67,822,958
<b>Total</b>	<b>66,580,964</b>	<b>94,592,000</b>	<b>19,208,000</b>	<b>67,822,958</b>	<b>248,203,922</b>

## 11 Pension Plan

### a. Pension plan payable

	June 30, 2024	June 30, 2023
	\$	\$
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, 2024, and on advice of the actuary, the details of the Plan are as follows:

	June 30, 2024	June 30, 2023
	\$	\$
<b>Reconciliation of fair value of plan assets</b>		
Fair value of plan assets – beginning of year	1,222,411	1,186,902
Actual return on plan assets	110,486	106,774
Less benefits paid during period to retirees	(73,528)	(71,265)
<b>Fair value of plan assets – end of period</b>	<b>1,259,369</b>	<b>1,222,411</b>
<b>Reconciliation of the accrued benefit obligation</b>		
Accrued benefit obligation – beginning of period	1,129,440	1,090,539
Interest on accrued benefit obligation	52,995	53,273
Actuarial (gain) loss during period	(3,841)	56,893
Less benefits paid during period to retirees	(73,528)	(71,265)
<b>Accrued benefit obligations – end of period</b>	<b>1,105,066</b>	<b>1,129,440</b>
<b>Plan surplus (deficit)</b>	<b>154,303</b>	<b>92,971</b>

# Alberta Lawyers Indemnity Association

Notes to the Financial Statements

For the year ended June 30, 2024

	June 30, 2024	June 30, 2023
	\$	\$
<b>Pension cost</b>		
Interest cost on accrued benefit obligation	52,995	53,273
Actual return on plan assets	(110,486)	(106,774)
Net actuarial (gains) losses	(3,841)	56,893
Change in valuation allowance	61,332	(3,392)
	<u>61,332</u>	<u>(3,392)</u>
<b>Pension cost recognized during period</b>	<u>-</u>	<u>-</u>

## Plan assets

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

	June 30, 2024	June 30, 2023
Fixed income	31.5%	33.1%
Foreign equities	39.6%	42.2%
Canadian equity	17.6%	19.4%
Cash and cash equivalents	11.3%	5.3%
	<u>100.0%</u>	<u>100.0%</u>

## Assumptions

The actuary used the following rates in their calculations:

	June 30, 2024	June 30, 2023
Discount rate – beginning of period	4.85%	5.05%
Discount rate – end of period	4.95%	4.85%
Expected long-term rate of return on plan assets	4.95%	4.85%
Rate of compensation increase	2.50%	2.50%

## 12 Equity management

As at June 30, 2024, the Association's equity was \$67,822,958 (2023 - \$48,165,764). 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.

# **Alberta Lawyers Indemnity Association**

Notes to the Financial Statements

**For the year ended June 30, 2024**

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## **13 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, 2024 the Association's CLFL revenue was \$2,206,800 (June 30, 2023 – \$1,911,375).