LawPRO®

Lawyers' Professional Indemnity Company

ANNUAL REPORT 2018

Contents

About LAWPRO

Lawyers' Professional Indemnity Company (LAWPRO®) is licensed to provide professional liability insurance and title insurance in numerous jurisdictions across Canada.

In 2018, LAWPRO provided liability insurance to over 27,300 members of the Law Society of Ontario. We also insured 1,512 law firms (representing over 3,800 lawyers) under our optional Excess Insurance program.

Through our TitlePLUS® operation, LAWPRO also provides comprehensive title insurance to property owners and lenders throughout Canada. LAWPRO's practicePRO® risk management program assists lawyers in managing their potential exposure to professional liability claims.

Vision, Mission, Values

Our Vision

To be regarded as the preferred insurer in all markets and product lines in which we do business.

Our Mission

To be an innovative provider of insurance products and services that enhance the viability and competitive position of the legal profession.

Our Values

Professionalism

Individually and as a team, we hold ourselves to the highest professional standards.
We deliver programs and services known for quality and cost-effectiveness, and for being practical, helpful and relevant.

We demand the best of ourselves every day and in everything we do.

Innovation

We foster a climate in which creativity, innovation and change can flourish.
We share ideas, skills and knowledge and encourage continual learning.

We value teamwork and collaboration, and the diverse strengths and perspectives of others.

Integrity

We act with the highest levels of integrity in all of our interactions and decisions.
We aim to always be consistent, fair, ethical and accountable.

Service

We strive for excellence in customer service.
We share our knowledge, experience and expertise with our customers and with each other, so that together we can identify, prevent and solve problems.

We take the time to listen and understand, so we can respond effectively and empathetically to our customers and to each other.

We demonstrate courtesy and genuine respect for all.

Leadership

We try to make the world a better place, and to that end lend our energy and expertise to many communities.

LAWPRO Statement on Corporate Social Responsibility

LAWPRO's vision is to be regarded as the preferred insurer in all product lines and markets in which it does business.

Implicit in this vision – and in the values that support our vision – is a commitment to being a responsible, involved and accountable citizen of the many communities in which we hold membership: the employer community, the insurance community, the legal community, and of course the larger community in which we all live.

The LAWPRO Corporate Social Responsibility Statement is informed by this spirit of community and accountability, while acknowledging that we are governed and profoundly shaped by our unique role as the provider of the primary professional liability insurance program for all lawyers in Ontario. Our social responsibility commitment as a corporate body is focused on four principal areas:

Providing a Healthy and Rewarding Workplace

We respect and value our employees and the vital role they play in enabling the company to fulfill its mandate. To that end we adopt policies and practices that not only comply with applicable law and fair labour practices, but also respect diversity, promote inclusion and fellowship, cultivate professional growth through education and service, and promote health, safety and wellness, in the workplace and in personal life.

Respecting the Environment

We believe that individually and as a company we have a role to play as stewards of our environment and its resources. To that end we support and promote initiatives in our company that help advance the goal of a sustainable environment.

The company aims to educate LAWPRO employees about the role individuals and organizations can play in protecting and improving the environment. LAWPRO also has spearheaded a company-wide campaign to reduce reliance on paper and related products, and facilitate use of technology in all aspects of the company's operations. The company actively encourages initiatives such as these that meet a dual mandate of being stewards of the environment and the bar's resources.

Fostering the Legal Community

We view a committed, healthy and diverse bar as essential to the functioning of a democracy and to the protection of individual rights in society.

We have over the years provided financial and in-kind support to organizations that promote and deliver lawyer wellness programs. As well, we make available wellness information and resources electronically at no cost.

We support and sponsor a range of legal-related charitable and non-profit causes that advance the role and reputation of lawyers in our community and by implication, foster access to justice in Canada. We also work to support charitable initiatives which have captured the interest and imagination of the bar and their clients. We promote the enrichment of the bar through our promotion of legal education, both internally and externally, and by fostering the building of relationships within the legal community.

Supporting the Broader Canadian Community

We acknowledge that as highly skilled and employed individuals, we are among the fortunate in our community. LAWPRO employees give back by selecting five registered charities annually and partner with the company to fundraise for their benefit. In addition, each LAWPRO employee may request one "charity day" per year to undertake work for the registered charity of the employee's choice.

We actively contribute to the advancement of the Canadian insurance industry, and engage in a dialogue with government in the interests of the bar and the Canadian consumer.

We promote inclusion by working to expand the range of our materials available in both official languages and by providing materials in other languages based on level of demand.

Remarks of the Chair

LAWPRO navigates a careful balancing act: keeping revenues high enough to cover claims and satisfy regulators that the company is financially healthy while carefully controlling premiums to maintain affordability and properly reflect the cost of risk.

Revenues are a combination of premiums, levies, and investment returns and each of these amounts fluctuate based on variables including the number of lawyers in private practice, the health of the economy, and the volatility of financial markets. As we know, none of these can be perfectly predicted. In addition, claims that are reported today may not be resolved for many years. It is the company's task to attempt to extrapolate the future cost of those claims without over-estimating that cost or running out of funds when it is time to pay. Management makes educated calculations to ensure it meets the Financial Services Commission of Ontario (FSCO) standards as well as those of the other provincial regulators' capital requirements.

The details in the financial statements in the following pages demonstrate our attention to maintaining a stable and reliable financial base for our insureds.

How important is the insurance program? The primary errors and omissions policy covers over 27,000 lawyers in Ontario. In 2018, almost 3,000 new claims were reported, a 25 per cent increase over the last decade. And, of all the claims closed in 2018, 86 per cent were closed with a successful defence of our insureds.

Good claims service and financial stability not only protect Ontario lawyers, but also indirectly, the public. I believe the trust given to LAWPRO by the Law Society of Ontario and its members has been well earned by LAWPRO's consistent performance as seen in this Annual Report.

Susan T. McGrath

Susan T. McGrath
Chair

Remarks of the President & CEO

My first year as CEO has flown by as it seems like just yesterday that I was writing remarks as the incoming President & CEO for LAWPRO's 2017 Annual Report. I would like to thank the LAWPRO Board and staff for their support through the year. I believe it was a successful year of transition, for both myself and the company.

LAWPRO's commitment to excellent service and financial stability are of the utmost importance to the success of the bar and to the well-being of the Ontario public. We remain committed to offering fair coverage at an affordable premium that is in alignment with the risks faced by lawyers.

In addition to offering various premium discounts and special coverages (see a list of them at page 11), we also try to match risk to premiums through transaction levies. In 2018, we became even more granular in our levies by eliminating the transaction levy for family litigation, which sees fewer claims on average, while increasing the civil litigation levy for non-family litigation, which sees a comparatively greater number of claims and higher claims costs.

Thanks to groundwork done with the Law Society of Ontario in 2018, as part of our commitment to access to justice, we added a 75 per cent premium reduction to lawyers working exclusively for Civil Society Organizations to our menu of discounts for 2019. This is an example of how we fine tune the program in response to the changing nature of legal services. We continue to match premiums to risk, as best we can, to spread the costs widely enough to keep the insurance program financially healthy and as fair as possible to all our insureds.

As my first full year as CEO comes to a close, I am looking forward to the future with LAWPRO and the Ontario bar. While we have always been a leader in using technology – an amazing 97 per cent of our insureds e-filed in 2019 – we are exploring how existing and new technologies could better support our corporate goals and core business functions. There will be challenges and opportunities ahead for us all and I look forward to meeting them together.

Daniel E. Pinnington

Daniel E. Pinnington
President & CEO

Management Discussion and Analysis

The following Management Discussion and Analysis provides a review of the activities, results of operations and financial condition of Lawyers' Professional Indemnity Company ("LAWPRO" or the "Company") for the year ended December 31, 2018, in comparison with the year ended December 31, 2017. These comments should be read in conjunction with the corresponding audited financial statements, including the accompanying notes.

Financial Highlights

Statement of profit or loss

During 2018, the Company generated a profit of $16.9 million, an increase in earnings of $16.3 million over 2017, and experienced a comprehensive loss of $0.2 million compared to $0.2 million income during the prior year.

Net premiums earned

Premiums earned, net of reinsurance ceded, decreased by $1.0 million to $107.5 million in 2018. Premiums from the mandatory Ontario errors and omissions ("E&O") insurance program were $0.5 million lower than 2017 results, driven by a drop in real estate transaction levies in the current year. The optional Excess Insurance program remained steady in the year, while TitlePLUS premiums dipped slightly.

Net claims and adjustment expenses

Incurred claims and adjustment expenses in 2018, net of reinsurance recoveries, decreased by $25.2 million from 2017. The 2018 results benefitted from a $31.4 million net reduction to the E&O program's reserves due to favourable development of prior Fund Years' loss experience, compared to $10.4 million in 2017, as well as $2.2 million of income relating to the effect of the increase in the market interest yields during the year on reserve discounting, compared with a $2.5 million income in 2017. A continued moderation of claims severity sustained over recent fiscal years has been a key driver for the prior year development.

Reinsurance

Similar to recent years, the Company purchased two layers of excess-of-loss clash reinsurance coverage, which limits its exposure to one or more large aggregations of multiple claims arising from the same proximate cause. Furthermore, the Company maintained its 10 per cent retention in the optional Excess program, whereas prior to 2011 the program was fully reinsured. The high level of reinsurance significantly mitigates exposure to the Company from claims in this program.

General expenses

LAWPRO's general expenses in 2018 were $1.8 million higher than 2017, though in-line with its annual budget, primarily due to general inflationary pressures on the operating costs utilized in the Company's day-to-day operations.

Commissions earned

The Company earned reinsurance commissions of $1.5 million on premium ceded in respect of its 2018 optional Excess Insurance program, a similar result to 2017. In addition, the Company also earned $0.3 million of profit commissions for favourable claims development on the quota share reinsurance arrangements that it had prior to January 1, 2003, up slightly from $0.1 million in 2017. As claims estimates become more certain with time, there is generally less potential for favourable development on claims relating to older fund years, resulting in a tendency towards lower profit commissions.

Investment income

Income generated from investments decreased by $0.8 million to $19.7 million in 2018, a result higher than budget by $1.3 million. Investment income from interest and dividend receipts decreased by $0.3 million to $18.4 million, primarily due to a decrease in the amount the Company invested in fixed income securities during the current year. As a result of the higher market yields during 2018, the Company experienced a $1.1 million decrease in net unrealized gains on its fixed income security portfolio used to match its

claims liabilities, compared to a decrease of $3.2 million in 2017. The 2018 results also included net capital gains of $7.0 million realized on disposition of investments, compared to $8.2 million in 2017. In addition, during 2018 the Company recognized $3.2 million of unrealized losses as an impairment due to the significant or prolonged decline of some of its equity securities, compared to $1.7 million in 2017.

Statement of comprehensive income

Other comprehensive loss

During 2018, LAWPRO experienced other comprehensive loss of $17.1 million, primarily due to a significant decrease in net unrealized losses on its surplus investments in the equity security markets. These results compare to other comprehensive loss of $0.4 million experienced during 2017.

Statement of financial position

Overall, the Company ended 2018 in a satisfactory financial position, with shareholder's equity down by $0.2 million year over year, as the net income achieved during the year was more than offset by the other comprehensive loss experienced during the same period.

Investments

As at December 31, 2018, the market value of the Company's investment portfolio exceeded its cost by $17.6 million, compared to 2017 where the market value exceeded cost by $35.6 million. Investment assets, inclusive of cash and cash equivalents and investment income due and accrued, decreased by $11.4 million to $668.3 million as at December 31, 2018. The decrease was primarily the result of the volatile equity markets more than offsetting the positive cash flow provided by operations and investment receipts generated by the portfolio.

The investment portfolio is managed in accordance with the investment policy approved by the Company's Board of Directors in diversified, high-quality assets. A portion of the investment portfolio, which is composed of primarily fixed income securities, is invested in a manner that is expected to substantially match in maturity to the payment of claims liabilities in future years. The portion of the Company's investment portfolio which is considered surplus to the requirements of settling claims liabilities is managed separately and includes fixed income securities and equity investments in publicly traded companies, the values of which are more subject to market volatility.

Provision for unpaid claims and adjustment expenses and reinsurers' share thereof

The provision for unpaid claims represents the amount required to satisfy all of the Company's obligations to claimants prior to reinsurance recoveries. This balance has decreased by $10.5 million. Reinsurance recoverables have increased by $1.0 million and accordingly the decrease in the net provision is $11.5 million. This decrease is attributable to the fact that the reductions to the claims provision from both the settlement of previously existing claims during 2018, and the net favourable development of prior years' reserves experienced during the year, more than offset the claims expense relating to the additional risk associated with underwriting the 2018 program.

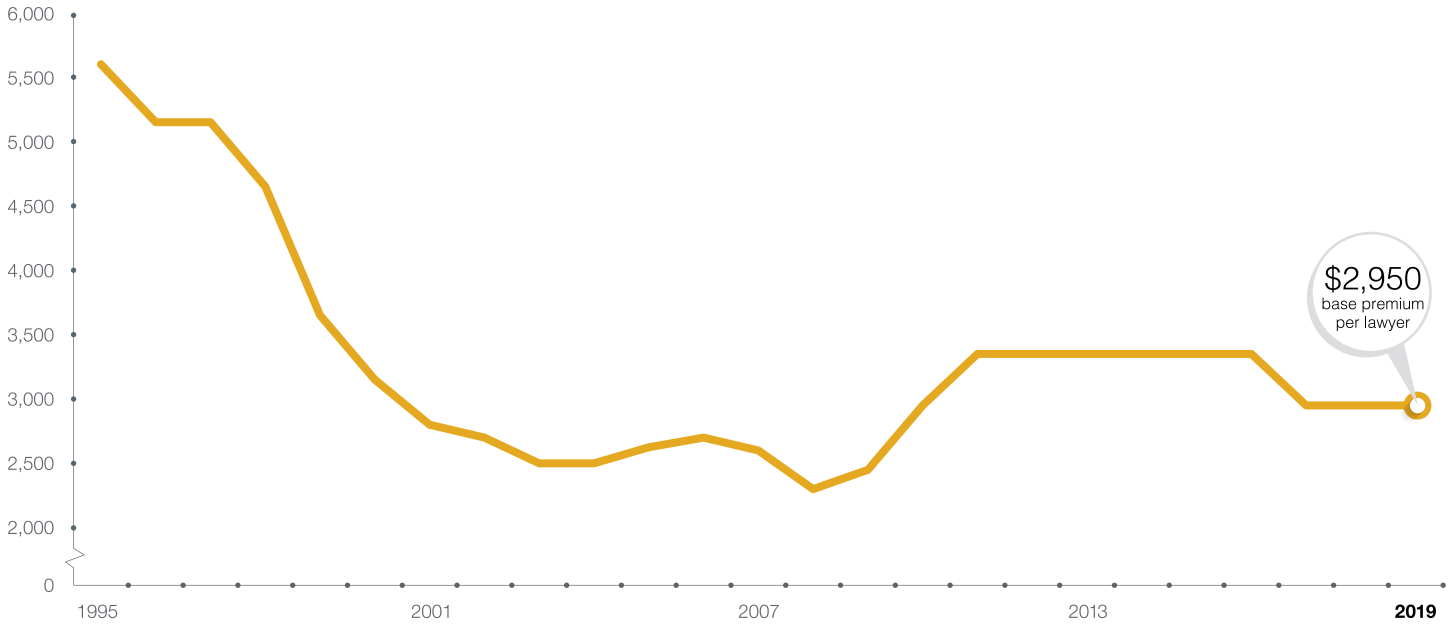
Report on LAWPRO Operations

LAWPRO is an insurance company with three product lines: a mandatory E&O Insurance program, as required by the Law Society for all lawyers in private practice in Ontario; an optional Excess Insurance program that enables Ontario law firms to increase their insurance coverage limit to a maximum of $9 million per claim/$9 million in the aggregate above the $1 million per claim/ $2 million aggregate levels provided by the mandatory E&O program; and, an optional TitlePLUS title insurance product that real estate practitioners across Canada can make available to their clients.

The mandatory E&O Insurance program

In each of the last two years, the number of lawyers insured under the LAWPRO program has increased by approximately two per cent. In 2018, the Company provided E&O coverage to just over 27,300 lawyers, up from about 26,700 in 2017. The E&O base premium has varied since the Company assumed active responsibility for the Law Society's insurance operations in 1995 (see Graph 1), depending on the outlook of key factors such as claims costs and investment income. In order to address rising claims trends, the base premium was increased by $400 to $3,350 per lawyer in 2011. For 2012 through 2016, the base premium was held at $3,350 per lawyer – a level selected with a view to the longer-term stability and sustainability of the program. Given LAWPRO's solid capital level as at December 31, 2016, the Company was well-positioned to lower the base premium to $2,950 for the 2017 program. LAWPRO's 2018 results have supported the Company's ability to maintain this rate for the 2019 program.

Graph 1 – Base premium per lawyer



One of the hallmarks of the mandatory LAWPRO E&O Insurance program is its flexibility. Lawyers have a number of options to tailor their insurance coverage to their specific needs – often with the added benefit of reducing the actual premium payable below the base premium level. As indicated in Table 1, the number of lawyers availing themselves of these options continues to increase. LAWPRO's sustainability initiative, combined with its program of encouraging lawyers to use its comprehensive website to access information and complete insurance-related filings, also continues to yield solid results. At renewal, an impressive 91 per cent of lawyers – 25,500 – filed their insurance applications online for the 2018 insurance program; 83 per cent of them did so in time to qualify for the $25 per lawyer e-filing discount. For the 2019 program renewal, the proportion of lawyers e-filing grew to almost 97 per cent.

Table 1 – Count of lawyers with alternate coverage options

COVERAGE OPTION	FEATURE	NO. OF LAWYERS PARTICIPATING AS OF JAN. 31, 2018	NO. OF LAWYERS PARTICIPATING AS OF JAN. 31, 2019
New call discount	20 to 50 per cent base premium discount for those called in the last one to four years	5,090	5,295
Part-Time Practice	50 per cent base premium discount for eligible lawyers	2,072	2,142
Restricted Area of Practice option	50 per cent base premium discount for immigration/criminal law practitioners	1,649	1,708
Innocent Party Buy-Up	Increase in Innocent Party sublimits up to as much as $1 million per claim/aggregate	3,508	3,722 (based on $125/lawyer)
Run-off Buy-Up	Increase limits for past services from $250,000 per claim/aggregate to as much as $1 million per claim/$2 million aggregate	1,326 (based on $125/lawyer)	1,412 (based on $125/lawyer)
Real Estate Practice Coverage	Required for all lawyers practising real estate law in Ontario. Sublimit coverage of $250,000 per claim/$1 million aggregate	8,356	8,489

E&O claims

The numbers

The 2018 claim figures reflect an ongoing trend – steadily increasing claims counts. The number of claims reported to LAWPRO during the calendar year reached 2,774, continuing an upward trend that started in 2006 (see Graph 2). Despite a concerted and successful effort on the part of the Company's claims group to close more files than the previous year, the same graph shows the open file count was almost 4,100 claims, a count not seen since the real estate crisis in the early 1990's. One piece of good news on Graph 3 is the claims rate per 1,000 lawyers has been relatively steady over the last 10 years.

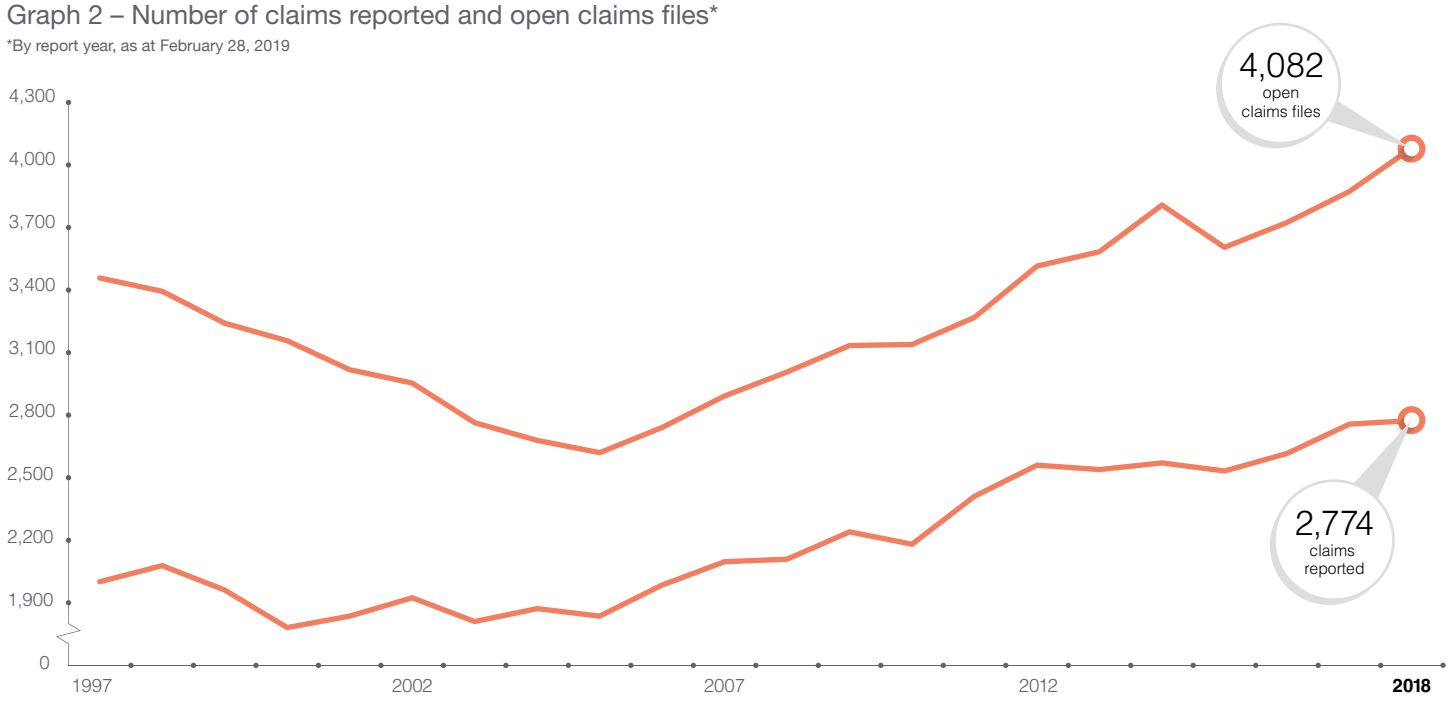
Another very important measure is to compare the average cost of claims for each policy year at a specific point in time. While the number of large claims (see Graph 4) and the average severity (i.e., the average cost per claim) in recent years continues to grow, reaching $36,773 (see Graph 5) considerably higher than the $30,000 we saw at the beginning of the millennium, severity is growing at a slower rate than in the past. Since 2007, annual claims expenses have typically been in the $80 to $90 million range and the 2018 program's ultimate cost is projected to slightly exceed this range.

As in the past, litigation and real estate continue to account for the bulk of claims by cost, respectively 29.3 and 27.8 per cent of claims in 2018 (see Graph 6A). The changes to Rule 48 (administrative dismissals) appear to have been successful in bringing litigation claims down over the last several years, whereas real estate claims are becoming a larger portion of the portfolio, likely a reflection of a more complex practice environment and the high underlying values associated with claims in the real estate area (see Graph 6B).

Looking more closely at the underlying causes of claims in 2018, communication-related errors continued to be the most common (see Graph 7). We are seeing a concerning increase in errors involving inadequate investigation and while failures to know or apply the law were down slightly in 2018 relative to the prior year, there is a longer term upward trend in these errors.

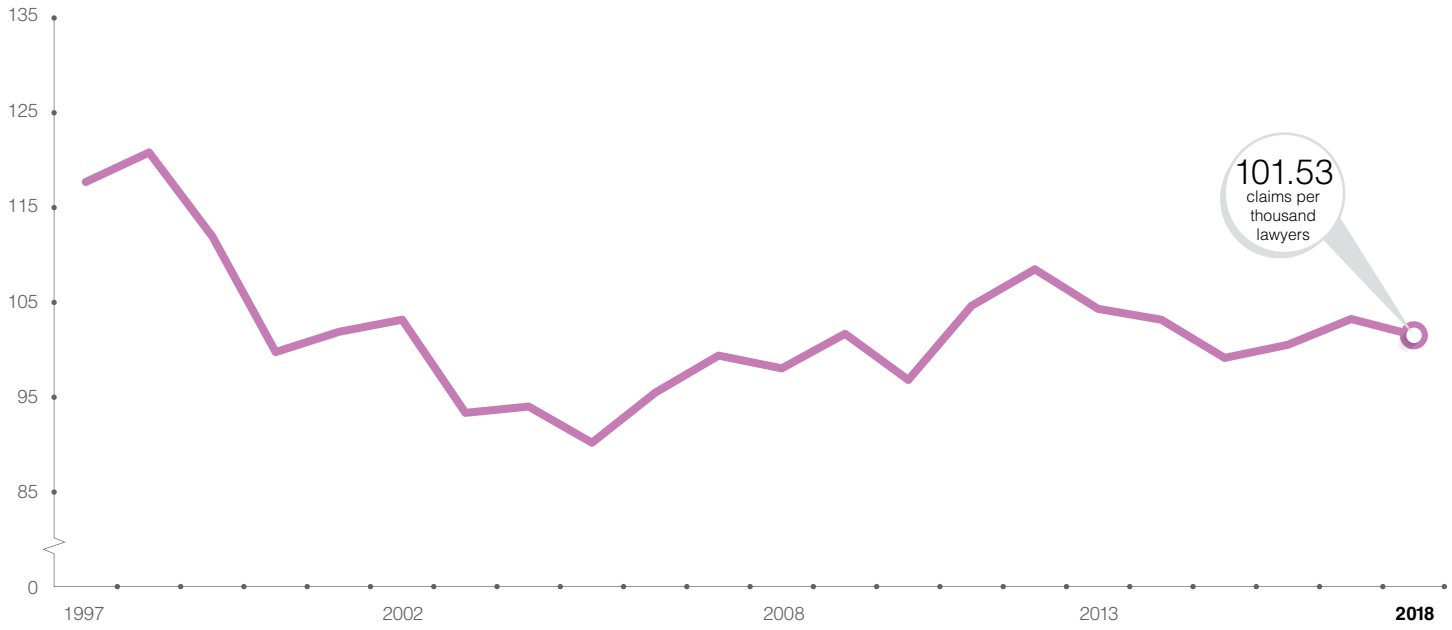
Graph 2 – Number of claims reported and open claims files*

*By report year, as at February 28, 2019



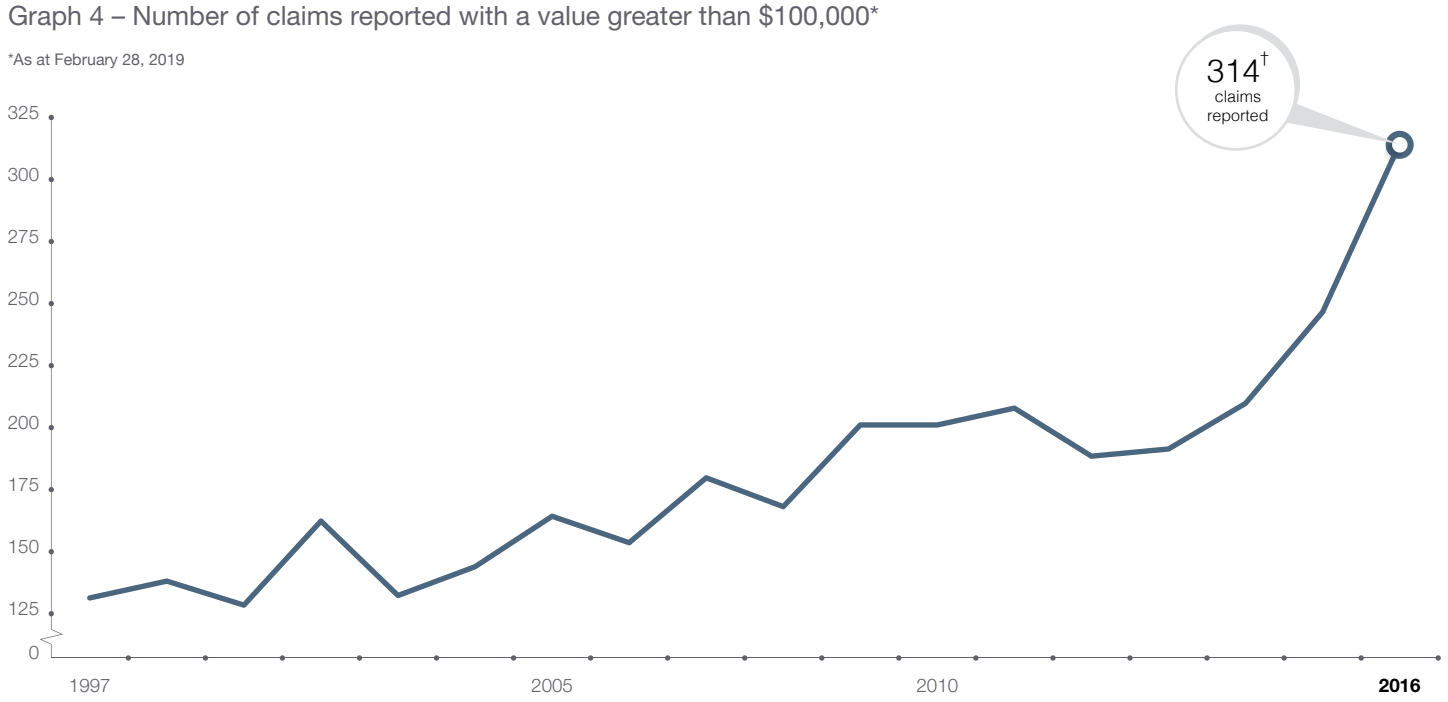
Graph 3 – Claims per 1,000 lawyers*

*As at February 28, 2019



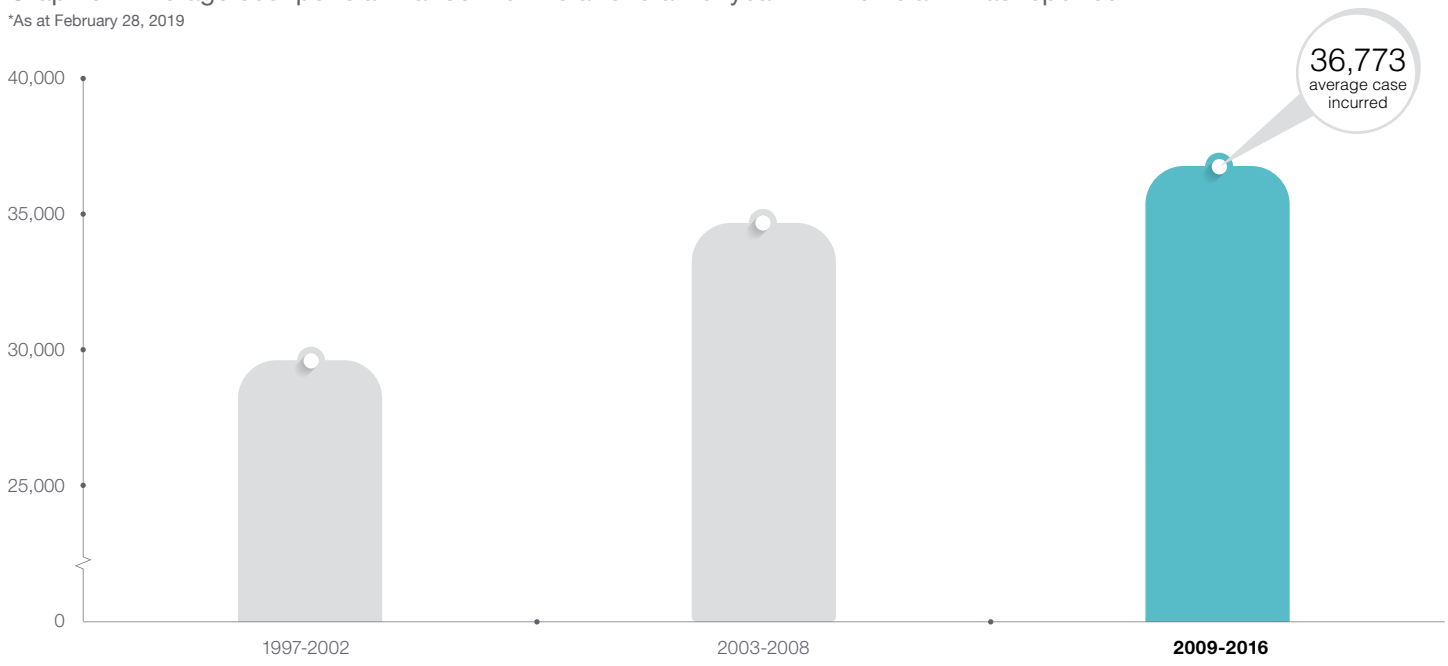
Graph 4 – Number of claims reported with a value greater than $100,000*

*As at February 28, 2019



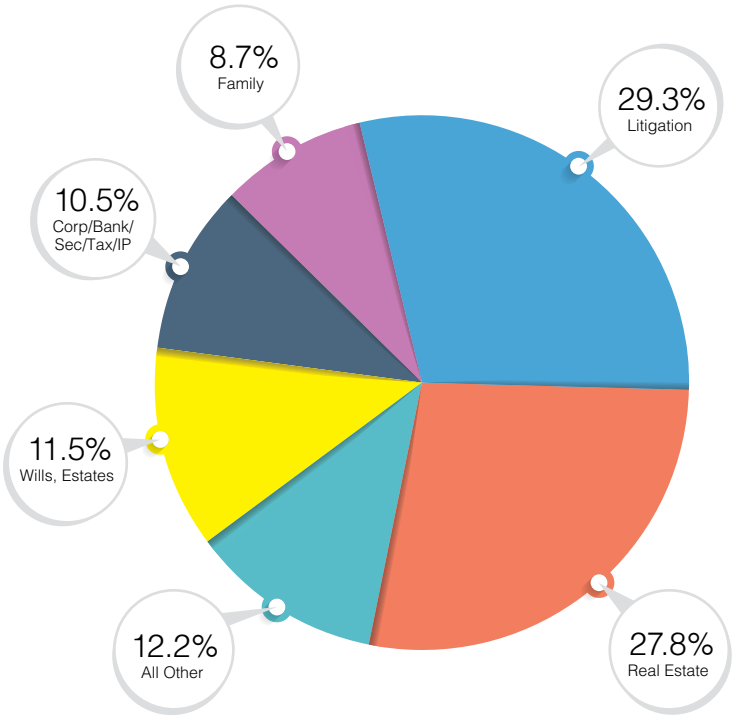
Graph 5 – Average cost per claim at 38 months after start of year in which claim was reported*

*As at February 28, 2019

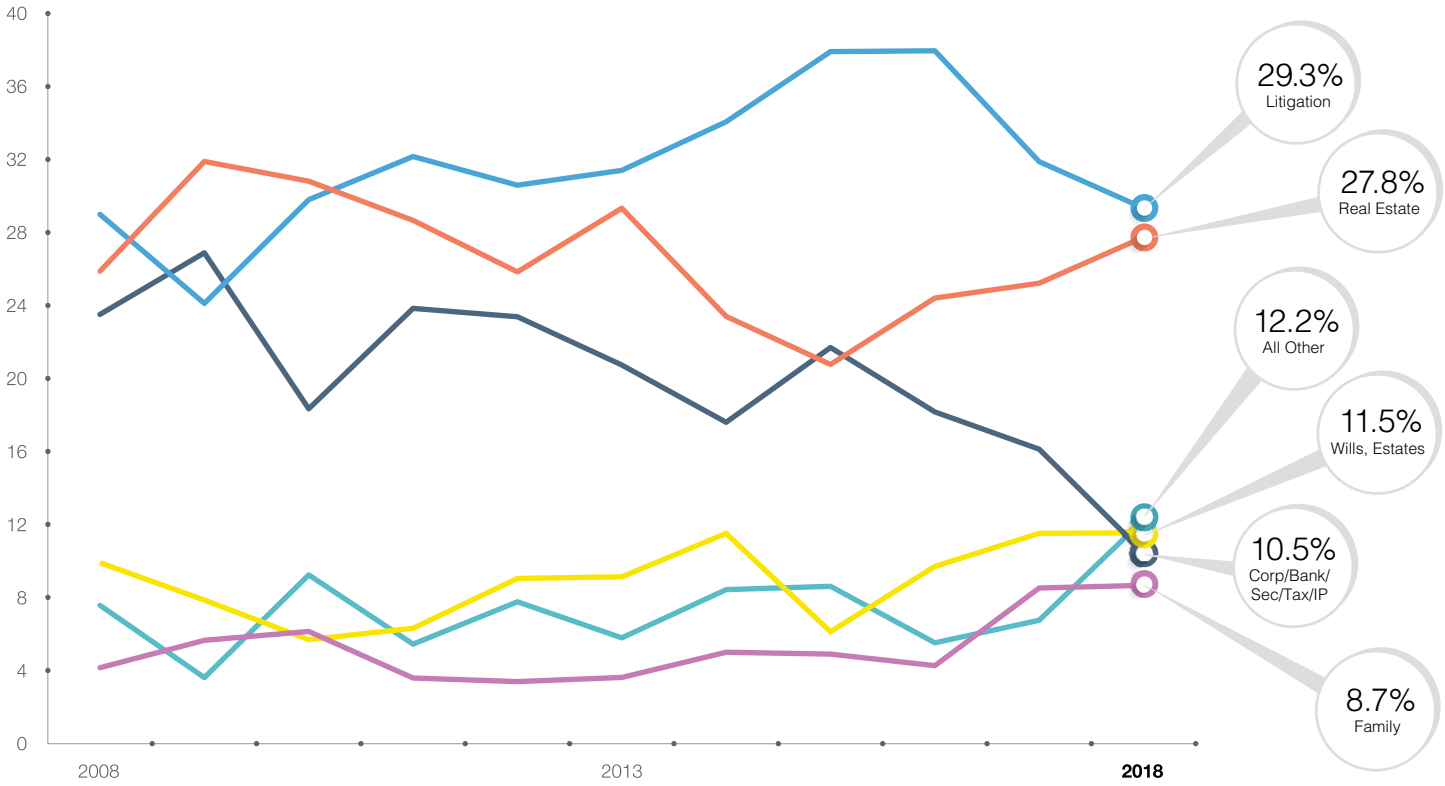


† Label corrected post printing (May 2, 2019).

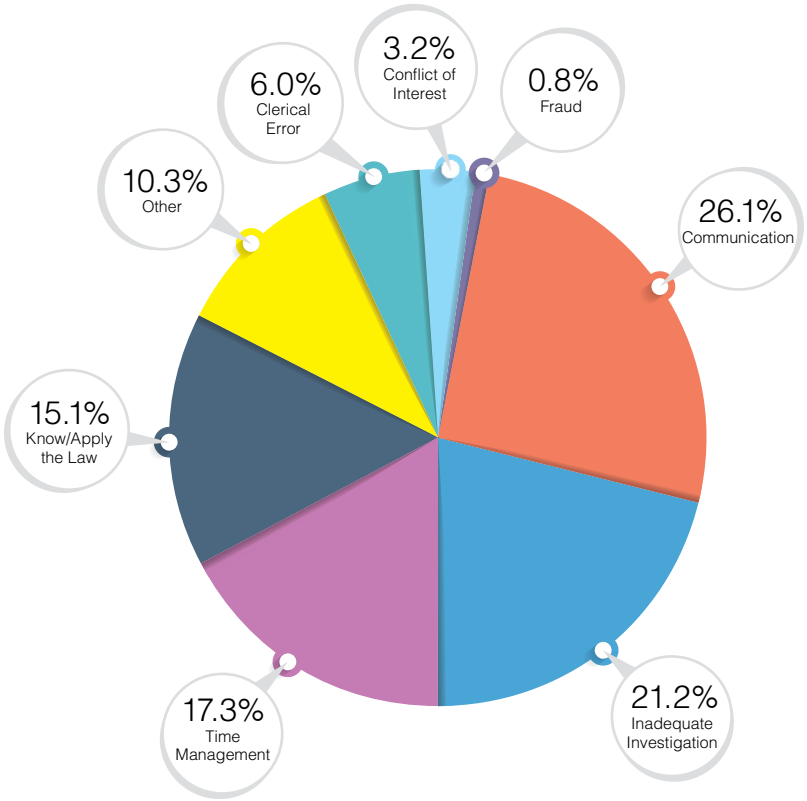
Graph 6A – 2018 Distribution of claims by area of practice* (% of gross claims costs)
*As at February 28, 2019



Graph 6B – Distribution of claims by area of practice* (% of gross claims costs)
*As at February 28, 2019



Graph 7 – Reported claims count by cause of loss in 2018



Managing costs

LAWPRO's focused claims management philosophy – which sees us resolve claims quickly in situations where there is liability, defend vigorously if the claim has no merit and avoid economic settlements – yielded solid results.

In 2018, LAWPRO won six of the seven matters that the Company took to trial and on which a decision was rendered; was also successful on the one appeal the Company argued; won 23 of 29 summary judgment applications; and won seven of the 10 summary judgment appeal decisions.

Another important tool – and a measure of success – is feedback the Company receives from lawyers. See Table 2 for the results of our surveys of insured lawyers with a closed claim. The results demonstrate that the Company is excelling at meeting lawyers' needs and expectations.

Helping lawyers avoid claims

An important focus for LAWPRO is to help lawyers avoid claims before they happen. LAWPRO's practicePRO risk management initiative has become a widely-recognized and well-respected provider of tools and resources to help members of the practising bar identify practice risks and take steps to minimize their claims exposure.

A principal tool to communicate risk management content is *LAWPRO Magazine*, which was distributed to all practising insured lawyers four times in 2018. The February issue offered a number of articles on managing a practice in the current and near-future legal technology environment including explaining how technology may help to offer better access to justice and better meet client expectations. The student issue "Unbox your career potential" provided an introduction to the tools available for identifying and managing risk for those new to the bar.

Complementing the printed magazine were extensive web-based materials, electronic webzines and email alerts on topics including active frauds, evolving risks, and insurance program-related information. To help minimize claims in the civil litigation area, LAWPRO distributed content to help litigators communicate appropriately with clients, juniors, and office staff and to combat procrastination. LAWPRO also provided a countdown of issues of note including a reminder of the ultimate limitation period, a true account and warning about spear phishing attempts, and an update on the new *PIPEDA* data breach reporting requirements.

Ontario lawyers continue to be targeted by sophisticated attacks by cyber criminals and fraudsters. Spear phishing has become one of the most common vectors for fraud attempts targeting law firms. In 2018, fraud fact sheets were expanded to delve more deeply into cybercrime and bad cheque scams as well as the ID impersonations, property flips, value frauds and phishing scams that are used to attack real estate lawyers.

Table 2 – LAWPRO survey results

LAWPRO SURVEY RESULTS

The annual survey of LAWPRO E&O insureds with a closed claim indicated the following:

- 97 per cent said that they were satisfied with how LAWPRO handled the claim;
- 86 per cent said they were satisfied with our process of selecting defence counsel;
- 90 per cent said they would have the defence counsel firm represent them again; and
- 88 per cent said LAWPRO received good value for defence monies spent.

The AvoidAClaim.com blog provides lawyers with tips and insights into risk and practice issues as they develop, including real-time warnings on active frauds targeting lawyers. In 2018, the blog posted 62 fraud-related articles arising from almost 600 emails from lawyers and continues to be the go-to site for fraud prevention.

Throughout the year, representatives of LAWPRO visited many regions of Ontario, completing 95 presentations about risk management and claims prevention at Continuing Professional Development programs, law association events and law firms.

LAWPRO also worked behind the scenes to ensure the risk management message was being heard. The LAWPRO Risk Management Credit encourages Continuing Professional Development providers to include a significant risk management component in their programs. For the 2019 policy year, LAWPRO approved 365 programs attended by more than 61,000 lawyers, paralegals and law office staff. LAWPRO also promoted the Homewood Human Solutions e-learning courses offered through the Law Society's Member Assistance Plan.

The LAWPRO Excess program

Since it was established in 1997, LAWPRO's optional Excess Insurance program has posted consistent annual growth in revenues and numbers of law firms (and lawyers) insured under the program. An impressive 1,512 firms representing 3,817 lawyers elected to choose LAWPRO as their excess insurance provider for 2018; 181 firms chose the maximum $9 million limit option.

To date, the Company has experienced a slight moderation in the 2019 program, with the number of firms insured under the LAWPRO Excess program for 2019 decreasing slightly to 1,494, and the number of lawyers being represented dropping slightly to 3,790. Of the 18 new firms opting to buy excess coverage from LAWPRO for 2019, 16 had never purchased excess insurance before. The Company's retention rate on excess business was an impressive 98 per cent, a clear indication that this program meets the needs of the market it is aimed at – small and medium-sized firms of fewer than 50 lawyers. LAWPRO's Excess program currently insures 15 per cent of the lawyers employed in firms of 50 or fewer lawyers.

Excess claims

As of December 31, 2018, the Company has paid only eight indemnity amounts under its Excess program, a reflection of LAWPRO's ability to generally manage costs within the insurance program's primary limits. Prudent underwriting and solid claims management have helped ensure that our Excess program is a profitable line of business for LAWPRO.

The TitlePLUS program

For 2018, the TitlePLUS title insurance program was able to maintain the gross written premiums slightly under the level established in 2017. In addition, sales momentum was strong, as there was a marked increase in policy sales in the second half of 2018. The TitlePLUS subscriber base at December 31, 2018, remained solid at about 2,800 lawyers and Quebec notaries, with new applications continuing to be received, and the Company issuing TitlePLUS policies for over 1,150 lenders across Canada. These results indicate that the TitlePLUS vision of real estate practice resonates with legal professionals and the lending community. The higher level of legal expertise and professionalism that LAWPRO expects from TitlePLUS staff sets it apart from other providers.

TitlePLUS claims

The legal expertise and experience of the TitlePLUS team not only helped alert lawyers to potential claims issues, but also supported its robust underwriting measures. The result: approximately 91 per cent of TitlePLUS claims are minor with total costs of less than $10,000, and the average indemnity payment on a TitlePLUS claim is approximately $5,700 (based on claims closed as of December 31, 2018).

Building compliance-related claims continue to have a significant impact on the program. For policies sold in the years since 2000, the TitlePLUS program has had 1,722 building compliance-related claims, costing a total of $27.6 million (payments plus reserves on claims in progress). So, although only 25 per cent of the TitlePLUS claims by count arise from this area of coverage, 51 per cent of the claims costs reside here. However, the significant pressures that these trends placed on the program's claims costs have been appreciably mitigated through various underwriting and risk management programs. The TitlePLUS underwriting team continues to work on methods to better detect building compliance risks before a policy is approved. Also, the TitlePLUS claims team is focusing additional efforts on recovery initiatives where a past property owner should be bearing responsibility for the problem, as well as on salvage opportunities.

Management Statement on Responsibility for Financial Information

The preparation of the annual financial statements, Management's Discussion and Analysis and all other information in the Company's Annual Report is the responsibility of the Company's management, and the annual financial statements have been approved by the Board of Directors.

The financial statements have been prepared in accordance with International Financial Reporting Standards. Financial statements, by their very nature, include amounts and disclosures based on estimates and judgements. Where alternative methods or interpretations exist, management has chosen those it deems most appropriate in the circumstances, including appropriate consideration to relevance and materiality. Actual results in the future may differ materially from management's current assessment given the inherent variability of future events and circumstances. Financial information appearing elsewhere in the Company's Annual Report is consistent with the financial statements.

Management maintains the necessary system of internal controls over financial reporting to meet its responsibility for the reliability of the financial statements. These controls are designed to provide management with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

The Board of Directors is responsible to ensure that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out its responsibility primarily through its audit committee, which is independent of management. The audit committee reviews the financial statements and recommends them to the Board for approval. The audit committee also reviews and monitors the Company's system of internal controls over financial reporting in the context of reports made by management or the external auditor.

Role of the Auditor

The external auditor, PricewaterhouseCoopers LLP, has been appointed by the shareholder. Its responsibility is to conduct an independent and objective audit of the financial statements in accordance with Canadian generally accepted auditing standards and to report thereon to the Company's shareholder. In carrying out its audit, the auditor considers the work of the appointed actuary and his report on the policy liabilities of the Company. The external auditor has full and unrestricted access to the audit committee and the Board of Directors to discuss audit, financial reporting and related findings. The auditor's report outlines the scope of its audit and its opinion.

Role of the Appointed Actuary

The actuary is appointed by the Board of Directors of the Company. With respect to the preparation of these financial statements, the appointed actuary is required to carry out a valuation of the policy liabilities and to report thereon to the Company's shareholder. The valuation is carried out in accordance with accepted actuarial practice and regulatory requirements. The scope of the valuation encompasses the policy liabilities as well as any other matter specified in any direction that may be made by the regulators. The policy liabilities consist of a provision for unpaid claims and adjustment expenses on the expired portion of policies, a provision for future obligations on the unexpired portion of policies, and other policy liabilities that may be applicable to the specific circumstances of the Company.

In performing the valuation of the policy liabilities, which are by their very nature inherently variable, the appointed actuary makes assumptions as to the future rates of claims severity, inflation, reinsurance recoveries, expenses and other matters, taking into consideration the circumstances of the Company and the nature of the insurance coverage being offered. The valuation is necessarily based on estimates; consequently, the final values may vary significantly from those estimates. The appointed actuary also makes use of management information provided by the Company, and uses the work of the auditor with respect to the verification of the underlying data used in the valuation.

Toronto, Ontario
February 28, 2019

Dan Pinnington
Daniel E. Pinnington
President & CEO

Steve Jorgensen
Steven W. Jorgensen
Chief Financial Officer

Independent Auditor's Report

To the Shareholder of Lawyers' Professional Indemnity Company

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Lawyers' Professional Indemnity Company (the Company) as at December 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at December 31, 2018;
- the statement of profit or loss for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 Company 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.

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 IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

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 Company'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 Company'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 Company 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, Licensed Public Accountants
Toronto, Ontario
February 26, 2019

Appointed Actuary's Report

Eckler Ltd.
1801 McGill College Avenue, Suite 1460
Montréal, Québec
H3A 2N4

February 26, 2019

I have valued the policy liabilities including reinsurance recoverables of Lawyers' Professional Indemnity Company for its statement of financial position at 31 December 2018 and their changes in its statement of profit or loss for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of the policy liabilities makes appropriate provision for all policy obligations and the financial statements fairly present the results of the valuation.

Montreal, Quebec

Louis-Christian Dupuis
Fellow, Canadian Institute of Actuaries

Statement of Financial Position

Stated in thousands of Canadian dollars

AS AT		DECEMBER 31, 2018	DECEMBER 31, 2017
Assets			
Cash and cash equivalents	$	10,281	20,245
Investments (note 5)		655,446	656,551
Investment income due and accrued		2,530	2,852
Due from reinsurers		637	309
Due from insureds		2,048	1,882
Due from the Law Society of Ontario (note 12)		8,581	6,998
Reinsurers' share of provision for unpaid claims and adjustment expenses (note 9)		40,506	39,495
Other receivables		1,052	3,167
Other assets		1,534	2,097
Property and equipment (note 7)		1,731	1,764
Intangible asset (note 8)		439	658
Income taxes recoverable		3,455	1,825
Deferred income tax asset (note 14)		5,663	5,606
Total assets	**$**	**733,903**	**743,449**
Liabilities			
Provision for unpaid claims and adjustment expenses (note 9)	$	474,649	485,088
Unearned premiums (note 10)		1,111	1,068
Due to reinsurers		683	720
Due to insureds		277	220
Expenses due and accrued		3,272	2,217
Other taxes due and accrued		449	458
	$	**480,441**	**489,771**
Equity			
Capital stock (note 17)	$	5,000	5,000
Contributed surplus (note 17)		30,645	30,645
Retained earnings		199,171	182,716
Accumulated other comprehensive income		18,646	35,317
		253,462	**253,678**
Total liabilities and equity	**$**	**733,903**	**743,449**

Accompanying notes are an integral part of the financial statements.

On behalf of the Board

Malcolm L. Heins

Malcolm L. Heins
Director

Daniel E. Pinnington

Daniel E. Pinnington
Director

Statement of Profit or Loss

Stated in thousands of Canadian dollars

FOR THE YEAR ENDED DECEMBER 31		2018	2017
Income			
Gross written premiums	$	114,784	115,655
Premiums ceded to reinsurers (note 11)		(7,202)	(7,150)
Net written premiums		107,582	108,505
(Increase) decrease in unearned premiums (note 10)		(43)	(41)
Net premiums earned		**107,539**	**108,464**
Net investment income (note 5)		19,711	20,470
Ceded commissions		1,862	1,543
	$	**129,112**	**130,477**
Expenses			
Gross claims and adjustment expenses (note 9)	$	84,767	102,080
Reinsurers' share of claims and adjustment expenses (note 9)		(3,775)	4,090
Net claims and adjustment expenses		80,992	106,170
Operating expenses (note 15)		22,138	20,315
Premium taxes		3,445	3,471
		106,575	**129,956**
Profit (loss) before income taxes	**$**	**22,537**	**521**
Income tax expense (recovery) (note 14)			
Current		5,598	230
Deferred		87	(325)
		5,685	**(95)**
Profit (loss)	**$**	**16,852**	**616**

Accompanying notes are an integral part of the financial statements.

Statement of Comprehensive Income

Stated in thousands of Canadian dollars

FOR THE YEAR ENDED DECEMBER 31		2018	2017
Profit (loss)	**$**	**16,852**	**616**
Other comprehensive income (loss), net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit obligation, net of income tax expense (recovery) of ($143) [2017: $44] (note 13)		(397)	(122)
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale assets			
Net changes unrealized gains (losses), net of income tax expense (recovery) of ($4,836) (2017: $1,693)		(13,417)	4,694
Reclassification adjustment for (gains) losses recognized in profit or loss, net of income tax (expense) recovery of ($2,027) [2017: ($2,256)]		(5,622)	(6,256)
Reclassification adjustment for impairments, recognized in profit or loss, net of income tax expense of $853 (2017: $461) (note 5)		2,368	1,280
Other comprehensive income (loss)	**$**	**(17,068)**	**(404)**
Comprehensive income (loss)	**$**	**(216)**	**212**

Accompanying notes are an integral part of the financial statements.

Statement of Changes in Equity

Stated in thousands of Canadian dollars

		Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Equity
Balance at December 31, 2016	**$**	**5,000**	**30,645**	**182,222**	**35,599**	**253,466**
Total comprehensive income (loss) for the year		-	-	616	(404)	212
Transfer of defined benefit remeasurements from OCI to retained earnings		-	-	(122)	122	-
Balance at December 31, 2017	**$**	**5,000**	**30,645**	**182,716**	**35,317**	**253,678**
Total comprehensive income (loss) for the year		-	-	16,852	(17,068)	(216)
Transfer of defined benefit remeasurements from OCI to retained earnings		-	-	(397)	397	-
Balance at December 31, 2018	**$**	**5,000**	**30,645**	**199,171**	**18,646**	**253,462**

The aggregate of retained earnings and accumulated other comprehensive income as at December 31, 2018 is $217,817 (December 31, 2017: $218,033).

Accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

Stated in thousands of Canadian dollars

FOR THE YEAR ENDED DECEMBER 31		2018	2017
Operating Activities			
Profit (loss)	$	16,852	616
Items not affecting cash:			
Deferred income taxes		87	(325)
Amortization of property and equipment		682	680
Amortization of intangible asset		219	219
Realized (gains) losses on disposition or impairment		(3,735)	(6,905)
Amortization of premiums and discounts on bonds		661	395
Changes in unrealized (gains) losses		1,135	3,226
		15,901	(2,094)
Changes in non-cash working capital balances:			
Investment income due and accrued		322	(418)
Due from reinsurers		(365)	241
Due from insureds		(109)	346
Due from the Law Society of Ontario		(1,583)	1,026
Reinsurers' share of provision for unpaid claims and adjustment expenses		(1,011)	4,299
Other receivables		2,115	(1,401)
Other assets		23	223
Income taxes due and accrued (recoverable)		4,380	(2,904)
Provision for unpaid claims and adjustment expenses		(10,439)	12,920
Unearned premiums		43	41
Expenses due and accrued		1,055	761
Other taxes due and accrued		(9)	(8)
Net cash inflow from operating activities	**$**	**10,323**	**13,032**
Investing Activities			
Purchases of property and equipment		(649)	(1,460)
Purchases of investments		(277,042)	(251,187)
Proceeds from sales and maturities of investments		257,404	243,949
Net cash outflow from investing activities	$	(20,287)	(8,698)
Net change in cash and cash equivalents during the year		(9,964)	4,334
Cash and cash equivalents, beginning of year		20,245	15,911
Cash and cash equivalents, end of year	**$**	**10,281**	**20,245**
Cash and cash equivalents at end of year consists of:			
Cash		9,710	10,128
Cash equivalents		571	10,117
	$	**10,281**	**20,245**
Supplemental disclosure of cash flow information:			
Income taxes paid (operating activity)		1,218	3,134
Interest received (investing activity)		14,693	14,919
Dividends received (investing activity)		4.692	3,719

Accompanying notes are an integral part of the financial statements.

1. Nature of Operations

Lawyers' Professional Indemnity Company (the "Company") is an insurance company, incorporated on March 14, 1990 under the *Corporations Act* (Ontario) and licensed to provide lawyers professional liability insurance in Ontario and title insurance in all provinces and territories in Canada. The Company is a wholly-owned subsidiary of the Law Society of Upper Canada, operating as the Law Society of Ontario (the "Law Society"), which is the governing body for lawyers and paralegals in Ontario. The Company's registered office is located at 250 Yonge Street, Toronto, Ontario, Canada.

2. Basis of Preparation and Significant Accounting Policies

These financial statements have been prepared under the *Insurance Act* (Ontario) and related regulations which require that, except as otherwise specified by the Company's primary insurance regulator, the Financial Services Commission of Ontario ("FSCO"), the financial statements of the Company are to be prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements have been prepared in accordance with accounting standards issued and effective on or before December 31, 2018. None of the accounting requirements of FSCO represent exceptions to IFRS. These financial statements were authorized for issuance by the Company's Board of Directors on February 26, 2019.

The significant accounting policies used in the preparation of these financial statements are summarized below. These accounting policies conform, in all material respects, to IFRS.

Basis of measurement

The financial statements have been prepared under the historical cost basis that are measured at the end of each reporting period, except for certain financial instruments and the provision for unpaid claims and adjustment expenses, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability that market participants would likely take into account when pricing the asset or liability at the measurement date. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for example, lease transactions that are within the scope of IAS 17 "*Leases*", and measurements that have some similarities to fair value but are not fair value, such as 'value in use' in IAS 36 "*Impairment of Assets*".

The valuation process includes utilizing market driven fair value measurements from active markets where available, considering other observable and unobservable inputs and employing valuation techniques which make use of current market data. Considerable judgement may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented in these financial statements are not necessarily indicative of the amounts that would be realized in a current market exchange.

The Company utilizes a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value, which prioritizes these inputs into three broad levels. The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. The three levels of the fair value hierarchy are:

Level 1 - Quoted market prices in active markets

Inputs to Level 1, the highest level of the hierarchy, reflect fair values that are quoted prices (unadjusted) in active markets for identical assets and liabilities. An active market is considered to be one in which transactions for the asset or liability occur with sufficient

frequency and volume to provide pricing information on an ongoing basis. Level 1 assets and liabilities include debt and equity securities, quoted unit trusts and derivative contracts that are traded in an active exchange market, as well as certain government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Modelled with significant observable market inputs

Inputs to Level 2 fair values are inputs, other than quoted prices within Level 1 prices, that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 inputs include: quoted prices for similar (i.e. not identical) assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly; inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment spreads, loss severities, credit risks, and default rates); and inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market corroborated inputs). Valuations incorporate credit risk by adjusting the spread above the yield curve for government treasury securities for the appropriate amount of credit risk for each issuer, based on observed market transactions. To the extent observed market spreads are either not used in valuing a security, or do not fully reflect liquidity risk, the valuation methodology reflects a liquidity premium. Examples of these are securities measured using discounted cash flow models based on market observable swap yields, and listed debt or equity securities in a market that is inactive. This category generally includes government and agency mortgage-backed debt securities and corporate debt securities.

Level 3 - Modelled with significant unobservable market inputs

Inputs to Level 3 are unobservable, supported by little or no market activity, and are significant to the fair value of the assets or liabilities. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect the assumptions the business unit considers that market participants would use in pricing the asset or liability. Where estimates are used, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible. Level 3 assets and liabilities generally include certain private equity investments, certain asset-backed securities, highly structured, complex or long-dated derivative contracts, and certain collateralized debt obligations where independent pricing information was not able to be obtained for a significant portion of the underlying assets.

Use of estimates and judgments made by management

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the reporting period in which they are determined. Key estimates are discussed in the following accounting policies and applicable notes.

Key areas where management has made difficult, complex or subjective judgments in the process of applying the Company's accounting policies, often as a result of matters that are inherently uncertain, include:

Impairment	Note 5c
Fair value measurements	Note 6
Property and equipment	Note 7
Intangible asset	Note 8
Unpaid claims and adjustment expenses	Note 9
Employee future benefits	Note 13
Income taxes	Note 14

Financial instruments – recognition and measurement

Financial assets are classified as fair value through profit or loss ("FVTPL"), available-for-sale, held to maturity or loans and receivables. Financial liabilities are classified as FVTPL or as other financial liabilities. These classifications are determined based on the characteristics of the financial assets and liabilities, the company's choice and/or the company's intent and ability. As permitted under

the IFRS standards, a company has the ability to designate any financial instrument irrevocably, on initial recognition or adoption of the standards, as FVTPL provided certain criteria are met.

The Company's financial assets and liabilities are measured on the statement of financial position at fair value on initial recognition and are subsequently measured at fair value or amortized cost depending on their classification as indicated below.

Transaction costs for FVTPL investments are expensed in the current period, and for all other categories of investments are capitalized and, when applicable, amortized over the expected life of the investment. The Company accounts for the purchase and sale of securities using trade date accounting. Realized gains or losses on disposition are determined on an average cost basis.

The effective interest method is used to calculate amortization/accretion of premiums or discounts on fixed income securities over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the fixed income security, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets at fair value through profit or loss

Financial assets at FVTPL are measured at fair value in the statement of financial position with realized gains and losses and net changes in unrealized gains and losses recorded in net investment income along with dividends and interest earned.

The Company maintains an investment portfolio, referred to as the cash-flow matched portfolio, which is designated as FVTPL. This portfolio is invested with the primary objective of matching the cash inflows from fixed income investment securities with the expected timing and magnitude of future payments of claims and adjustment expenses. The cash-flow matched portfolio represents a significant component of the Company's risk management strategy for meeting its claims obligations. The designation of the financial assets in the cash-flow matched investment portfolio as FVTPL is intended to significantly reduce the measurement or recognition inconsistency that would otherwise arise from measuring assets, liabilities, and gains and losses under different accounting methods. Interest rate movements cause changes in the values of the investment portfolio and of discounted estimated future claims liabilities. As the changes in values of the matched portfolio and of the discounted estimated future claims liabilities flow through profit or loss, the result is an offset of a significant portion of these changes.

Cash and cash equivalents are also classified as FVTPL. Cash and cash equivalents consist of cash on deposit and short-term investments that mature in three months or less from the date of acquisition. The net gain or loss recognized incorporates any interest earned on the financial asset.

Available-for-sale financial assets

Financial assets classified as available-for-sale are measured at fair value in the statement of financial position. Net interest income, including amortization of premiums and the accretion of discounts, are recorded in investment income in profit or loss. Dividend income on common and preferred shares is included in investment income on the ex-dividend date. Changes in fair value of available-for-sale fixed income securities resulting from changes to foreign exchange rates are recognized in net investment income as incurred. Changes in the fair value of available-for-sale fixed income securities related to the underlying investment in its issued currency, as well as all elements of fair value changes of available-for-sale equity securities, are recorded to unrealized gains and losses in accumulated other comprehensive income ("AOCI") until disposition or impairment is recognized, at which time the cumulative gain or loss is reclassified to net investment income in profit or loss. When a reliable estimate of fair value cannot be determined for equity securities that do not have quoted market prices in an active market, the security is valued at cost.

Financial assets in the Company's surplus portfolio (consisting of all investments outside the cash-flow matched portfolio), including fixed income securities and equities, are designated as available-for-sale.

Other financial assets and liabilities

The Company has not designated any financial assets as held to maturity. Loans and receivables and other financial liabilities are carried at amortized cost using the effective interest rate method. Given the short term nature of other financial assets and other financial liabilities, amortized cost approximates fair value.

Property and equipment

Property and equipment are recorded in the statement of financial position at cost less accumulated amortization. Amortization is charged to operating expense on a straight-line basis over the estimated useful lives of the assets as follows:

Furniture and fixtures	5 years
Computer equipment	3 years
Computer software	1 to 3 years
Leasehold improvements	Term of lease

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized immediately in profit or loss.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost, less any applicable accumulated amortization and accumulated impairment losses. Once an acquired intangible asset is available for use, amortization is recognized on a straight-line basis over its estimated useful life. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from its use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying cost of the asset, are recognized in profit and loss when the asset is derecognized.

Impairment

Financial assets

Available-for-sale financial assets are tested for impairment on a quarterly basis. Objective evidence of impairment for fixed income securities includes financial difficulty of the issuer, bankruptcy or defaults and delinquency in payments of interest or principal. Objective evidence of impairment for equities includes a significant or prolonged decline in fair value of the equity below cost or changes with adverse effects that have taken place in the technological, market, economic or legal environment in which the issuer operates that indicates the cost of the security may not be recovered. In general, an equity security is considered impaired if the decline in fair value relative to cost has been either at least 25% for a continuous nine-month period or more than 40% at the end of the reporting period, or been in an unrealized loss position for a continuous period of 18 to 24 months.

Where there is objective evidence that an available-for-sale asset is impaired, the loss accumulated in AOCI is reclassified to net investment income. Once an impairment loss is recorded to profit or loss, the loss can only be reversed into income for fixed income securities to the extent a subsequent increase in fair value can be objectively correlated to an event occurring after the loss was recognized. Following impairment loss recognition, further decreases in fair value are recorded as an impairment loss to profit or loss, while a subsequent recovery in fair value for equity securities, and fixed income securities that do not qualify for loss reversal treatment, are recorded to other comprehensive income ("OCI"). Interest continues to be accrued, but at the effective rate of interest based on the fair value at impairment, and dividends of equity securities are recognized in income when the Company's right to receive payment has been established.

Non-financial assets

At the end of each reporting period, the Company reviews the carrying amount of its property and equipment, intangible assets and other non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss. If an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of impairment loss is recognized immediately in profit or loss.

Foreign currency translation

The Canadian dollar is the functional and presentation currency of the Company. Transactions in foreign currencies are translated into Canadian dollars at rates of exchange at the time of such transactions. Monetary assets and liabilities are translated at current rates of exchange, with all translation differences recognized in investment income in the current period. If a gain or loss on a non-monetary asset and liability is recognized in OCI, any exchange component of that gain or loss is also recognized in OCI, and conversely, if a gain or loss on a non-monetary asset and liability is recognized in profit or loss, any exchange component of that gain or loss is also recognized in profit or loss.

Premium-related balances

The Company issues two types of professional liability policies: a primary lawyer's errors and omissions policy and an excess policy increasing the insurance coverage limit to a maximum of $9 million per claim/$9 million in the aggregate above the $1 million per claim/$2 million aggregate levels provided by the primary policy; and a title insurance policy. Insurance policies written under the professional liability insurance program are effective on a calendar year basis. Professional liability insurance premium income is earned on a *pro rata* basis over the term of coverage of the underlying insurance policies, which is generally one year, except for policies for retired lawyers, which have terms of up to five years. Title insurance premiums are earned at the inception date of the policies.

Unearned premiums reported on the statement of financial position represent the portion of premiums written that relate to the unexpired risk portion of the policy at the end of the reporting period.

Premiums receivable are recorded in the statement of financial position as amounts due from insureds, net of any required provision for doubtful amounts. Premiums received from insureds in advance of the effective date of the insurance policy are recorded as amounts due to insureds in the statement of financial position.

The Company defers policy acquisition expenses, primarily premium taxes on its written professional liability insurance premiums, to the extent these costs are considered recoverable. These costs are expensed on the same basis that the related premiums are earned. The method to determine recoverability of deferred policy acquisition expenses takes into consideration future claims and adjustment expenses to be incurred as premiums are earned and anticipated net investment income. Deferred policy acquisition expenses are not material at year-end, and therefore the Company's policy is to not recognize an asset on the statement of financial position.

Unpaid claims and adjustment expenses

The provision for unpaid claims and adjustment expenses includes an estimate of the cost of projected final settlements of insurance claims incurred on or before the date of the statement of financial position, consisting of case estimates prepared by claims adjusters and a provision for incurred but not reported claims ("IBNR") calculated based on accepted actuarial practice in Canada as required by the Canadian Institute of Actuaries ("CIA"). These estimates include the full amount of all expected expenses, including related investigation, settlement and adjustment expenses, net of any anticipated salvage and subrogation recoveries. The professional liability insurance policy requires insureds to pay deductibles to the maximum extent of $25,000 on each individual claim, subject to an additional $10,000 for certain claims involving an administrative dismissal. Expected deductible recoveries on paid and unpaid claims are recognized net of any required provision for uncollectible accounts at the same time as the related claims liability.

The provision takes into consideration the time value of money using discount rates based on the estimated market value based yield to maturity of the underlying assets backing these liabilities, with reductions for estimated investment-related expense and credit risk.

A provision for adverse deviations ("PfAD") is then added to the discounted liabilities, to allow for possible deterioration of experience in claims development, recoverability of reinsurance balances and investment risk, in order to generate the actuarial present value.

These estimates of future claims payments and adjustment expenses are subject to uncertainty and are selected from a wide range of possible outcomes. All provisions are periodically reviewed and evaluated in light of emerging claims experience and changing circumstances. The resulting changes in estimates of the ultimate liability are reported as net claims and adjustment expenses in the reporting period in which they are determined.

Reinsurance

In the normal course of business, the Company enters into per claim and excess of loss reinsurance contracts with other insurers in order to limit its net exposure to significant losses. Amounts relating to reinsurance in respect of the premiums and claims-related balances in the statements of financial position and profit or loss are recorded separately. Premiums ceded to reinsurers are presented before deduction of broker commission and any premium-based taxes or duty. Amounts recoverable from reinsurers are estimated and recognized in a manner consistent with the Company's method of determining the underlying provision for unpaid claims and adjustment expenses covered by the reinsurance contract. Amounts recoverable from reinsurers are assessed for indicators of impairment at the end of each reporting period. An impairment loss is recognized and the amount recoverable from reinsurers is reduced by the amount by which the carrying value exceeds the expected recoverable amount under the impairment analysis.

Ceding commissions, which relate to amounts received from the Company's reinsurers on the placement of its reinsurance contracts, is earned into income on a *pro rata* basis over the contract period.

Income taxes

Income tax expense is recognized in profit or loss and the statement of profit or loss and other comprehensive income. Current tax is based on taxable income which differs from profit or loss as reported in the statement of profit or loss and statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Current tax includes any adjustments in respect of prior years.

Deferred tax assets are generally recognized for all deductible temporary income tax differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets and liabilities are determined based on the enacted or substantively enacted tax laws and rates that are anticipated to apply in the period of realization. The measurement of deferred tax assets and liabilities utilizes the liability method, reflecting the tax consequences that would follow from the manner in which the Company expects to recover or settle the carrying amount of the related assets and liabilities. The carrying amount of the deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Income tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and there is a legally enforceable right to offset current tax assets with current tax liabilities.

Employee benefits

The Company maintains a defined contribution pension plan for its employees as well as a supplemental defined benefit pension plan for certain designated employees, which provides benefits in excess of the benefits provided by the Company's defined contribution pension plan. For the supplemental defined benefit pension plan, the benefit obligation is determined using the projected unit credit method. Actuarial valuations are carried out at the end of each annual reporting period using management's assumptions on items such as discount rates, expected asset performance, salary growth and retirement ages of employees. The discount rate is determined based on the market yields of high quality, mid-duration corporate fixed income securities.

Defined contribution plan expenses are recognized in the reporting period in which services are rendered. Regarding the supplemental defined benefit pension plan, remeasurements comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding net interest cost), is reflected immediately in the statement of profit or loss and

other comprehensive income with a charge or credit recognized in OCI in the period in which they occur. Remeasurements recognized in OCI are transferred immediately to retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows: service cost (including current service, past service cost, as well as gains or losses on curtailments and settlements), net interest expense or income, and remeasurements. The Company presents the first two components of defined benefit cost as part of operating expenses in the statement of profit or loss.

The retirement benefit obligation recognized in the statement of financial position represents the actual deficit or surplus in the Company's defined benefit pension plan. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

3. Application of New and Revised IFRSs Relevant to the Company

In the current year, the Company has applied the following revised IFRSs issued by the IASB that are mandatorily effective for an accounting period that begins on or after January 1, 2018.

a) IFRS 15 "*Revenues from Contracts with Customers*"

In May 2014, the IASB issued a new revenue recognition standard, IFRS 15, which supersedes IAS 18 "*Revenue*", IAS 11 "*Construction Contracts*", and a number of revenue-related interpretations. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue can be recognised: i) identify contracts with customers; ii) identify the separate performance obligation; iii) determine the transaction price of the contract; iv) allocate the transaction price to each of the separate performance obligations; and v) recognize the revenue as each performance obligation is satisfied. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. The adoption of these amendments did not have a significant impact on the Company's financial statements.

4. New and Revised IFRSs Issued but Not Yet Effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

a) IFRS 16 "*Leases*"

In January 2016, the IASB issued a new leases standard, IFRS 16, which replaces the previous leases standard, IAS 17 "*Leases*", IFRIC 4 "*Determining Whether an Arrangement Contains a Lease*", SIC-15 "*Operating Leases – Incentives*" and SIC-27 "*Evaluating the Substance of Transactions Involving the Legal Form of a Lease*", and completes the IASB's project to improve the financial reporting of leases.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). Subject to optional exemptions for short-term and low-value leases, lessees will be required to capitalize all leases, by recognizing the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment, and its obligation to make future lease payments as a financial liability. The statement of profit or loss will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation. Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows. The standard is effective for annual periods beginning on or after January 1, 2019. Based on information currently available, the Company estimates that it will recognize both lease liabilities and right-of-use assets of $11,064,000 as at January 1, 2019.

b) IFRS 9 "*Financial Instruments*"

IFRS 9, issued in November 2009 as part of a three-phase project to replace IAS 39 "*Financial Instruments: Recognition and Measurement*", introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include impairment requirements for financial assets as well as limited amendments to the classification and measurements by introducing fair value through other comprehensive income ("FVOCI") measurement category for certain simple debt instruments.

Pursuant to IFRS 9, all recognized financial assets that are within the scope of IAS 39 are required to be subsequently measured at amortized cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVOCI. All other debt securities, as well as equity securities, are measured at FVTPL. Entities may make an irrevocable election to present subsequent changes in the fair value of an equity security in OCI, with only dividend income generally recognized in profit or loss. In addition, under the fair value option, entities may elect for amortized cost or FVOCI debt securities to be designated as FVTPL.

With regard to the measurement of financial liabilities designated as FVTPL, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is to be recognized in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is recognized in profit or loss.

With regards to debt securities measured at amortized cost or FVOCI, IFRS 9 requires an expected credit loss model for determining impairment, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before impairment losses are recognized. Under IFRS 9, impairment is not considered for equity securities.

IFRS 9 as revised (2014) is effective for annual periods beginning on or after January 1, 2018. In September 2016, the IASB published amendments to IFRS 4 "*Insurance Contracts*", which provides two options for entities that issue insurance contracts: a) recognize in OCI, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is effective (the 'overlay approach') and b) if the entity's activities are predominantly connected with insurance it may exercise a temporary exemption to continue applying IAS 39 instead of IFRS 9 until January 1, 2021 (the 'deferral approach'). The Company qualifies for, and has elected to apply, the deferral option. The Company has concluded that its activities are predominantly connected with insurance, as the amount of its insurance liabilities are significant compared with its total amount of liabilities and the percentage of its liabilities connected with insurance relative to its total amount of liabilities is greater than 90 per cent. The Company anticipates that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Company's financial assets. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Company completes its detailed review.

In November 2018, the IASB tentatively decided that the mandatory effective date of IFRS 17 should be deferred by one year, and consequently, the fixed expiry date for the temporary exemption in IFRS 4 should be amended to annual periods beginning on or after January 1, 2022, subject to public consultation.

c) IFRS 17 "*Insurance Contracts*"

In May 2017, the IASB published IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 and introduces consistent accounting for all insurance contracts. IFRS 17 provides a general model for the recognition of insurance contracts, as well as a simplified model (premium allocation approach) for short-duration contracts, which will be applicable to most property and casualty insurance contracts. The standard requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires a company to recognize profits as it delivers insurance services.

The main features of the simplified new accounting model for property and casualty insurance contracts are as follows:

- the concept of portfolio, which is a group of contracts covering similar risks and managed together as a single pool. As such, contracts will be grouped for allocation of deferred acquisition costs, the calculation of risk adjustment, the determination of onerous contracts and the application of the discount rate;
- insurance liabilities will be discounted at a rate that reflects the characteristics of the liabilities (as opposed to a rate based on asset returns) and the duration of each portfolio. Entities will record the effect of changes in discount rates either in profit or loss or OCI, according to their accounting policy choice;
- changes in statement of financial position presentation where unearned premiums will correspond to premiums received in advance, while accounts receivable will be constituted of amounts not received when revenue is recognized. In profit or loss, direct premiums written will no longer be presented (only earned premiums). Also, insurance results will be presented without the impact of discounting. Amounts relating to financing and changes in discount rates will be shown separately;
- disclosure: extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts.

The standard applies to annual periods beginning on or after January 1, 2021, tentatively deferred to January 1, 2022 (see note 4b). Retrospective application is required, but, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. The Company plans to adopt the new standard on the required effective date together with IFRS 9 (see note 4b). The Company has been performing a high-level impact assessment of IFRS 17. The Company expects that the new standard will result in significant changes to accounting policies for insurance contract liabilities, but the impact has not yet been determined.

d) IFRIC 23 "*Uncertainty over Income Tax Treatments*"

In June 2017, the IASB issued IFRIC 23, an interpretation that specifies that, if an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the tax result consistently with the tax treatment used or planned to be used in its income tax filing. If it is not probable, the entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either of the following methods, depending on which one the entity expects to better predict the resolution of the uncertainty: the most likely amount, representing the single most likely amount in a range of possible outcomes; or the expected value, representing the sum of the probability-weighted amounts in a range of possible outcomes.

An entity shall apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. The Company is currently assessing the impact of this guidance.

e) Amendments to IAS 12 "*Income Taxes*" – Income tax consequences of payments on financial instruments classified as equity

In December 2017, the IASB issued amendments to IAS 12 to clarify that an entity should account for the income tax on dividends in profit or loss, OCI or equity, depending on where the entity recognized the originating transaction or event that generated the distributable profits giving rise to the dividend. The amendments apply to annual periods beginning on or after January 1, 2019. The Company is currently assessing the impact of these amendments.

f) Amendments to IAS 19 "*Employee Benefits*" – Plan amendment, curtailment or settlement

In February 2018, the IASB issued amendments to IAS 19 to specify how companies determine pension expense when changes to a defined benefit pension plan occur. A company would now use updated assumptions from the remeasurement of the net defined benefit asset (liability) to determine the current service cost and net interest for the period. Currently, it would not have updated its calculation of these costs until year-end. The amendments apply to annual periods beginning on or after January 1, 2019. The Company is currently assessing the impact of these amendments.

g) Amendments to IAS 1 "*Presentation of Financial Statements*" and IAS 8 "*Accounting Policies, Changes in Accounting Estimates and Errors*"

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to align the definition of "material" across the standards and to clarify certain aspects of the definition. The objective of this amendment is to improve disclosure effectiveness in the financial statements by improving the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements. The amendments apply prospectively to annual periods beginning on or after January 1, 2020. The Company is currently assessing the impact of these amendments.

h) Conceptual framework for financial reporting

In March 2018, the IASB issued a comprehensive set of concepts for financial reporting: the revised Conceptual Framework for Financial Reporting ("Conceptual Framework"), which replaces its previous version. The Conceptual Framework assists companies in developing accounting policies when no IFRS standard applies to a particular transaction and it helps stakeholders more broadly to better understand the standards. The revised Conceptual Framework's effective date is January 1, 2020. The Company does not expect any significant impact upon its adoption.

5. Investments

a) Summary

The tables below provide details of the cost or amortized cost as well as the fair value of the Company's investments, classified by accounting category and investment type:

	DECEMBER 31, 2018			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale				
Fixed income securities	**$ 144,686**	764	(714)	144,736
Common equities	121,879	28,977	(12,465)	138,391
	$ 266,565	29,741	(13,179)	283,127
Designated as FVTPL				
Fixed income securities	$ 370,670	4,129	(2,884)	371,915
Preferred equities	615	-	(211)	404
	371,285	4,129	(3,095)	372,319
Total	**$ 637,850**	**33,870**	**(16,274)**	**655,446**
Reconciled in aggregate to asset classes as follows:				
Fixed income securities	$ 515,356	4,893	(3,598)	516,651
Equities	122,494	28,977	(12,676)	138,795
Total	**$ 637,850**	**33,870**	**(16,274)**	**655,446**

	DECEMBER 31, 2017			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale				
Fixed income securities	$ 174,501	1,618	(746)	175,373
Common equities	83,371	44,684	(3,654)	124,401
	$ 257,872	46,302	(4,400)	299,774
Designated as FVTPL				
Fixed income securities	$ 354,004	5,101	(2,798)	356,307
Preferred equities	615	-	(145)	470
	354,619	5,101	(2,943)	356,777
Total	**$ 612,491**	**51,403**	**(7,343)**	**656,551**
Reconciled in aggregate to asset classes as follows:				
Fixed income securities	$ 528,505	6,719	(3,544)	531,680
Equities	83,986	44,684	(3,799)	124,871
Total	**$ 612,491**	**51,403**	**(7,343)**	**656,551**

In the above tables, the gross unrealized figures for common equities securities includes recognized impairments. As at December 31, 2018, of the total cumulative impairments of $9,298,441 (December 31, 2017: $6,660,917) an amount of $8,296,259 is included in gross unrealized losses (December 31, 2017: $4,030,843) and an amount of $1,002,182 is included in gross unrealized gains (December 31, 2017: $2,630,074). For additional details, see note 5c.

b) Maturity profile of fixed income securities

The maturity profile of fixed income securities and its analysis by type of issuer is as follows:

	DECEMBER 31, 2018			
	Within 1 year	1 to 5 years	Over 5 years	**Total**
Available-for-sale				
Issued or guaranteed by:				
Canadian federal government	$ 3,303	30,020	265	**33,588**
Canadian provincial and municipal governments	21,104	66,486	5,020	**92,610**
Corporate debt	4,279	13,569	690	**18,538**
	$ 28,686	110,075	5,975	**144,736**
Designated as FVTPL				
Issued or guaranteed by:				
Canadian federal government	$ 6,795	58,630	4,113	**69,538**
Canadian provincial and municipal governments	10,328	48,894	47,419	**106,641**
Mortgage backed securities	-	903	1,582	**2,485**
Corporate debt	8,089	66,345	118,817	**193,251**
	25,212	174,772	171,931	**371,915**
Fixed income securities	**$ 53,898**	**284,847**	**177,906**	**516,651**
Percent of total	**10%**	**55%**	**35%**	**100%**

	DECEMBER 31, 2017			
	Within 1 year	1 to 5 years	Over 5 years	**Total**
Available-for-sale				
Issued or guaranteed by:				
Canadian federal government	$ 3,035	22,570	290	**25,895**
Canadian provincial and municipal governments	39,291	83,743	2,811	**125,845**
Corporate debt	3,050	18,062	2,521	**23,633**
	$ 45,376	124,375	5,622	**175,373**
Designated as FVTPL				
Issued or guaranteed by:				
Canadian federal government	$ 25,405	28,039	1,038	**54,482**
Canadian provincial and municipal governments	9,940	35,060	52,266	**97,266**
Mortgage backed securities	-	987	-	**987**
Corporate debt	19,206	46,564	137,802	**203,572**
	54,551	110,650	191,106	**356,307**
Fixed income securities	**$ 99,927**	**235,025**	**196,728**	**531,680**
Percent of total	**19%**	**44%**	**37%**	**100%**

The weighted average duration of fixed income securities as at December 31, 2018 is 3.04 years (December 31, 2017: 3.10 years). The effective yield on fixed income securities as at December 31, 2018 is 2.67% (December 31, 2017: 2.79%).

c) Impairment analysis

Management performs a quarterly analysis of the Company's available-for-sale investments to determine whether there is objective evidence that the estimated cash flows of the investments have been affected. The analysis includes the following procedures as deemed appropriate by management:

- identifying all security holdings in unrealized loss positions that have existed for a length of time that management believes may impact the recoverability of the investment;
- identifying all security holdings in unrealized loss positions that have an unrealized loss magnitude that management believes may impact the recoverability of the investment;
- reviewing the trading range of certain investments over the preceding calendar period;
- assessing whether any credit losses are expected for those investments. This assessment includes consideration of, among other things, all available information and factors having a bearing upon collectability such as changes to credit rating by rating agencies, financial condition of the issuer, expected cash flows and value of any underlying collateral;
- assessing whether declines in fair value for any fixed income securities represent objective evidence of impairment based on their investment grade credit ratings from third party security rating agencies;
- assessing whether declines in fair value for any fixed income securities with non-investment grade credit rating represent objective evidence of impairment based on the history of its debt service record; and
- obtaining a valuation analysis from third party investment managers regarding the intrinsic value of these holdings based on their knowledge, experience and other market based valuation techniques.

As a result of the impairment analysis performed by management, $3,221,366 in write-downs to various equity securities were required for the year ended December 31, 2018 (2017: $1,741,369), which was recorded under net investment income in the statement of profit or loss.

The movements in cumulative impairment write-downs on available-for-sale investments for the years ended December 31 were as follows:

		2018	2017
Balance, as at January 1	$	6,661	7,682
Increase for the year charged to profit or loss		3,221	1,741
Release upon disposition		(584)	(2,762)
Balance, as at December 31	**$**	**9,298**	**6,661**

d) Net investment income

Net investment income arising from investments designated as FVTPL and classified as available-for-sale recorded in profit or loss for the year ended December 31 is as follows:

	2018			2017		
	Designated as FVTPL	Available-for-sale	**Total**	Designated as FVTPL	Available-for-sale	**Total**
Interest	$ 9,841	3,740	**13,581**	11,152	3,801	**14,953**
Dividends	19	4,797	**4,816**	19	3,688	**3,707**
Net realized gains (losses)	(688)	7,716	**7,028**	(486)	8,700	**8,214**
Change in net unrealized gains (losses)	(1,124)	34	**(1,090)**	(3,226)	(77)	**(3,303)**
Impairments	-	(3,221)	**(3,221)**	-	(1,741)	**(1,741)**
	8,048	13,066	**21,114**	7,459	14,371	**21,830**
Less: Investment expenses	(402)	(1,001)	**(1,403)**	(396)	(964)	**(1,360)**
Net investment income	**$ 7,646**	**12,065**	**19,711**	**7,063**	**13,407**	**20,470**

e) Realized and change in unrealized gains and losses

The realized gains (losses) and increase (decrease) in the unrealized gains and losses of the Company's available-for-sale investments recorded in OCI for the year ended December 31 are as follows:

	2018					
	Net realized gains (losses)			Increase (decrease) in unrealized gains and losses		
	Gross	Tax	Net	Gross	Tax	Net
Fixed income securities	$ 40	(11)	29	(770)	204	(566)
Equities	7,609	(2,016)	5,593	(17,483)	4,632	(12,851)
Total	**$ 7,649**	**(2,027)**	**5,622**	**(18,253)**	**4,836**	**(13,417)**

	2017					
	Net realized gains (losses)			Increase (decrease) in unrealized gains and losses		
	Gross	Tax	Net	Gross	Tax	Net
Fixed income securities	$ 124	(33)	91	(2,152)	570	(1,582)
Equities	8,388	(2,223)	6,165	8,539	(2,263)	6,276
Total	**$ 8,512**	**(2,256)**	**6,256**	**6,387**	**(1,693)**	**4,694**

6. Fair Value Measurements of Financial Assets and Liabilities

The following tables present the fair value of the Company's financial assets and liabilities categorized by either recurring or non-recurring. The items presented below include related accrued interest or dividends, as appropriate.

AS AT DECEMBER 31, 2018	CARRYING AMOUNT					FAIR VALUE			
	Designated at fair value	Loans and receivables	Available-for-sale	Other financial liabilities	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets measured at fair value (recurring basis)									
Cash and cash equivalents	$ 10,281	-	-	-	**10,281**	10,281	-	-	**10,281**
Fixed income securities	373,492	-	145,234	-	**518,726**	291,693	227,033	-	**518,726**
Common equities	-	-	138,841	-	**138,841**	138,841	-	-	**138,841**
Preferred equities	409	-	-	-	**409**	-	409	-	**409**
	384,182	-	284,075	-	**668,257**	440,815	227,442	-	**668,257**
Financial assets measured at fair value (non-recurring basis)				-				-	
Due from reinsurers	-	637	-	-	**637**	-	637	-	**637**
Due from insureds	-	2,048	-	-	**2,048**	-	2,048	-	**2,048**
Due from the Law Society of Ontario	-	8,581	-	-	**8,581**	-	8,581	-	**8,581**
Other receivables	-	1,052	-	-	**1,052**	-	1,052	-	**1,052**
Other assets	-	594	-	-	**594**	-	594	-	**594**
	-	12,912	-	-	**12,912**	-	12,912	-	**12,912**
Financial liabilities measured at fair value (non-recurring basis)								-	
Due to reinsurers	-	-	-	683	**683**	-	683	-	**683**
Due to insureds	-	-	-	277	**277**	-	277	-	**277**
Expenses due and accrued	-	-	-	3,272	**3,272**	-	3,272	-	**3,272**
Other taxes due and accrued	-	-	-	449	**449**	-	449	-	**449**
	-	-	-	4,681	**4,681**	-	4,681	-	**4,681**
Total	**$ 384,182**	**12,912**	**284,075**	**(4,681)**	**676,488**	**440,815**	**235,673**	-	**676,488**

AS AT DECEMBER 31, 2017	CARRYING AMOUNT					FAIR VALUE			
	Designated at fair value	Loans and receivables	Available-for-sale	Other financial liabilities	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets measured at fair value (recurring basis)									
Cash and cash equivalents	$ 20,253	-	-	-	**20,253**	20,253	-	-	**20,253**
Fixed income securities	358,179	-	176,022	-	**534,201**	294,620	239,581	-	**534,201**
Common equities	-	-	124,719	-	**124,719**	124,719	-	-	**124,719**
Preferred equities	475	-	-	-	**475**	-	475	-	**475**
	378,907	-	300,741	-	**679,648**	439,592	240,056	-	**679,648**
Financial assets measured at fair value (non-recurring basis)									
Due from reinsurers	-	309	-	-	**309**	-	309	-	**309**
Due from insureds	-	1,882	-	-	**1,882**	-	1,882	-	**1,882**
Due from the Law Society of Ontario	-	6,998	-	-	**6,998**	-	6,998	-	**6,998**
Other receivables	-	3,167	-	-	**3,167**	-	3,167	-	**3,167**
Other assets	-	503	-	-	**503**	-	503	-	**503**
	-	12,859	-	-	**12,859**	-	12,859	-	**12,859**
Financial liabilities measured at fair value (non-recurring basis)									
Due to reinsurers	-	-	-	720	**720**	-	720	-	**720**
Due to insureds	-	-	-	220	**220**	-	220	-	**220**
Expenses due and accrued	-	-	-	2,217	**2,217**	-	2,217	-	**2,217**
Other taxes due and accrued	-	-	-	458	**458**	-	458	-	**458**
	-	-	-	3,615	**3,615**	-	3,615	-	**3,615**
Total	**$ 378,907**	**12,859**	**300,741**	**(3,615)**	**688,892**	**439,592**	**249,300**	**-**	**688,892**

There were no transfers between any levels during the year ended December 31, 2018 (2017: none). Note that for financial instruments, such as short term trade receivables and payables, as well as the non-recurring financial assets and liabilities, the Company believes that their carrying amounts are reasonable approximations of fair value.

7. Property and Equipment

During the years ending December 31, details of the movement in the carrying values by class of property and equipment are as follows:

	Furniture and fixtures	Computer equipment	Computer software	Leasehold improvements	**Total**
January 1, 2017	$ 32	224	100	628	**984**
Additions	475	280	161	544	**1,460**
Amortization	(15)	(144)	(77)	(444)	**(680)**
December 31, 2017	492	360	184	728	**1,764**
Additions	275	107	35	232	**649**
Amortization	(136)	(206)	(83)	(257)	**(682)**
December 31, 2018	**$ 631**	**261**	**136**	**703**	**1,731**

Details of the cost and accumulated amortization of property and equipment are as follows:

	DECEMBER 31, 2018			DECEMBER 31, 2017		
	Cost	Accumulated amortization	Carrying value	Cost	Accumulated amortization	Carrying value
Furniture and fixtures	$ 2,171	(1,540)	631	1,896	(1,404)	492
Computer equipment	2,830	(2,569)	261	2,723	(2,363)	360
Computer software	1,025	(889)	136	990	(806)	184
Leasehold improvements	4,402	(3,699)	703	4,170	(3,442)	728
Total	**$ 10,428**	**(8,697)**	**1,731**	**9,779**	**(8,015)**	**1,764**

8. Intangible Asset

The Company's recognized intangible asset consists of a license. The associated software became available for use during 2015, and as a result, is being amortized over its expected useful life of 68 months. During the years ending December 31, details of the movement in the carrying values are as follows:

	2018	2017
Cost		
Balance, beginning of year	$ 1,243	1,243
Additions from separate acquistions	-	-
Additions from internal developments	-	-
Disposals or classified as held for sale	-	-
Balance, end of year	$ 1,243	1,243
Accumulated amortization and impairment		
Balance, beginning of year	$ (585)	(366)
Amortization expense	(219)	(219)
Disposals or classified as held for sale	-	-
Impairment losses	-	-
Balance, end of year	(804)	(585)
Carrying amount	**$ 439**	**658**

9. Provision for Unpaid Claims and Adjustment Expenses

a) Nature of unpaid claims and adjustment expenses

The determination of the provision for unpaid claims and adjustment expenses is a complex process based on known facts, interpretations and judgment and is influenced by a variety of factors. These factors include the Company's own experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims and adjustment expenses, product mix and concentration, claims severity and claim frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's claim departments' personnel and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices including claims handling and

settlement practices, the effect of inflationary trends on future claims settlement costs, investment rates of return, court decisions and economic conditions. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the settlement of the claim, the more potential for variation in the ultimate settlement amount. Accordingly, short-tailed claims, such as property claims, tend to be more reasonably predictable than long-tailed claims, such as professional liability and title claims.

The process of establishing the provision relies on the judgment and opinions of a large number of individuals, on historical precedents and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The provision reflects expectations of the ultimate cost of resolution and administration of claims based on an assessment of facts and circumstances then known, together with a review of historical settlement patterns, estimates of trends in claims severity and frequency, legal theories of liability and other factors.

Consequently, the measurement of the ultimate settlement costs of claims to date that underlies the provision for unpaid claims and adjustment expenses, and any related recoveries for reinsurance and deductibles, involves estimates and measurement uncertainty. The amounts are based on estimates of future trends in claim severity and other factors which could vary as claims are settled. Variability can be caused by several factors including the emergence of additional information on claims, changes in judicial interpretation, significant changes in severity or frequency of claims from historical trends, and inclusion of exposures not contemplated at the time of policy inception. Ultimate costs incurred could vary from current estimates. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the methods of estimation that have been used will produce reasonable results given the current information.

b) Methodologies and assumptions

The best estimates of future claims payments and adjustment expenses are determined based on one or more of the following actuarial methods: the Adler-Kline method, the chain ladder method, the frequency and severity method and the expected loss ratio method. Considerations in the choice of methods to estimate ultimate claims include, among other factors, the line of business, the number of years of experience and the relative maturity of the experience, and as such, reflect methods for lines of business with long settlement patterns and which are subject to the occurrence of large claims.

Each method involves tracking claims data by "policy year", which is the year in which such claims are made for the Company's professional liability policies, and the year in which such policies were written for its title policies. Claims paid and reported, gross and net of reinsurance recoveries and net of salvage and subrogation, are tracked by lines of business, policy years and development periods in a format known as claims development triangles.

A description of each of these methods is as follows:

i. Adler-Kline method

This is a form of frequency and severity method which involves estimation of the closing pattern for current open and estimated unreported claims, which is combined with estimates of the average severity across successive intervals of percentage claims closed, based on consideration of historical claim settlement patterns and average amounts paid on closed claims.

ii. Chain ladder method

The distinguishing characteristic of this form of development method is that ultimate claims for each policy year are projected from recorded values assuming the future claim development is similar to the prior years' development.

iii. Frequency and severity method

This method assumes that, for each identified homogenous claims type group, claims count reported to date will develop to ultimate in a similar manner to historical patterns, and settle at predictable average severity amounts. This method involves applying the developed estimated ultimate claims count to selected estimated ultimate average claim severities.

iv. Expected loss ratio method

Using the expected loss ratio method, ultimate claims projections are based upon *a priori* measures of the anticipated claims. An expected loss ratio is applied to the measure of exposure to determine estimated ultimate claims for each year. This method is commonly used in lines of business with a limited experience history.

Claims data includes external claims adjustment expenses, and for a portion of the portfolio includes internal claims adjustment expenses ("IAE"). A provision for IAE has been determined based on the Mango-Allen claim staffing technique, a transaction-based method which utilizes expected future claims handler workload per claim per handler, claims closure rates and ultimate claims count. The IAE provision is included in the IBNR balances.

The provision for unpaid claims and adjustment expenses is discounted using an interest rate based on the estimated market value based yield to maturity, inherent credit risk and related investment expense of the Company's fixed income securities supporting the provision for unpaid claims and adjustment expense as at December 31, 2018, which was 2.88% (December 31, 2017: 2.67%). Reinsurance recoverable estimates and claims recoverable from other insurers are discounted in a manner consistent with the method used to establish the related liability. Based on published guidance from the CIA, as at December 31, 2018 the PfAD was calculated at 15% (December 31, 2017: 15%) of the net discounted claim liabilities, 1.5% (December 31, 2017: 1.5%) of the ceded discounted claim liabilities, and a 0.50% reduction to the discount rate (December 31, 2017: 0.50%).

As the provision for unpaid claims and adjustment expenses is recorded on a discounted basis and reflects the time value of money, its carrying value is expected to provide a reasonable basis for the determination of fair value. However, determination of fair value also requires the practical context of a buyer and seller, both of whom are willing and able to enter into an arm's length transaction. In the absence of such a practical context, the fair value is not readily determinable.

The following table shows unpaid claims and adjustment expenses on an undiscounted basis and a discounted basis:

	DECEMBER 31, 2018		DECEMBER 31, 2017	
	Undiscounted	Discounted	Undiscounted	Discounted
Unpaid claims and adjustment expenses	$ 446,247	474,649	452,680	485,088
Recoverable from reinsurers	(38,423)	(40,506)	(37,174)	(39,495)
Net	**$ 407,824**	**434,143**	**415,506**	**445,593**

Details of the provision for unpaid claims and adjustment expenses, by line of business, are summarized as follows:

	DECEMBER 31, 2018			DECEMBER 31, 2017		
	Gross	Ceded	**Net**	Gross	Ceded	**Net**
Professional liability	$ 458,809	(40,458)	**418,351**	468,508	(39,424)	**429,084**
Title	15,840	(48)	**15,792**	16,580	(71)	**16,509**
Total	**$ 474,649**	**(40,506)**	**434,143**	**485,088**	**(39,495)**	**445,593**

The provision for unpaid claims and adjustment expenses by case reserves and IBNR are as follows:

	DECEMBER 31, 2018			DECEMBER 31, 2017		
	Gross	Ceded	**Net**	Gross	Ceded	**Net**
Case reserves	$ 319,812	(1,197)	**318,615**	311,366	(3,503)	**307,863**
IBNR	154,837	(39,309)	**115,528**	173,722	(35,992)	**137,730**
Total	**$ 474,649**	**(40,506)**	**434,143**	**485,088**	**(39,495)**	**445,593**

An evaluation of the adequacy of claims liabilities is completed at the end of each financial quarter. This evaluation includes a re-estimation of the liability for unpaid claims and adjustment expenses compared to the liability that was originally established. As adjustments to estimated claims liabilities become necessary, they are reflected in current operations.

c) Changes in methodologies or basis of selection of assumptions

Based on the Company's actuarial valuation process, at each valuation the Company's claims data is analyzed to determine whether the current methodologies and basis of selection of actuarial assumptions continue to be appropriate for the determination of the IBNR provision. As a result, the Company revised the basis of selection of some key assumptions used in its actuarial valuation methods as at December 31, 2018 and December 31, 2017.

In 2017 and 2018, the Company updated the methodologies and basis of selection of key assumptions used in determining its provision for unpaid claims and adjustment expenses to ensure they appropriately reflect emerging experience and changes in risk profile, which resulted in a change to projected net cash outflows and, therefore, to the provision. The net impact of the 2018 changes was a $18,623,000 decrease in the provision, before reinsurance, as at December 31, 2018. This total impact relates entirely to severity assumptions and the professional liability line of business, and has been allocated by policy year as a $5,548,000 decrease related to the current year and a $13,075,000 decrease related to the prior years. The net impact of the 2017 changes was a $8,740,000 decrease in the provision, before reinsurance, as at December 31, 2017. This total impact relates entirely to severity assumptions and the professional liability line of business, and has been allocated by policy year as a $3,743,000 decrease related to the current year and a $4,997,000 decrease related to the prior years.

Details of the claims and adjustment expenses for the year ended December 31 are as follows:

	2018			2017		
	Gross	Ceded	**Net**	Gross	Ceded	**Net**
Claims & external adjustment expenses paid	$ 85,007	2,762	**82,245**	80,484	209	**80,275**
Change in case reserves	9,188	(2,992)	**12,180**	20,073	1,000	**19,073**
Change in IBNR	(16,000)	4,243	**(20,243)**	(4,164)	(4,683)	**519**
Discount expense	(4,006)	(238)	**(3,768)**	(3,102)	(616)	**(2,486)**
IAE paid	10,198	-	**10,198**	8,676	-	**8,676**
Change in provision for IAE	380	-	**380**	113	-	**113**
Total	**$ 84,767**	**3,775**	**80,992**	**102,080**	**(4,090)**	**106,170**

Changes in the provision for unpaid claims and adjustment expenses, including IAE, recorded in the statement of financial position during the year is comprised of the following:

		2018		2017
Provision for unpaid claims and adjustment expenses – January 1 – net	$	445,593	$	428,374
Change in net provision for claims and adjustment expenses due to:				
Prior years' incurred claims		(32,134)		(11,070)
Current year's incurred claims		116,894		119,726
Net claims and adjustment expenses paid in relation to:				
Prior years		(79,267)		(77,657)
Current year		(13,175)		(11,294)
Impact of discounting		(3,768)		(2,486)
Provision for unpaid claims and adjustment expenses – December 31 – net		434,143		445,593
Reinsurers' share of provisions for unpaid claims and adjustment expenses		40,506		39,495
Provision for unpaid claims and adjustment expenses – December 31 – gross	**$**	**474,649**	**$**	**485,088**

d) Loss development tables

The tables on the following pages show the development of claims, excluding IAE, by policy year over a period of time. The first table reflects development for gross claims, which excludes any reductions for reinsurance recoverables. The second table reflects development for net claims, which is gross claims less reinsurance recoverables. The top triangle in each table shows how the estimates of total claims for each policy year develop over time as more information becomes known regarding individual claims and overall claims frequency and severity. Claims are presented on an undiscounted basis in the top triangle. The bottom triangle in each table presents the cumulative amounts paid for claims and external loss adjustment expenses for each policy year at the end of each successive year. At the bottom of each table, the provision for IAE as well as the effect of discounting and the PfAD, as at December 31, 2018, is presented based on the net amounts of the two triangles.

Before the effect of reinsurance, the loss development table is as follows:

		POLICY YEAR										
	All Prior Years	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	**Total**
Estimate of Ultimate Claims												
At end of Policy year	$	94,936	90,778	98,870	110,380	102,937	103,962	106,879	113,990	112,943	109,102	
One Year Later		95,781	90,585	100,573	93,630	95,423	92,844	96,377	107,475	100,803		
Two Years Later		97,708	89,394	97,841	90,749	91,649	87,845	91,393	99,401			
Three Years Later		96,541	87,128	96,265	88,237	89,307	88,634	95,395				
Four Years Later		94,258	87,341	87,906	84,248	88,060	84,889					
Five Years Later		91,157	84,680	87,930	86,065	85,900						
Six Years Later		94,402	85,491	90,765	75,850							
Seven Years Later		95,835	85,107	88,168								
Eight Years Later		94,629	87,051									
Nine Years Later		96,241										
Cumulative Claims Paid												
At end of Policy year		(6,726)	(4,628)	(6,868)	(4,744)	(4,167)	(5,516)	(5,896)	(7,299)	(6,969)	(8,043)	
One Year Later		(21,366)	(16,553)	(17,678)	(15,743)	(18,406)	(18,123)	(19,993)	(21,104)	(22,535)		
Two Years Later		(35,997)	(30,239)	(30,885)	(26,124)	(30,668)	(30,339)	(30,943)	(35,102)			
Three Years Later		(48,477)	(42,488)	(44,452)	(36,429)	(41,705)	(40,880)	(42,433)				
Four Years Later		(59,669)	(54,208)	(54,632)	(46,319)	(50,229)	(45,911)					
Five Years Later		(67,445)	(61,111)	(62,242)	(54,637)	(56,457)						
Six Years Later		(75,230)	(66,828)	(70,458)	(61,579)							
Seven Years Later		(80,766)	(71,672)	(74,595)								
Eight Years Later		(82,189)	(78,488)									
Nine Years Later		(86,138)										
Estimate of Ultimate Claims		96,241	87,051	88,168	75,850	85,900	84,889	95,395	99,401	100,803	109,102	
Cumulative Claims Paid		(86,138)	(78,488)	(74,595)	(61,579)	(56,457)	(45,911)	(42,433)	(35,102)	(22,535)	(8,043)	
Undiscounted Claims Liabilities	16,629	10,103	8,563	13,573	14,271	29,443	38,978	52,962	64,299	78,268	101,059	**428,148**
Provision for IAE	208	132	147	339	455	803	1,168	1,637	2,409	3,792	7,009	**18,099**
Discounting (including PfAD)	1,527	730	545	967	1,083	2,197	2,861	3,794	4,338	4,784	5,576	**28,402**
Present Value recognized in the Statement of Financial Position	$ 18,364	10,965	9,255	14,879	15,809	32,443	43,007	58,393	71,046	86,844	113,644	**474,649**

After the effect of reinsurance, the loss development table is as follows:

		POLICY YEAR										
	All Prior Years	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	**Total**
Estimate of Ultimate Claims												
At end of Policy year	$	89,886	86,458	94,874	106,381	98,696	99,579	102,534	109,643	108,683	104,752	
One Year Later		91,732	86,265	96,577	89,631	91,183	88,460	92,032	103,128	96,542		
Two Years Later		93,660	85,075	93,845	86,750	87,409	83,462	87,047	95,054			
Three Years Later		92,492	82,808	92,269	84,238	85,066	84,251	91,049				
Four Years Later		90,209	83,022	83,910	80,249	83,819	80,506					
Five Years Later		87,108	80,361	83,934	82,066	81,660						
Six Years Later		90,353	81,172	86,769	71,851							
Seven Years Later		91,787	80,788	84,173								
Eight Years Later		90,581	82,731									
Nine Years Later		92,193										
Cumulative Claims Paid												
At end of Policy year		(6,726)	(4,628)	(6,868)	(4,744)	(4,167)	(5,516)	(5,896)	(7,299)	(6,969)	(8,043)	
One Year Later		(21,366)	(16,553)	(17,678)	(15,741)	(18,406)	(18,123)	(19,993)	(21,104)	(22,535)		
Two Years Later		(35,997)	(30,239)	(29,976)	(26,122)	(30,668)	(30,339)	(30,943)	(35,002)			
Three Years Later		(48,477)	(42,466)	(43,542)	(36,421)	(41,705)	(40,880)	(42,433)				
Four Years Later		(59,669)	(54,111)	(53,722)	(46,312)	(50,229)	(45,911)					
Five Years Later		(67,409)	(61,000)	(61,207)	(54,628)	(56,449)						
Six Years Later		(75,193)	(66,705)	(69,423)	(59,086)							
Seven Years Later		(79,843)	(71,545)	(73,560)								
Eight Years Later		(81,264)	(78,361)									
Nine Years Later		(85,214)										
Estimate of Ultimate Claims		92,193	82,731	84,173	71,851	81,660	80,506	91,049	95,054	96,542	104,752	
Cumulative Claims Paid		(85,214)	(78,361)	(73,560)	(59,086)	(56,449)	(45,911)	(42,433)	(35,002)	(22,535)	(8,043)	
Undiscounted Claims Liabilities	15,808	6,979	4,370	10,613	12,765	25,211	34,595	48,616	60,052	74,007	96,709	**389,725**
Provision for IAE	208	132	147	339	455	803	1,168	1,637	2,409	3,792	7,009	**18,099**
Discounting (including PfAD)	1,435	547	336	797	990	1,944	2,600	3,547	4,116	4,592	5,415	**26,319**
Present Value recognized in the Statement of Financial Position	$ 17,451	7,658	4,853	11,749	14,210	27,958	38,363	53,800	66,577	82,391	109,133	**434,143**

10. Unearned Premiums

The following changes have occurred in the provision for unearned premiums during the years ended December 31:

		2018	2017
Balance, as at January 1	$	1,068	1,027
Net premiums written during the year		107,582	108,505
Less: Net premiums earned during the year		(107,539)	(108,464)
Increase (decrease) in unearned premiums		43	41
Balance, as at December 31	**$**	**1,111**	**1,068**

The estimates for unearned premium liabilities have been actuarially tested to ensure that they are sufficient to pay for future claims and expenses in servicing the unexpired policies as of the valuation dates.

11. Reinsurance

The Company's reinsurance program consists of a 90% quota share cession on its excess professional liability policies (2017: 90%), and a $10 million in excess of $5 million per occurrence clash reinsurance arrangement which provides protection for single events that bring about multiple professional liability and/or title claims with an additional $20 million in excess of $15 million per occurrence. Reinsurance does not relieve the Company of its primary liability as the originating insurer. In the event that a reinsurer is unable to meet obligations assumed under reinsurance agreements, the Company is liable for such amounts. Reinsurance treaties typically renew annually and the terms and conditions are reviewed by senior management and reported to the Company's Board of Directors. Reinsurance agreements are negotiated with reinsurance companies that have an independent credit rating of "A-" or better and that the Company considers creditworthy. Based on current information on the financial health of the reinsurers, no provision for doubtful debts has been made in the financial statements in respect of reinsurers.

12. Related Party Transactions

Pursuant to a service agreement effective January 1, 1995, and as amended effective September 30, 2009, the Company administers the Errors and Omissions Insurance Fund (the "Fund") of the Law Society and provides all services directly related to the operations and general administration of the Fund in consideration for the Law Society insuring its mandatory professional liability insurance program with the Company.

The insurance policy under the mandatory professional liability insurance program of the Law Society is written by the Company and is effective on a calendar year basis. The insurance policy is renewed effective January 1 each year subject to the Law Society's acceptance of the terms of renewal submitted by the Company. The annual policy limits for each of the years effective January 1, 1995 to December 31, 2018 are $1 million per claim and $2 million in aggregate per member. Under the insurance policy that was in force between July 1, 1990 and December 31, 1994, the Company was responsible for claims in excess of the Law Society and member deductibles. The provision for unpaid claims and adjustment expenses is net of amounts relating to policies for years prior to 1995 that are payable by the Law Society.

For the year ended December 31, 2018, $102,657,327 of the gross premiums written related to mandatory insurance coverage provided to the Law Society and its members (2017: $103,222,341). As at December 31, 2018, the Company had a balance due from the Law Society of $8,580,811 (December 31, 2017: $6,997,956 due from the Law Society).

For the year ended December 31, 2018, the Company contributed to the Law Society $300,055 in regards to a wellness program to be made available to the insureds of the Company's primary liability policy (2017: $239,820). This expenditure is included in the 'professional fees' category of operating expenses (see note 15).

The total compensation to Company personnel classified as key management, being those having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including directors of the Company, is as follows:

		2018	2017
Short-term compensation and benefits	$	3,974	3,959
Post employment benefits		401	319
	$	**4,375**	**4,278**

13. Employee Benefits

The Company has a defined contribution pension plan which is available to all its employees upon meeting the eligibility requirements. Each employee is required to contribute 4.5% of yearly maximum pensionable earnings, and 6% in excess thereof, of an employee's annual base earnings. Under the plan, the Company matches all employee contributions. In 2018, the Company made payments of $801,365 (2017: $744,969) and recorded pension expense of $903,100 (2017: $787,406).

The Company also has a supplemental defined benefit pension plan, which provides pension benefits on a final salary or fixed schedule basis, depending on certain criteria. Measurements and funding requirements of this plan are based on valuations prepared by an external actuary. For reporting purposes the plan is measured using the projected unit credit method, which involves calculating the actuarial present value of the past service liability to members including an allowance for their projected future earnings. Funding requirements for the plan are determined using the solvency method, which utilizes the estimated cost of securing each member's benefits with an insurance company or alternative buy-out provider as at the valuation date. The valuation methods are based on a number of assumptions, which vary according to economic conditions, including prevailing market interest rates, and changes in these assumptions can significantly affect the measurement of the pension obligations.

Funding for the supplemental plan commenced in 2005, with $124,457 in contributions made in 2018 (2017: nil) and recorded pension expenses of $238,037 in 2018 (2017: $144,760). Funding requirements are reviewed annually with an actuarial valuation for funding purposes effective as at December 31. As the Company's defined benefit pension plan qualifies as a "retirement compensation arrangement" pursuant to the *Income Tax Act*, half of any required annual contribution to the plan is remitted to the Canada Revenue Agency, held in a refundable tax account and refunded in prescribed amounts as actual benefit payments are made to the participants. The most recent actuarial valuation for funding purposes was performed effective December 31, 2018. Management's preliminary estimate is that $1,135,000 is the required contribution to the plan during the year ending December 31, 2019.

The assets of both pension plans are held separately from those of the Company in funds under the control of trustees.

The defined benefit pension plan exposes the Company to risks such as: investment risk, interest rate risk, longevity risk and salary risk.

Investment risk — The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality mid-duration corporate bond yields; if the return on plan assets is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity and fixed income securities. Due to the long-term nature of the plan liabilities, the Company considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities to leverage the return generated by the fund.

Interest rate risk — A decrease in the market interest rate will increase the plan obligation; however, this will be partially offset by an increase in the return of the plan's fixed income securities.

Longevity risk — The present value of the defined benefit plan obligation is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's obligation.

Salary risk — The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's obligation.

The following represents the assets and liabilities associated with pension benefits measured using values as at December 31:

Defined benefit plan obligation

		2018	2017
Accrued benefit obligation			
Balance, as at January 1	$	8,528	7,933
Current service cost		285	207
Interest cost		289	296
Remeasurement (gains) losses:			
Actuarial (gains) losses – demographic assumptions		-	53
Actuarial (gains) losses – financial assumptions		(428)	364
Actuarial (gains) losses – experience adjustments		203	(52)
Benefits paid		(325)	(273)
Balance, as at December 31	**$**	**8,552**	**8,528**

Defined benefit plan assets

		2018	2017
Plan assets			
Fair value, as at January 1	$	10,122	9,838
Interest income on plan assets		336	359
Remeasurement gains (losses):			
Return on plan assets greater (less) than discount rate		(765)	198
Benefits paid		(325)	(273)
Employer contribution		124	-
Fair value, as at December 31	**$**	**9,492**	**10,122**

The defined benefit plan assets arise primarily from employer contributions that are originally allocated equally between deposits with the Government of Canada and investments in the units of a balanced pooled fund. The fair values of the above equity and fixed income securities are derived based on quoted market prices in active markets. The plan assets contain the following financial instrument allocation:

	DECEMBER 31, 2018	DECEMBER 31, 2017
Equity securities	30.69%	33.83%
Fixed income securities	20.68%	20.43%
Cash and cash equivalents	0.28%	2.03%
Refundable-tax account	48.35%	43.71%
	100.00%	**100.00%**

Reconciliation of funded status surplus of the benefit plans to the amounts recorded in other assets in the financial statements is as follows:

	DECEMBER 31, 2018	DECEMBER 31, 2017
Fair value of plan assets	$ 9,492	$ 10,122
Accrued benefit obligation	(8,552)	(8,528)
Funded status surplus	940	1,594
Irrecoverable surplus (effect of asset ceiling)	-	-
Accrued benefit asset	**$ 940**	**$ 1,594**

The accrued benefit asset is included in other assets in the statement of financial position.

Amounts recognized in comprehensive income in respect of the defined benefit plan in the year ended December 31:

	2018	2017
Service cost:		
Current service cost	$ 285	207
Past service cost and (gain) loss from settlements	-	-
Net interest (income) expense	(47)	(63)
Components of defined benefit costs recognized in profit or loss	**$ 238**	**144**
Remeasurement on the net defined benefit liability:		
Actuarial (gain) loss due to liability experience	$ 203	(52)
Actuarial (gain) loss due to liability assumption changes	(428)	417
Actuarial (gain) loss arising during year	(225)	365
Return on plan assets (greater) less than discount rate	765	(198)
Change in irrecoverable surplus (effect of asset ceiling)	-	-
Components of defined benefit costs recognized in OCI	**540**	**167**
Total	**$ 778**	**311**

The significant assumptions used by the Company for year-end measurement purposes are as follows:

	2018	2017
Discount rate	3.75%	3.35%
Rate of compensation increase	4.50% starting in 2022	4.50%
Mortality	CPM 2014 Priv mortality table with generational mortality improvements following Scale MI-2017; pension size adjustment factors of 0.83 for males and 0.88 for females	CPM 2014 Priv mortality table with generational mortality improvements following Scale MI-2017; pension size adjustment factors of 0.83 for males and 0.88 for females

The sensitivity of the key assumption, namely discount rate, assuming all other assumptions remain constant, is as follows: as at December 31, 2018, if the discount rate was 1% higher / (lower) the defined benefit obligation would decrease by $936,200 (increase by $1,138,000). Note that the sensitivity analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumption would occur in isolation of one or other changes as some of the assumptions may be correlated.

The expected maturity profile of the defined benefit obligation as at December 31, 2018 is as follows:

		2019	2020	2021	2022	2023	Thereafter
Expected benefit payments	$	480	480	479	479	478	2,385

The defined benefit obligation as at December 31, 2018 by participant category is as follows:

Active participants	280
Pensioners	8,272

14. Income Taxes

a) Income tax expense recognized in profit or loss

The total income tax expense recognized in profit or loss is comprised as follows:

		2018	2017
Current income tax			
(Recovered) expensed during the year	$	5,396	232
Prior year adjustments		202	(2)
Total current income tax expense (recovery)		**5,598**	**230**
Deferred income tax			
Origination and reversal of temporary differences		87	(325)
Changes in statutory tax rates		-	-
Total deferred income tax expense (recovery)		**87**	**(325)**
Total income tax expense (recovery)	**$**	**5,685**	**(95)**

Deferred income tax expense (recovery) recognized in profit or loss represents movements on the following items:

	2018	2017
Unpaid claims and adjustment expenses	152	(228)
Investments	(39)	(39)
Pensions	(44)	(49)
Property and equipment	18	(9)
	87	**(325)**

b) Income tax expense recognized in the statement of profit or loss and other comprehensive income

The total income tax expense recognized in OCI is comprised as follows:

		2018	2017
Current income tax			
Unrealized investment gains and losses on available-for-sale portfolio	$	(6,010)	(102)
Pensions		-	-
Total current income tax expense	**$**	**(6,010)**	**(102)**
Deferred income tax			
Unrealized investment gains and losses on available-for-sale portfolio		-	-
Pensions		(143)	(44)
Total deferred income tax expense		**(143)**	**(44)**
Total income tax expense in OCI	**$**	**(6,153)**	**(146)**

c) Income tax reconciliation

The following is a reconciliation of income taxes, calculated at the statutory income tax rate, to the income tax provision included in profit or loss.

	2018	2017
Profit or loss before income taxes	22,537	521
Statutory income tax rate	26.50%	26.50%
Provision for (recovery of) income taxes at statutory rates	5,972	138
Increase (decrease) resulting from:		
Investments	(516)	(248)
Non-deductible meals and entertainment	27	17
Other non-deductible items	202	(2)
Provision for (recovery of) income taxes	**5,685**	**(95)**

The statutory rate applicable to the Company at December 31, 2018 is same as at December 31, 2017.

During the year, the Company made income tax payments of $1,218,284 (2017: $3,133,713) and received no income tax refunds (2017: nil) from the various taxing authorities.

d) Net deferred income tax asset

The Company's net deferred income tax asset is the result of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The sources of these temporary differences and the tax effects are as follows:

	DECEMBER 31, 2018	DECEMBER 31, 2017
Deferred tax assets		
Net provision for unpaid claims and adjustment expenses	$ 5,753	5,904
Property and equipment	357	375
	6,110	**6,279**
Deferred tax liabilities		
Investments	(275)	(314)
Pension	(172)	(359)
	(447)	(673)
Total net deferred tax assets	**$ 5,663**	**5,606**

The Company believes that, based on available information, it is probable that the deferred income tax assets will be realized through a combination of future reversals of temporary differences and taxable income.

15. Operating Expenses

The following table summarizes the Company's operating expenses by nature:

	2018	2017
Salaries and benefits	$ 13,312	12,266
Professional fees	2,210	1,865
Occupancy lease	1,331	1,027
Financial processing fees	873	923
Directors remuneration	1,004	995
Information systems	1,216	1,241
Office and administrative expenses	1,010	808
Amortization of property and equipment	665	656
Communication	517	534
Total	**$ 22,138**	**20,315**

Included in salaries and benefits are amounts for future employee benefits under a defined contribution plan of $801,365 (2017: $744,969) and a supplementary defined benefit plan of $238,037 (2017: $144,760).

16. Operating Lease Commitments

The Company entered into a lease agreement for premises at 250 Yonge Street, with an effective date of February 1, 2008 and an expiry date of May 31, 2018.

During 2016, the Company has amended the original lease agreement to include additional floor space at its current location, and the term of the lease has been extended for a period of 10 years commencing June 1, 2018 and expiring on May 31, 2028. The Company has an option to extend the lease period for two additional terms of five years each under the current general terms and conditions.

At December 31, 2018, lease obligations on office premises were as follows:

		2019	2020	2021	2022	2023	Thereafter
Expected lease payments	$	1,713	1,713	1,713	1,713	1,713	7,566

17. Capital Stock and Contributed Surplus

Capital stock of the Company represents:

30,000 Common Shares of par value of $100 each – authorized, issued and paid.

20,000 6% non-cumulative, redeemable, non-voting Preferred Shares of par value of $100 each - authorized, issued and paid.

The Preferred Shares meet the definition of equity in accordance with the criteria outlined in IAS 32 "*Financial Instruments: Presentation*".

Contributed surplus represents additional capitalization funding provided by the Law Society.

18. Statutory Insurance Information

The Company is the beneficiary of trust accounts in the amount of $1,102,762 as at December 31, 2018 (December 31, 2017: $1,109,969) which are held as security for amounts recoverable from unregistered reinsurers of $70,765 (2017: $74,699). This trust balance is not reflected in these financial statements but is considered in determining statutory capital requirements.

In accordance with licensing requirements, the Company no longer requires deposited securities with the regulatory authorities (December 31, 2017: nil).

19. Capital Management

Capital is comprised of the Company's equity. As at December 31, 2018 the Company's equity was $253,461,526 (December 31, 2017: $253,678,008). The Company's objectives when managing capital are to maintain financial strength and protect its claims paying abilities, to maintain creditworthiness and to provide a reasonable return to the shareholder over the long term. In conjunction with the Company's Board of Directors and its Audit Committee, senior management develops the capital strategy and oversees the capital management processes of the Company. Capital is managed using both regulatory capital measures and internal metrics.

FSCO, the Company's primary insurance regulator, along with other provincial insurance regulators, regulate the capital required in the Company using two key measures, i.e., Minimum Capital Test ("MCT") and the Dynamic Capital Adequacy Test ("DCAT"). FSCO mandates the MCT guideline which sets out 100% as the minimum and 150% as the supervisory target for P&C insurance companies. To ensure that it attains its objectives, the Company has established an internal target of 170% (2017: 170%) in excess of which, under normal circumstances, the Company will maintain its capital. During the year ended December 31, 2018, the Company complied with the various provincial regulators' guidelines and as at December 31, 2018, the Company has an MCT ratio of 237% (December 31, 2017: 237%). Annually, the Company's Appointed Actuary prepares a DCAT on the MCT to ensure that the Company has adequate capital to withstand significant adverse event scenarios. These scenarios are reviewed each year to ensure appropriate risks are included in the testing process. The Appointed Actuary must present both an annual report and the DCAT report to management and the Audit Committee. The DCAT report prepared during the year indicated that the Company's capital position is satisfactory. In addition, the target, actual and forecasted capital position of the Company is subject to ongoing monitoring by management using stress and scenario analysis to ensure its adequacy.

The Company may use reinsurance to manage its capital position.

20. Risk Management

By virtue of the nature of the insurance company business, financial instruments comprise the majority of the Company's statement of financial position as at both December 31, 2018 and 2017. The most significant identified risks to the Company which arise from holding financial instruments and insurance contract liabilities include insurance risk, credit risk, liquidity risk and market risk. The market risk exposure of the Company is primarily related to changes in interest rates and adverse movement in equity prices.

The Company employs an enterprise-wide risk management framework which establishes practices for risk management and includes policies and processes to identify, assess, manage and monitor risks and risk tolerance limits. It provides governance and supervision of risk management activities across the Company's business units, promoting the discipline and consistency applied to the practice of risk management.

The Company's risk framework is designed to minimize risks that could materially adversely affect the value or stature of the Company, to contribute to stable and sustainable returns, to identify risks that the Company can manage in order to increase earnings, and to provide transparency of the Company's risks through internal and external reporting. The Company's risk philosophy involves undertaking risks for appropriate return and accepting those risks that meet its objectives. The Company's risk management program is aligned with its long term vision and its culture supports an effective risk management program. The key components of the risk culture include acting with fairness, appreciating the impact of risk on all major stakeholders, embedding risk management into day to day business activities, fostering full and transparent communications, cooperation, and aligning of objectives and incentives. The Company's risk management activities are monitored by its Risk Committee and Board of Directors.

The risk exposure measures primarily include the sensitivity of the Company's profit or loss, and OCI as applicable, to the movement of various economic factors. These risk exposures include the sensitivity due to specific changes in market prices and interest rate levels projected using internal models as at a specific date, and are measured relative to a starting level reflecting the Company's assets and liabilities at that date and the actuarial factors, investment returns and investment activity the Company assumes in the future. The risk exposures measure the impact of changing one factor at a time and assume that all other factors remain unchanged. Actual results

can differ materially from these estimates for a variety of reasons including the interaction among these factors when more than one changes, changes in actuarial and investment return and future investment activity assumptions, actual experience differing from the assumptions, changes in business mix, effective tax rates, and other market factors and general limitations of the Company's internal models.

a) Insurance risk

Insurance risk is the risk of loss due to actual experience differing from the experience assumed when a product was designed and priced with respect to claims, policyholder behaviour and expenses. The Company has identified pricing risk, concentration of risk and reserving risk as its most significant sources of insurance risks. The Company's underwriting objective is to develop business within its target market on a prudent and diversified basis and to achieve profitable operating results.

Pricing risk

Pricing risk arises when actual claims experience differs from the assumptions included in pricing calculations. Historically, the underwriting results of the property and casualty industry have fluctuated significantly due to the cyclicality of the insurance market. The market cycle is affected by the frequency and severity of claims, levels of capacity and demand, general economic conditions and price competition.

The Company focuses on profitable underwriting using a combination of experienced underwriting staff, pricing models and price adequacy monitoring tools. The Company prices its products taking into account numerous factors including claims frequency and severity trends, product line expense ratios, special risk factors associated with the product line, and the investment income earned on premiums held until the payment of claims and expenses. The Company's pricing is designed to ensure an appropriate return while also providing long-term rate stability. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

Concentration of risk

A concentration of risk represents the exposure to increased losses associated with an inadequately diversified portfolio of policy coverage. The Company has a reinsurance program to limit its exposure to catastrophic losses from any one event or set of events. The Company has approximately 99% of its business in Ontario (2017: 99%) and 95% in professional liability (2017: 94%), and consequently is exposed to trends, inflation, judicial changes and regulatory changes affecting these segments. The geographical diversity by location of the underlying insurance risk for the year ended December 31 is summarized below:

	2018			2017		
Gross written premium	Ontario	All other provinces	**Total**	Ontario	All other provinces	**Total**
Professional liability	$ 108,741	-	**108,741**	109,181	-	**109,181**
Title	5,900	143	**6,043**	6,324	150	**6,474**
Total	**$ 114,641**	**143**	**114,784**	**115,505**	**150**	**115,655**

Reserving risk

Reserving risk arises because actual claims experience can differ adversely from the assumptions included in setting reserves, in large part due to the length of time between the occurrence of a loss, the reporting of the loss to the insurer and the ultimate resolution of the claim. Claims provisions reflect expectations of the ultimate cost of resolution and administration of claims based on an assessment of facts and circumstances then known, a review of historical settlement patterns, estimates of trends in claims severity and frequency, legal theories of liability and other factors. Reserve changes associated with claims of prior periods are recognized in the current period, which could have a significant impact on current year profit or loss. In order to mitigate this risk the Company utilizes information systems in order to maintain claims data integrity, and the claims provision valuations are prepared by an internal actuary on a quarterly basis, and are reviewed separately by, and must be acceptable to, management of the Company every quarter and the external Appointed Actuary at mid-year and year-end.

Sensitivity analyses

Risks associated with property and casualty insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company considers that the provision for its unpaid claims and adjustment expenses recognized in the statement of financial position is adequate. However, actual experience will differ from the expected outcome. Among the Company's lines of business, the professional liability line of business has the largest provision for unpaid claims and adjustment expenses. Given this line of business and the actuarial methods utilized to estimate the related provision for unpaid claims and adjustment expenses, the reported claims count development factors and average claim severity selections are the most critical of the assumptions used. The following table provides the estimated increase (decrease) of the net provision for unpaid claims and adjustment expense and the after-tax net effect on equity if the reported claims count development factors were increased such that the estimate of unreported claims was 20% higher or the average claim severity selections were 1% higher. Other changes in assumptions are considered to be less material.

	DECEMBER 31, 2018		DECEMBER 31, 2017	
	Net provision for unpaid claims and adjustment expenses	Equity	Net provision for unpaid claims and adjustment expenses	Equity
Unreported claims +20%	4,856	(3,569)	5,132	(3,772)
Average claim severities +1%	3,786	(2,783)	5,631	(4,139)

b) Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a borrower or counterparty to fulfill its payment obligation to the Company. Credit risks arise from cash and cash equivalents, investments in fixed income securities and preferred shares, and balances due from insureds and reinsurers.

Management monitors credit risk and any mitigating controls. The Company has established a credit review process where the credit quality of all exposures is continually monitored so that appropriate prompt action can be taken when there is a change which may have material impact.

Governance processes around investments include oversight by the Board of Directors' Investment Committee. The oversight includes reviews of the Company's third party investment managers, investment performance and adherence to the Company's investment policy. The Company's investment policy statement is reviewed at least on an annual basis and addresses various matters including investment objectives, risks and management. Guidelines and limits have been established in respect of asset classes, issuers of securities and the nature of securities to address matters such as quality and concentration of risks.

With respect to credit risk arising from balances due from reinsurers, the Company's exposure is measured to reflect both current exposure and potential future exposure to ceded liabilities. Reinsurance and insurance counterparties must also meet minimum risk rating criteria. The Company's Board of Directors has approved a reinsurance policy, which is monitored by the Company's Audit Committee.

The following table provides a credit risk profile of the Company's applicable investment assets and amounts recoverable from reinsurers.

	DECEMBER 31, 2018						
	AAA	AA	A	BBB	BB and lower	Not rated	**Carrying value**
Cash and cash equivalents	$ 424	-	-	-	-	9,857	**10,281**
Fixed income securities	117,060	139,152	163,824	88,848	972	6,795	**516,651**
Investment income due and accrued	219	392	1,117	567	13	222	**2,530**
Due from reinsurers	-	-	631	-	-	6	**637**
Due from insureds	-	-	-	-	-	2,048	**2,048**
Due from the Law Society of Ontario	-	-	-	-	-	8,581	**8,581**
Reinsurers' share of provisions for unpaid claims and adjustment expenses	-	-	40,458	-	-	48	**40,506**
Other receivables	-	-	-	-	-	1,052	**1,052**
Total	**$ 117,703**	**139,544**	**206,030**	**89,415**	**985**	**28,609**	**582,286**

	DECEMBER 31, 2017						
	AAA	AA	A	BBB	BB and lower	Not rated	**Carrying value**
Cash and cash equivalents	$ 5,748	-	-	-	-	14,497	**20,245**
Fixed income securities	98,985	142,347	197,779	79,526	5,007	8,036	**531,680**
Investment income due and accrued	392	528	1,212	484	68	168	**2,852**
Due from reinsurers	-	-	309	-	-	-	**309**
Due from insureds	-	-	-	-	-	1,882	**1,882**
Due from the Law Society of Ontario	-	-	-	-	-	6,998	**6,998**
Reinsurers' share of provisions for unpaid claims and adjustment expenses	-	75	39,420	-	-	-	**39,495**
Other receivables	-	-	-	-	-	3,167	**3,167**
Total	**$ 105,125**	**142,950**	**238,720**	**80,010**	**5,075**	**34,748**	**606,628**

Fixed income securities are rated using a composite of Moody's, Standard & Poor and Dominion Bond Rating Service ratings, and reinsurers are rated using A.M. Best. The balances in the above tables do not contain any amounts that are past due.

c) Liquidity risk

Liquidity risk is the risk that the Company will not have enough funds available to meet all expected and unexpected cash outflow commitments as they fall due. Under stressed conditions, unexpected cash demands could arise primarily from a significant increase in the level of claim payment demands.

To manage its cash flow requirements, the Company has arranged diversified funding sources and maintains a significant portion of its invested assets in highly liquid securities such as cash and cash equivalents and government bonds (see note 5b). In addition, the Company has established counterparty exposure limits that aim to ensure that exposures are not so large that they may impact the ability to liquidate investments at their market value.

Claims liabilities account for the majority of the Company's liquidity risk. A significant portion of the investment portfolio is invested with the primary objective of matching the investment asset cash flows with the expected future payments on these claims liabilities. This portion, referred to as the cash-flow matched investment portfolio, consists of fixed income and preferred equity securities that are intended to address the liquidity and cash flow needs of the Company as claims are settled. The remainder of the Company's overall investment portfolio, the available-for-sale portfolio, backs equity and is invested in fixed income securities and equities with the objective of preserving capital and achieving an appropriate return consistent with the objectives of the Company.

The following tables summarize the carrying amounts of financial instruments and insurance assets and liabilities by contractual maturity or expected cash flow dates (the actual repricing dates may differ from contractual maturity because certain securities and debentures have the right to call or prepay obligations with or without call or prepayment penalties) as at:

	DECEMBER 31, 2018					
		Within one year	One to five years	More than five years	No fixed maturity	**Total**
Assets						
Cash and cash equivalents	$	10,281	-	-	-	**10,281**
Investments – designated as FVTPL		25,212	174,772	171,931	404	**372,319**
Investments – available-for-sale		28,686	110,075	5,975	138,391	**283,127**
Investment income due and accrued		2,530	-	-	-	**2,530**
Due from reinsurers		637	-	-	-	**637**
Due from insureds		2,048	-	-	-	**2,048**
Reinsurers' share of unpaid claims		9,590	20,652	8,180	2,084	**40,506**
Due from Law Society of Ontario		8,581	-	-	-	**8,581**
Other receivables		1,052	-	-	-	**1,052**
Other assets		594	-	-	940	**1,534**
Total	**$**	**89,211**	**305,499**	**186,086**	**141,819**	**722,615**
Liabilities						
Provision for unpaid claims	$	102,769	243,855	99,622	28,403	**474,649**
Due to reinsurers		683	-	-	-	**683**
Due to insureds		277	-	-	-	**277**
Expenses due and accrued		3,272	-	-	-	**3,272**
Total	**$**	**107,001**	**243,855**	**99,622**	**28,403**	**478,881**

		DECEMBER 31, 2017				
		Within one year	One to five years	More than five years	No fixed maturity	**Total**
Assets						
Cash and cash equivalents	$	20,245	-	-	-	**20,245**
Investments – designated as FVTPL		54,551	110,650	191,106	470	**356,777**
Investments – available-for-sale		45,376	124,375	5,622	124,401	**299,774**
Investment income due and accrued		2,852	-	-	-	**2,852**
Due from reinsurers		309	-	-	-	**309**
Due from insureds		1,882	-	-	-	**1,882**
Reinsurers' share of unpaid claims		9,591	20,019	7,564	2,321	**39,495**
Due from Law Society of Ontario		6,998	-	-	-	**6,998**
Other receivable		3,167	-	-	-	**3,167**
Total	**$**	**144,971**	**255,044**	**204,292**	**127,192**	**731,499**
Liabilities						
Provision for unpaid claims	$	103,950	249,289	99,441	32,408	**485,088**
Due to reinsurers		720	-	-	-	**720**
Due to insureds		220	-	-	-	**220**
Expenses due and accrued		2,217	-	-	-	**2,217**
Total	**$**	**107,107**	**249,289**	**99,441**	**32,408**	**488,245**

d) Market and interest rate risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rate, foreign exchange rates, and equity prices. Due to the nature of the Company's business, invested assets and insurance liabilities as well as revenues and expenses are impacted by movements in capital markets, interest rates, and to a lesser extent, foreign currency exchange rates. Accordingly, the Company considers these risks together in managing its asset and liability positions and ensuring that risks are properly addressed. These risks are referred to collectively as market price and interest rate risk – the risk of loss resulting from movements in market price, interest rate, credit spreads and foreign currency rates.

Interest rate risk is the potential for financial loss arising from changes in interest rates. The Company is exposed to interest rate price risk on monetary financial assets and liabilities that have a fixed interest rate and is exposed to interest rate cash flow risk on monetary financial assets and liabilities with floating interest rates that are reset as market rates change.

For FVTPL assets and other financial assets supporting actuarial liabilities, the Company is exposed to interest rate risk when the cash flows from assets and the policy obligations they support are significantly mismatched, as this may result in the need to either sell assets to meet policy payments and expenses or reinvest excess asset cash flows under unfavourable interest environments. Bonds designated as available-for-sale generally do not support actuarial liabilities. Changes in fair value, other than foreign exchange rate gains and losses, of available-for-sale fixed income securities are recorded to OCI.

The following chart provides the estimated increase (decrease) on the Company's net investment income, net provision for unpaid claims and adjustment expenses, and after-tax OCI, after an immediate parallel increase or decrease of 1% in interest rates as at December 31 across the yield curve in all markets.

		DECEMBER 31, 2018			DECEMBER 31, 2017		
		Net investment income	Net provision for unpaid claims and adjustment expenses	After-tax OCI	Net investment income	Net provision for unpaid claims and adjustment expenses	After-tax OCI
Interest rates	+1%	(12,855)	(14,429)	(1,797)	(13,338)	(15,625)	(2,328)
	-1%	13,543	15,278	1,854	14,087	15,290	2,419

Market price and interest rate risk is managed through established policies and standards of practice that limit market price and interest rate risk exposure. Company-wide market price and interest rate risk limits are established and actual positions are monitored against limits. Target asset mixes, term profiles, and risk limits are updated regularly and communicated to portfolio managers. Actual asset positions are periodically rebalanced to within established limits.

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual equity securities. The Company's equities are designated as available-for-sale and generally do not support actuarial liabilities. The following chart provides the estimated increase (decrease) on the Company's after-tax OCI, assuming all other variables held constant, after an immediate 10% increase or decrease in equity prices as at December 31.

		2018	2017
		After-tax OCI	
Equity prices	+10%	10,172	9,143
	-10%	(10,172)	(9,143)

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates, in particular when an asset and liability mismatch exists in a different currency than the currency in which they are measured. As the Company does not hold significant liabilities in foreign currencies, the resulting currency risk is borne by the Company and forms part of its overall investment income. The table below details the effect of a 10% movement of the currency rate against the Canadian dollar as at December 31, with all other variables held constant.

	2018		2017	
Currency	Effect on profit (loss) before taxes (+/-)	Effect on OCI (+/-)	Effect on profit (loss) before taxes (+/-)	Effect on OCI (+/-)
US Dollar	8	3,411	432	3,476
Euro	-	1,310	-	1,343
Other	-	177	-	1,221
	8	**4,898**	**432**	**6,040**

The Company also manages possible excessive concentration of risk. Excessive concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political and other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location. In order to avoid excessive concentrations of risk, the Company applies specific policies on maintaining a diversified portfolio. Identified risk concentrations are managed accordingly.

The following tables summarize the carrying amounts of financial assets by geographical location of the issuer, as at:

	DECEMBER 31, 2018					
	Cash and cash equivalents	Fixed income securities	Equities	Investment income due and accrued	**Total**	**% of total**
Canada	$ 10,197	510,400	49,837	2,178	**572,612**	**85.7%**
USA	84	-	35,481	46	**35,611**	**5.3%**
France	-	-	8,886	20	**8,906**	**1.3%**
Japan	-	-	8,064	21	**8,085**	**1.2%**
Others	-	6,251	36,527	265	**43,043**	**6.5%**
Total	**$ 10,281**	**516,651**	**138,795**	**2,530**	**668,257**	**100.0%**

	DECEMBER 31, 2017					
	Cash and cash equivalents	Fixed income securities	Equities	Investment income due and accrued	**Total**	**% of total**
Canada	$ 20,220	528,424	41,212	2,605	**592,461**	**87.2%**
USA	25	-	42,593	43	**42,661**	**6.3%**
France	-	-	8,572	19	**8,591**	**1.3%**
Japan	-	-	8,183	15	**8,198**	**1.2%**
Others	-	3,256	24,311	170	**27,737**	**4.0%**
Total	**$ 20,245**	**531,680**	**124,871**	**2,852**	**679,648**	**100.0%**

21. Contingent Asset

In 2013, the *Income Tax Act* was amended to extend tax exempt status given to certain subsidiaries of Canadian municipalities to also include certain subsidiaries of public bodies performing a function of government in Canada. Transitional rules were also included to allow applicable taxpayers to refile on this tax exempt basis for their taxation years beginning after May 8, 2000. After completing a detailed and careful evaluation of the applicability of the new provisions to the Company, the Company believes that it is probable that a refund claim would be successful. Accordingly, during 2014 the Company began filing as a tax exempt organization for income tax purposes, and has requested full retrospective exemption back to its 2001 taxation year. The income tax payments relating to taxation years 2001 onwards total as much as $84,475,461. The exemption would also give rise to significant ongoing future income tax savings, but the Company's deferred income tax asset would be of nil value.

During the current year the Company was unsuccessful at its Tax Court trial. The Company has filed an appeal with the Federal Court, with the trial set to occur in 2019.

Board of Directors

As at December 31, 2018

Susan T. McGrath*
Board Chair
Principal, Susan T. McGrath

Malcolm L. Heins, LSM
Board Vice Chair

Daniel E. Pinnington
President & CEO
LAWPRO

Susan M. Armstrong, FCPA, FCA
Corporate Director

Clare A. Brunetta
Principal
Clare A. Brunetta

Frederick W. Gorbet, O.C.

Rita Hoff
President
R. Hoff Financial Management Ltd.

Diana C. Miles
Chief Executive Officer
The Law Society of Ontario

Barbara J. Murchie*
Partner
Bennett Jones LLP

David R. Oliver
President
Oliver Advisory

Andrew N. Smith
President
Natnook Inc.

Andrew J. Spurgeon
Partner
Ross & McBride LLP

Mark D. Tamminga
Partner
Gowling WLG

John C. Thompson, FCPA, FCA
Chartered Accountant
Retired KPMG partner

Heather L. Zordel
Partner
Gardiner Roberts

* Bencher, Law Society of Ontario

FCA denotes Fellow Chartered Accountant

FCPA denotes Fellow Chartered Professional Accountant

LSM denotes Law Society Medal

OC denotes Officer of the Order of Canada

Management

As at December 31, 2018

Daniel E. Pinnington
President & CEO

Stephen R. Freedman
Executive Vice President & General Counsel

Steven W. Jorgensen
Chief Financial Officer

David M. Reid
Chief Information Officer

Domenic Bellacicco
Vice President, Claims

Victoria Crewe-Nelson
Vice President, Underwriting & Customer Service and Secretary

Lisa Weinstein
Vice President, TitlePLUS

Simon D. Bernstein
Vice President, Specialty Claims

Naomi Dummett
Director of Communications

Raymond G. Leclair
Vice President, Public Affairs

Karen Wood
Director, Human Resources & Administration

Committees of the Board

EXECUTIVE COMMITTEE
Malcolm L. Heins*
Frederick W. Gorbet
Daniel E. Pinnington (A)
Andrew N. Smith

AUDIT COMMITTEE
Frederick W. Gorbet*
Susan M. Armstrong
Diana C. Miles (A)
Andrew N. Smith
John C. Thompson
Heather L. Zordel

CONDUCT REVIEW COMMITTEE
John C. Thompson*
Susan M. Armstrong
Frederick W. Gorbet
Andrew N. Smith

INVESTMENT COMMITTEE
Rita Hoff*
David R. Oliver
Andrew N. Smith
Andrew J. Spurgeon

GOVERNANCE COMMITTEE
Clare A. Brunetta*
Frederick W. Gorbet
Rita Hoff
Barbara J. Murchie

RISK COMMITTEE
Malcolm L. Heins*
Susan M. Armstrong
Clare A. Brunetta
Frederick W. Gorbet
Rita Hoff
David R. Oliver
Andrew N. Smith
Mark D. Tamminga

* Committee Chair
(A) Affiliated Director within meaning of Ontario *Insurance Act*

Corporate Governance

The Board of Directors, either directly or through its committees, bears responsibility for the stewardship of the Company. To discharge that responsibility, the Board supervises the management of the business and the affairs of the Company, including the oversight or monitoring of all significant aspects of the operation, so that the Company effectively and efficiently fulfills its mission, vision and values.

The Company's corporate governance framework, processes, structures and information are designed to strengthen the ability of the Board to oversee management, and to enhance long-term policyholder value. Every director has a duty to guide the Company's affairs in a manner that achieves the Company's objectives.

The corporate governance processes and mandate are derived, in part, from the Ontario *Insurance Act* and regulatory "best practices," and are expressed in the Company's corporate governance framework.

Board Independence

Demonstrable evidence of independence is at the heart of effective governance. Independence is normally a matter of a board demonstrating its ability to act independently of management when appropriate. Currently, only the chief executive officers of LAWPRO and the Law Society of Ontario are "affiliated" to the Company within the meaning of applicable legislation. A minority of directors are Benchers or employees of the Law Society of Ontario.

Board Composition

Annually, the Board reviews its composition to determine whether or not the Board is optimally structured to ensure the achievement of the corporate strategy and business plan. Also important is a regular assessment of the skills, experience and independence of those on the Board.

Board Responsibilities

The basic oversight responsibilities of the Board are described in its corporate governance framework, and include:

- **Corporate performance oversight:** The Board ensures that corporate management continuously and effectively strives to meet the two opposing goals of minimizing premiums and achieving a satisfactory financial result, taking account of risk.
- **Appointment of CEO and related human resources issues:** The Board appoints the CEO and approves the CEO's objectives, assesses his or her performance and determines compensation of the CEO. As well, the Board approves key appointments reporting to the CEO, reviews key executive performance and approves compensation policy and succession plans.
- **Strategic direction and policy:** The Board reviews and approves management's proposed strategic direction and policy matters, and ensures that policies on key issues, including exposure to various risks, are in place, are appropriate and are reviewed to ensure compliance with same.
- **Budgeting and planning:** The Board approves the Company's proposed budgets and other performance goals, reviews performance against goals and recommends corrective actions.
- **Risk Management:** The Board monitors all categories of risk affecting the Company's operations, approves risk management strategies and assesses risk management performance, including the Company's audit universe and its Own Risk and Solvency Assessment (ORSA).

- **Regulatory compliance and financial monitoring:** Through an independent audit committee, the Board requires and monitors regulatory compliance, appoints the auditor, oversees the audit process and reviews and approves financial reports. The Board also ensures that financial systems produce accurate and timely information, and that appropriate controls are in place.
- **Ensuring its own effectiveness:** The Board establishes committee structures that assist the effective operations of the Board, and enable a review and assessment of the Board's own performance.
- **Setting an appropriate cultural tone:** Through its support for the corporation's vision, mission and values and corporate social responsibility statement and its adherence to the Code of Business Conduct, the Board promotes a culture of integrity, exemplary business conduct, and due regard for the fair treatment of customers while acting in a commercially reasonable manner.

Board Committees

The members of the Board are assisted in fulfilling the responsibilities explained above through the following committees:

Audit committee

The audit committee assists the Board in monitoring:

- the integrity of the Company's financial reporting process;
- the financial and solvency risks that the Company is exposed to;
- the controls for managing those risks, including the internal audit function; and
- the independence and performance of the Company's external auditor and actuary.

Conduct review committee

The conduct review committee oversees the Company's compliance with the related party provisions of the Ontario insurance legislation.

Executive committee

The executive committee has the authority of the Board, subject to the limitations of law and those set forth in the Company's bylaws, to consider urgent matters that require action prior to the next Board meeting. Actions taken by the executive committee are reported to the full Board at the next meeting.

Governance committee

The governance committee:

- assists the Board in its oversight role with respect to: a) the development of the Company's corporate governance policies, practices and processes; and b) the effectiveness of the Board and its committees;
- identifies individuals qualified and suitable to become Board members and recommends the director nominees to each annual meeting of the shareholder;
- assists the Board in its oversight role with respect to: a) the Company's human resources strategy, policies and programs; and b) all matters relating to proper utilization of human resources within the Company, with special focus on management succession, development and compensation;
- oversees procedures for resolving conflicts of interest; and
- assists the Board in liaising with the shareholder.

Investment committee

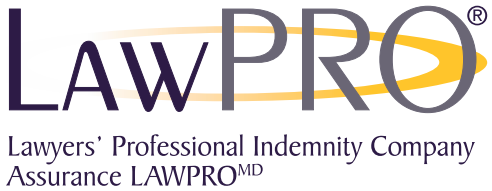
The investment committee:

- assists the Board and management in managing the invested assets of the Company;
- develops and monitors investment policies and guidelines;
- provides recommendations to the Board in connection with the hiring of external investment managers; and
- meets with and monitors the performance of external investment managers.

Risk committee

The risk committee assists the Board in monitoring all risks (other than financial and solvency risks) to which the Company is subject and overseeing the development and implementation of appropriate risk management policies and programs.

This report is available at lawpro.ca. To obtain copies of this report, please contact the Claims Prevention and Stakeholder Relations Department.
Pour obtenir une copie de ce rapport annuel, veuillez contacter le département de la prévention de réclamations et relations avec les intervenants.



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