WHAT WE DO

2022 ANNUAL REPORT

LawPRO®

Lawyers' Professional Indemnity Company

Our mission:

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

Contents

ABOUT LAWPRO

What we do:

LAWPRO provides primary errors and omissions coverage for Ontario lawyers, Excess insurance for law firms and title insurance across Canada. Through its practicePRO program, it offers risk and practice management information to help Ontario lawyers take proactive steps to avoid claims and grow successful practices. We are a professional liability powerhouse, committed to the values of professionalism, innovation, integrity, service and leadership.

Number of E&O claims reports to LAWPRO each year: approximately 3,000 or the equivalent of 12 per day

Who we serve

Number of insureds with primary coverage: 31,000 +

Number of exempt lawyers with automatic free lifetime Run-Off coverage: 21,000 +

Number of insureds who take advantage of a premium discount: 11,000 +

Percentage of all Ontario lawyers with LAWPRO coverage: 80% (in addition to the estates of over 6,200 deceased lawyers)

Why it matters:

By specializing in insurance for the legal profession, the company has a deeper understanding of claims trends and can identify and cope with emerging risks from the evolving nature of legal work.

LAWPRO coverage protects lawyers from the potentially catastrophic financial consequences of errors & omissions claims. When a potential claim arises, LAWPRO helps lawyers respond to the claim, defend the claim, and, if appropriate, settle the claim or pay damages. This insurance coverage also supports the interests of those who have a legitimate claim against a lawyer and ensures there will be funds available to compensate their losses.

Who we are

LAWPRO is a group of dedicated professionals working to help protect Ontario lawyers and the public.

Number of insureds' calls, emails and letters received by our customer service department: 28,500

Financial rating by AM Best, leading rating agency for insurance companies: "A (Excellent)"

Remarks
of the Chair

The report that follows shows how our insureds can count on LAWPRO for stability, knowledge, and support during challenging times.

One of the most stressful experiences in a lawyer's career is when they discover they've made a mistake. On an annual basis, more than 3,000 lawyers call us to report a real or potential claim. Providing a financially dependable insurance company with a claims department that understands the unique challenges of legal malpractice claims is what we do.

Litigation and real estate continue to be the areas of law with the most claims. Overall, miscommunications and inadequate investigation have been almost tied for the last two years as the most common errors causing claims. The claims summaries in this report will give you insights on how LAWPRO handles claims and when we went to court on behalf of our insureds.

The financial environment in 2022 was very different from anything we've experienced in recent years. Interest rates began their rapid increase with the Bank of Canada key rate growing to 4.25% from a low of 0.25%. This rate increase decreased the value of the Company's investments, but at the same time also reduced its claims liabilities.

LAWPRO and our insureds continue to deal with the ongoing impacts of the pandemic. For instance, litigation claims have decreased as a result of the courts slowly reopening after being closed during the early part of the pandemic. We don't know how this will impact us in coming years, but we are expecting an increase in claims when administrative dismissals recommence. Looking ahead, we are certain that the environment in which lawyers work will continue to change rapidly. This is one of the reasons it's important the Law Society has a properly funded E&O insurer. In times of change, a steady and dependable insurance program is imperative to providing an environment where insureds can thrive and continue to do what needs to be done to stay afloat while providing essential legal services to their clients. A.M Best, the well-known rating agency for insurance companies in North America rated LAWPRO A (Excellent) with a stable outlook again last year, as they have done for the last 22 consecutive years.

Insurance is built on underwriting risks and forecasting the cost of future errors. Although this is a complicated and difficult task, the desired outcome is clear: LAWPRO supports lawyers and protects the public they serve when claims occur. It is my honour to help lead the organization that continues to provide an excellent and stable insurance program for the legal profession in Ontario.

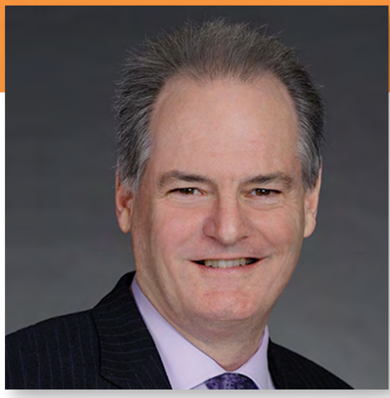
Andrew J. Spurgeon

Andrew J. Spurgeon
Chair

Remembering Malcolm Heins

Malcolm Heins was LAWPRO's first President and CEO and a driving force behind the creation of the Company and its growth for over 20 years. He was appointed CEO of the Law Society of Ontario in 2001, retiring in 2012. His impact on LAWPRO from it's first days and through the years will not be forgotten. We are grateful for his contributions and leadership.

Remarks
of the CEO



Daniel E. Pinnington

Daniel E. Pinnington
President & CEO

2022 continued to be a year of adaptation and innovation at LAWPRO. With the growing impact of new technology, rapid inflation, and increased political divisions, the world in which we work appears to be in the midst of a reset. Serving our customers well in such times of turmoil is my goal each day.

Coming out of the pandemic, LAWPRO remains in a solid position to continue to protect insureds at the lowest possible premium. Ontario lawyers can sleep easy knowing that the financial rigour to which LAWPRO is held by the Financial Services Regulatory Authority of Ontario (FSRA) means they can depend on their insurer to protect them when a claim arises, even if that occurs years after they have switched firms or left practice.

LAWPRO statistics indicate that over half of Ontario lawyers will have at least one claim brought against them during their career. Maintaining a financially stable insurer is therefore vital for the protection of the public and the continued viability of the profession.

LAWPRO is in the middle of a multi-year technology transformation. We are building a purpose-built system that integrates policy administration, underwriting, claims management and billing. It will result in increased efficiencies and give us advanced data analytics capabilities.

We continue to support real estate lawyers with TitlePLUS and are doing all we can to reduce the growing problem of real estate fraud. As we believe it helps with claims prevention, LAWPRO continued its financial support of the Member Assistance Program. In today's changing environment, our practicePRO program remains as relevant as ever as it continues to offer free resources to help lawyers avoid claims. Most importantly, LAWPRO continues to meet the mandate of providing protection for insureds while maintaining solvency and keeping premiums as low as possible. Over the past five years, the Company's combined operating ratio has averaged at 107%. This means that, on average, we lose seven cents on every dollar of premium before investment income. LAWPRO investments generally make up this loss and allow us to meet all regulatory requirements and remain a going concern. This ratio reflects our mandate to offer the best coverage possible at the lowest possible price.

I want to note new financial reporting requirements we must comply with. On January 1, 2023, the new International Financial Reporting Standards 17 (IFRS 17) were implemented for all insurance companies to standardize accounting globally to improve comparability and increase transparency. This new standard may have an effect on the capital requirements placed on the Company by our regulators in the next few years.

Economic uncertainty, the required implementation of IFRS 17, and changes resulting from the pandemic may give rise to increased challenges for LAWPRO going forward. Like other insurers, we will continue to explore how to adapt our operations to the changing demands of the environment in which we work.

What we did in 2022

WE RETURNED

(to the office)

Yes, we physically returned to the office. While LAWPRO's offices remained open throughout the pandemic, it was only in 2022 that all staff returned to regular attendance in the office through a hybrid work model. The opportunity to once again work side-by-side strengthened our team, helping us provide insureds with the best protection and claims assistance possible.

Our own return to normality was mirrored in the broader legal profession and in our claims portfolio. Claims continued to rebound from the temporary reduction seen in 2020. The bumpy exit from the worldwide pandemic continued in 2022, with a spike in real estate and fund redirection frauds, an increase in litigation claims reflecting the re-opening of the courts, and the continued trend of more wills and estates claims.

Looking forward, there continues to be uncertainty due to rising inflation, increasing interest rates, and when administrative dismissals will resume. LAWPRO continues to monitor and respond to these matters as they arise.

WE PROTECTED

insureds from thousands of E&O claims

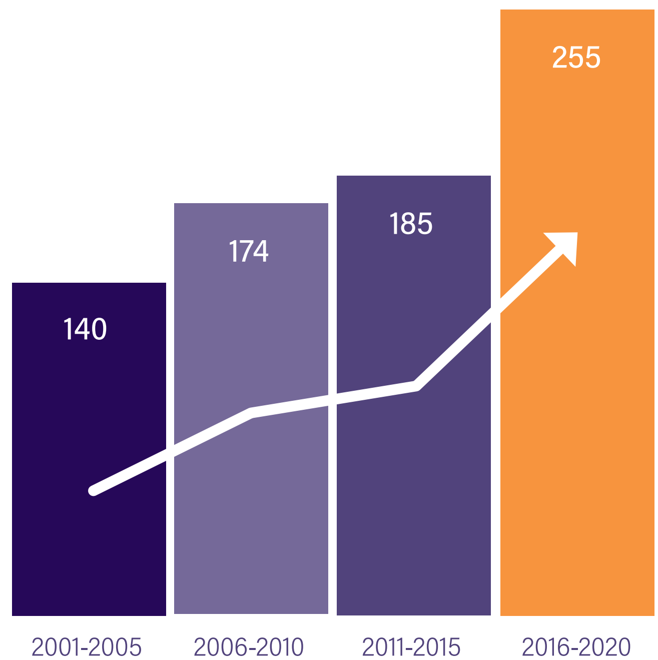
In 2022, we saw 2,910 new claims, a small reduction compared to the previous year. However, claims were still notably higher than the reduced number of 2,661 claims seen in 2020. It's possible that claims were inflated somewhat in 2021 due to a backlog of economic and legal activities that were on pause during the shutdowns of 2020. However, the long-term trend in claims count continues to show steady year-over-year growth as the legal profession expands and the complexities of legal matters continue to multiply.

Notably, the number of high-value claims continues to rise at a steady rate. The 5-year average number of high-value claims per year (claims over $100,000) increased to 255 for the 2016-2020 period. Many factors contribute to the rising cost of claims, such as years of growing real estate values and an aging population with substantial estates and corresponding legal complications.

LAWPRO stands prepared to respond to this growth and continue to provide the same reliable protection to our insureds.

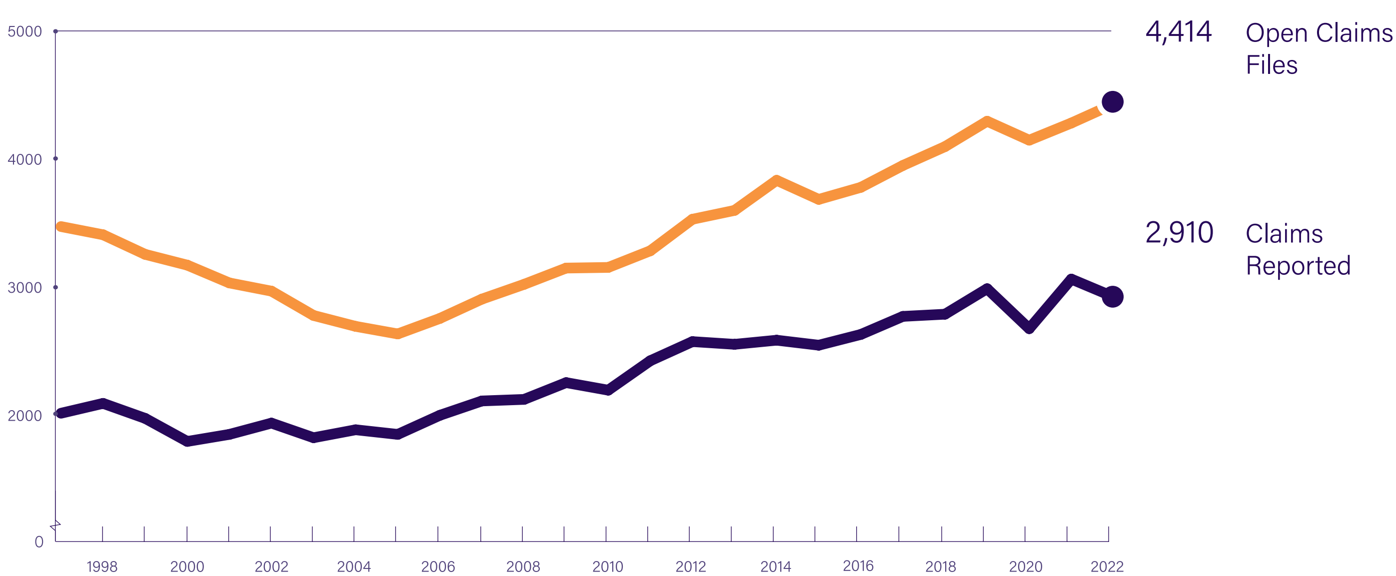
Average number of claims

with a value greater than $100,000



Number of claims reported and open claims

Total number of open claims at Dec. 31, 2022



WE ANALYZED
claim trends

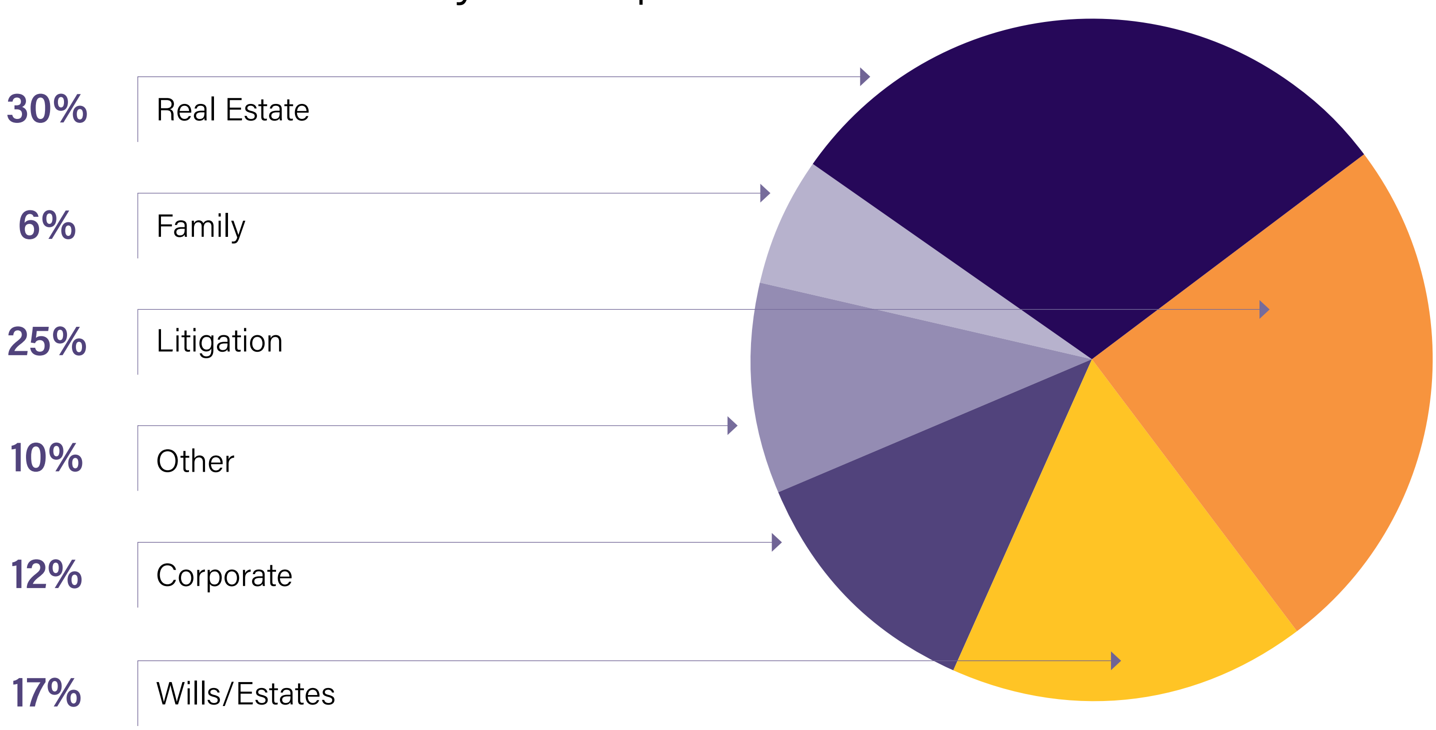
reported claims **30%**
RELATED TO REAL ESTATE

reported claims **25%**
RELATED TO LITIGATION

LAWPRO is always keeping an eye on claims statistics. By tracking changes over time, LAWPRO can respond to macro-trends and provide relevant claims prevention assistance to the profession.

In 2022, the largest percentage of reported claims continued to be related to real estate (30%) and litigation (25%). However, the number of litigation claims is still fewer than that seen in 2019, which may reflect the continuing hold on administrative dismissals, a policy initiated in response to the pandemic. Once the hold is eventually lifted, we may see a corresponding additional increase in claims numbers.

Distribution of claims by area of practice



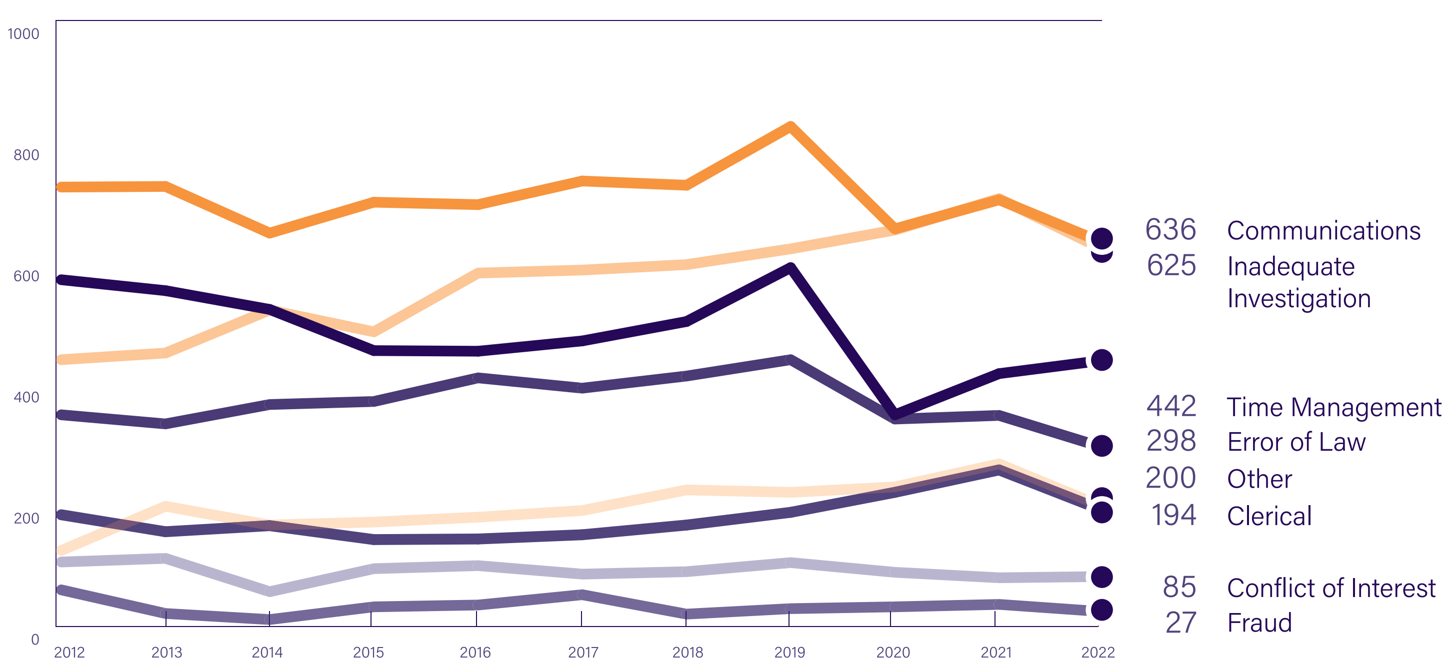
WE COLLECTED DATA

on causes of loss for insureds

The investigation of claims can take up to two or more years after an initial report. For this reason, LAWPRO is cautious when interpreting short term fluctuations in claims counts and the cause-of-loss data.

As in recent years, inadequate investigation, communication errors and time management mistakes caused the most claims. However, three years ago, in 2020, we saw a sharp decrease in the number of claims caused by time management and communication-related errors. This was largely due to changes brought on by the pandemic, such as the tolling of limitation periods and the closing of the courts. Reduced litigation activity translated to fewer litigation claims. The reduction in communication-related claims in 2022 was such that, for the first time in recent years, it was surpassed by "inadequate investigation" as the most common cause of claims. Last year, we started to see what appears to be a gradual return to the pre-pandemic distribution, with communication-related errors once again the number one cause of claims.

Reported claims count by cause of loss



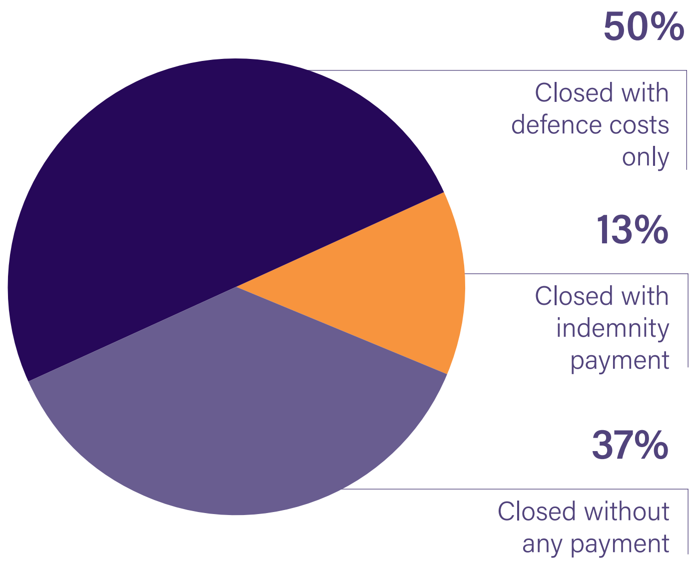
WE CLOSED CLAIMS

and gave insureds peace of mind

LAWPRO's claims management philosophy is to resolve claims quickly in situations where there is liability, defend vigorously if the claim has no merit, and avoid economic settlements. In 2022, 87% of claim files that came in were closed without any indemnity payments, whether by settlement or judgment. In fact, 37% of claims were closed without payment of any kind.

For claims that proceeded to litigation, LAWPRO was successful on five of seven claims taken to trial in 2022, as well as 20 of 22 summary judgment motions and five of eight summary judgment appeals.

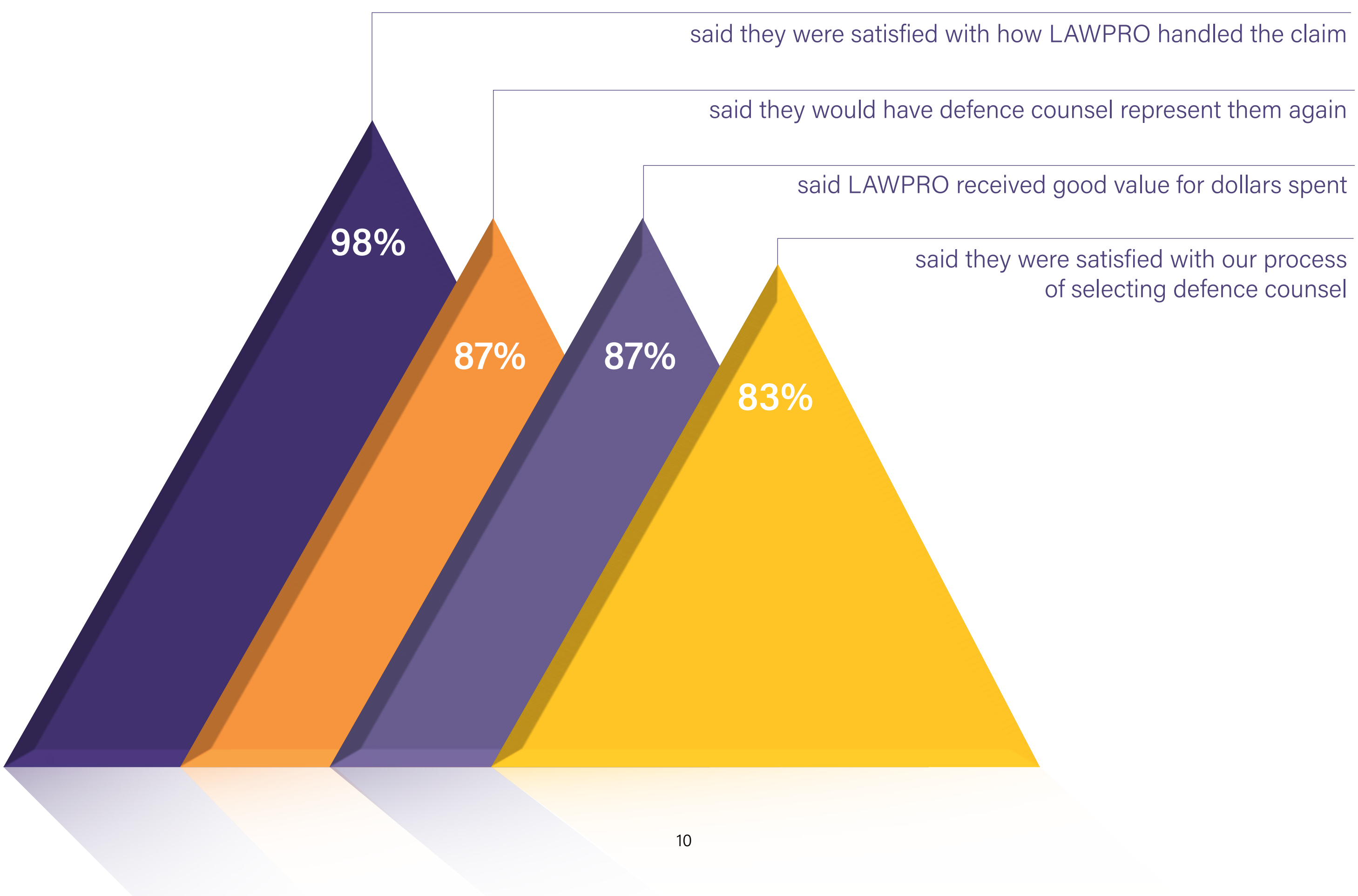
Claims by outcome



WE DELIVERED SERVICE

and value

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



WE PROVIDED PREMIUM STABILITY

to more lawyers than ever before

Under the primary E&O program, LAWPRO insured over 31,000 lawyers and paralegals.

Rapid inflation was a global phenomenon in 2022, and its impacts were felt by the Ontario legal profession and LAWPRO. To address increasing claims costs and meet minimum capital requirements set by our regulator, the Financial Services Regulatory Authority of Ontario, the base premium was increased to $3,250 for 2023. This will allow LAWPRO to continue to rely on the expertise of its external counsel and respond to the needs of our insureds. Despite this increase, the annual LAWPRO premium paid by most Ontario lawyers is lower today than it was in the past – something you won't find with just about any other type of insurance. In fact, as recently as 2016, the base LAWPRO premium was $3,350 -- $100 more than today.

KEEPING COSTS DOWN

Did you know?

If the base premium of $5,600 charged when LAWPRO was created were to be adjusted for inflation today, the premium would be $9,105.59. In other words, today's premium of $3,250 (adjusted for inflation) is approximately only 36% of what it was in 1995.

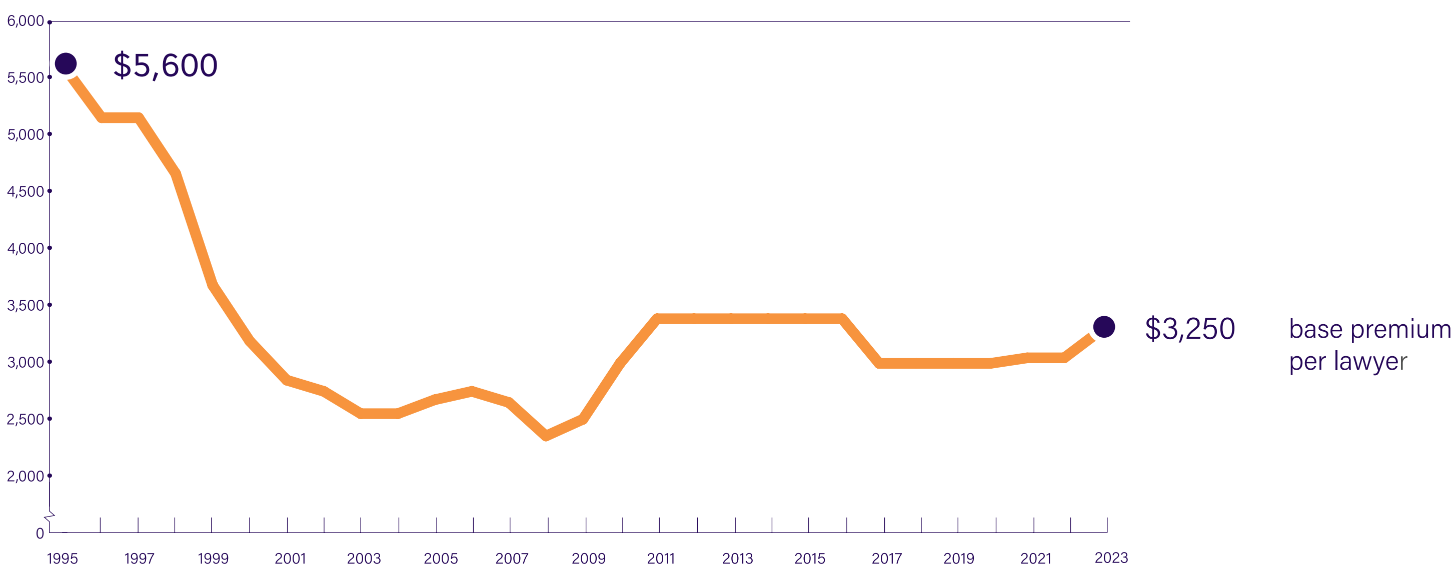
$3,250

2023 BASE PREMIUM

$3,350

7 YEARS AGO

Base premium since inception



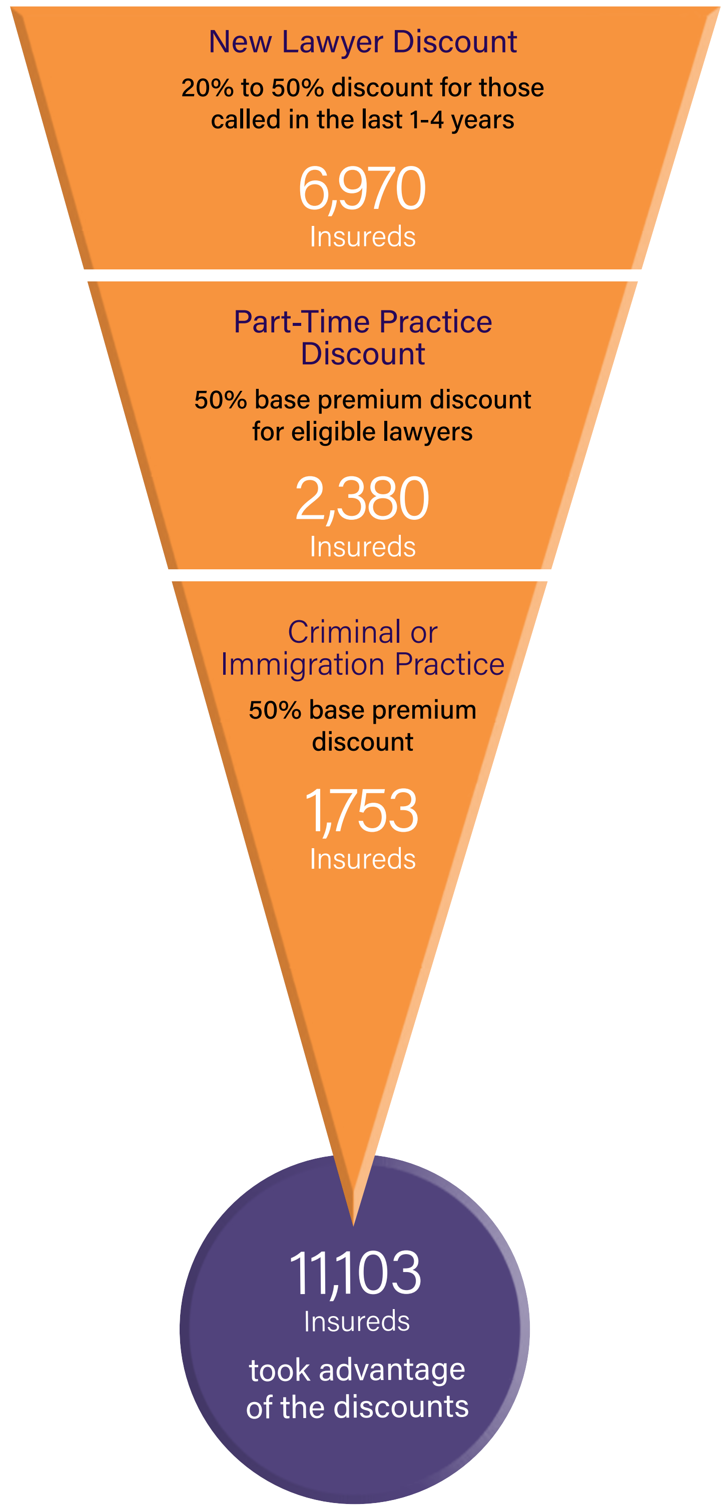
WE REDUCED THE COST

of insurance for many Ontario lawyers

One of the hallmarks of the LAWPRO E&O program is its flexibility. Lawyers have several 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. The number of lawyers availing themselves of these options continues to increase.

For new or retiring lawyers, LAWPRO offers reduced premiums to address their reduced risk profiles. New lawyers see fewer claims than those with more experience, which may be partly due to having less responsibility over various files than their senior colleagues. LAWPRO responds to the reduced risk inherent in new lawyers by providing premium discounts to those with less than four years of practice. This discount ranges from 50% of base premium (for lawyers with less than one full year in practice) to 20% of base premium (for lawyers with between three and four years in practice).

For lawyers that are retired or leave private practice, LAWPRO offers Run-Off coverage of $250,000 per claim and in the aggregate, at no charge. Additional coverage options are available for lawyers who need more protection beyond that amount. A number of increased Run-Off buy up options are available should a lawyer wish to maintain the same limits they had in private practice.



WE OFFERED

Excess Insurance

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 1,689 firms, representing 3,925 lawyers received their excess insurance from LAWPRO as at the end of 2022.

With 118 new firms opting to buy excess coverage from LAWPRO, our client base saw approximately 8% growth from the previous year. The Company's retention rate on excess business of 91% is evidence that this program meets the needs of the small and medium-sized firms of fewer than 50 lawyers that it is designed to serve.

LAWPRO's Excess program insures approximately 17% of lawyers employed in firms of 50 or fewer lawyers. Prudent underwriting and solid claims management have helped ensure that the Excess program is a successful line of business for LAWPRO.

Title Insurance

The TitlePLUS product and service was completely reengineered in 2021 with new features, policy wording, pricing structure, and website. Since then, TitlePLUS has continued to adapt to the changing real estate market in Ontario. Our policies also help address the growing risks associated with fraud for home owners.

The new platform was developed based on feedback from legal professionals and was built to address their need for fast, convenient title insurance without sacrificing comprehensive coverage.

TitlePLUS title insurance is the only wholly Canadian-owned title insurance product in Canada. It is underwritten by LAWPRO and protects not only Canadian homeowners and lenders, but also lawyers through included legal services coverage that covers errors and omissions made by the lawyer for the entire transaction, excluding properties in Quebec and Existing Owner policies.

WE SPOKE TO YOU

Consisting of approximately 25 team members, the Underwriting & Customer Service department is responsible for maintaining accurate records for all insureds, policy drafting, underwriting optional coverages, processing filings, answering questions from licensees, and much more.

The department is the point of contact for licensees seeking to renew, change or inquire about their insurance options. A new account is established soon after a lawyer is called to the Ontario bar, and existing accounts are adjusted as lawyers move their practice or move out of private practice entirely.

For years, the annual volume of correspondence received by the Underwriting & Customer Service department has been in the range of 20,000 to 25,000 pieces. But in 2022, it was more than 28,000.

Correspondence received by the UCS department is more than just coverage questions. It includes applications such as increased run-off, new applications for primary coverage, Excess applications, increased innocent party limits, exemption forms, notices about lawyers leaving and joining firms, refund requests, and many others.

LAWPRO addressed this increase in volume through the continued refinement of a cloud-based virtual call system and automated queue callbacks to better respond to customer inquiries in effective, convenient, and expedient ways.

What we did in 2022

REPAIRS

When LAWPRO is quickly alerted to real or potential claims, we are often able to rectify the problem, thereby preventing harm to a client and a malpractice claim from arising. Our counsel know how to best fix issues such as dismissal orders due to inadvertent missed deadlines, allegations of improper will drafting, minor errors on a real estate transaction, and *Handley/Aecon* motions.

REPAIRS

Here are a few examples of cases where LAWPRO successfully repaired potential losses in 2022

Annulling accidental admissions: Setting aside deemed admissions

Failure to respond to a Request to Admit during pre-trial litigation procedures can result in deemed admissions. If unintentional deemed admissions effectively settle the core issues of the case, this can be a big problem.

In this case, the Plaintiff provided a Defendant with a Request to Admit containing 57 different statements of alleged fact. Among these 57 statements were five that went to the core of the case and effectively settled the dispute. The Defendant responded to the Request to Admit with a mixture of admissions and refusals to admit. Unfortunately, due to oversight on the part of the Defendant's lawyer, no response, neither admissions or refusals, was provided on the five "core" Requests.

A year passed. Until, on the eve of trial, the Plaintiff applied for summary judgment on the basis of the Defendant's deemed admissions. The Defendant, now aware of the inadvertent error, applied to have the admissions set aside.

Despite acknowledging that the deemed admissions were likely made in error, the Plaintiff refused to consent to setting aside the admissions and contested the motion.

LAWPRO assisted the Defendant in having the deemed admissions set aside. The motions judge agreed that the Rules of Court encourage expeditious and efficient hearing of cases on the merits, and it would not be in the interests of justice for the case to be resolved solely on the basis of a minor oversight by the Defendant's lawyer.

The judge observed that there would be no prejudice to the Plaintiff in having the deemed admissions set aside that could not be resolved through costs.

Mending missed mediation mishaps: Setting aside dismissal orders caused by inadvertence

Everyone makes mistakes. That's why insurance is so important. Thankfully, LAWPRO can sometimes step in and get litigation back on track after an innocent mistake.

In this case, the Plaintiff's lawyer served a trial record a few weeks prior to the five-year deadline. Unfortunately, this record was rejected by the court because mandatory mediation had not yet taken place. The lawyer had inadvertently missed this requirement.

The Plaintiff's lawyer wrote to counsel for the Defendants seeking mediation and a revised timetable for the action. The Defendants, however, refused any extension and the Plaintiff was forced to seek an order for an extension of time from an associate judge at a status hearing.

At the status hearing, the associate judge acknowledged that the Plaintiff had intended to file and serve the trial record prior to the court deadline, and had only failed to do so through the lawyer's inadvertence in missing the mediation requirement. The judge also found that the Defendants would not be prejudiced if the action were allowed to proceed.

However, the judge took issue with a two-year period of unexplained delay on the part of the Plaintiff prior to their filing of the trial record. Specifically, the judge noted that this long period of delay would have made the claim vulnerable to dismissal at a status hearing. The judge therefore refused to grant the requested extension of time and dismissed the action.

The Plaintiff appealed this decision.

LAWPRO assisted the Plaintiff in successfully arguing that the judge made a palpable and overriding error by considering whether the long period of delay would have made the claim vulnerable to dismissal at a status hearing. But for the Plaintiff's lawyer's inadvertent error in missing the mediation requirement, the action would have been properly set down for trial and no status hearing would have occurred.

The appeal judge agreed that the overall justice of the matter also required the action to continue, as the Plaintiff was ready to proceed, there would be no prejudice to the Defendants, and the missed deadline was solely due to lawyer inadvertence.

The appeal was granted and the Plaintiff's claim was allowed to continue.

The unsettled state of settlement agreements: *Aecon/Handley* motions

In multi-party disputes, a settlement with one or more defendants that changes entirely the landscape of the litigation in a way that significantly alters the adversarial relationship among the parties, or the dynamics of the litigation, requires immediate disclosure to any remaining defendants, lest the action be stayed for abuse of process. But what does and does not fit this description can be an opaque question.

In this case, a claim perfecting a construction lien was advanced by a property management service (the "Original Plaintiff") against the owners of an apartment building (the "Owner Defendants") and the asset management company they contracted to manage the building (the "Management Defendants").

Soon after the claim was served, and prior to the Management Defendants advancing their own pleadings, the Original Plaintiff settled with the Management Defendants. Part of that settlement included an assignment of the claim against the Owner Defendants to the Management Defendants.

The Owner Defendants subsequently sought to have the matter dismissed as an abuse of process, claiming this settlement and assignment should have been "immediately" disclosed under the rules stated in *Aecon* and *Handley*.

LAWPRO assisted the plaintiff in successfully arguing that the settlement agreement did not "alter the adversarial orientation of the parties in any material way." The court emphasized that the settlement and assignment occurred prior to the Management Defendants advancing any pleadings, and there was therefore no evidence that the Management Defendants ever disputed the Original Plaintiff's claims. As well, the court noted that the Management Defendants and Owner Defendants were already adverse in interest, as the Owner Defendants had taken the position in their pleadings that the Management Defendants had breached their property management agreement.

The Owner Defendants' motion was therefore dismissed.

Whose claim is it anyway? More problems with *Pierringers*

In a multi-party suit, settling claims against one defendant while the action proceeds against the remaining defendants will often result in a *Pierringer*-type agreement between the plaintiff and the settling defendant. In order to ensure that the settling defendant is relieved from potential liability flowing from cross-claims from the remaining defendants, these agreements will often limit the plaintiff's ability to seek damages from the remaining defendants to those defendants' several liability. That is to say, the proportion of damages attributable to the settling defendant cannot also be sought from the remaining defendants.

In this case, the Plaintiff's settlement with one defendant expressly limited the liability of the remaining defendants that could be pursued by the Plaintiff to the remaining defendants' several liability. However, the matter also involved various third-party claims brought by the remaining defendant.

The third parties to the claim took the position that the settlement agreement between the Plaintiff and the settling party effectively nullified the third-party claims. The remaining defendant took the position that the third parties were not party to the settlement agreement, were not intended to benefit from it, and the language should not be read to interpret it as such.

LAWPRO assisted the plaintiff's lawyer in having this motion dismissed. The motion judge agreed that the settlement agreement did not, in any way, impact the liability of the third parties or limit the remaining defendant's ability to seek damages from the third parties. This decision was upheld on appeal.

Troublesome testamentary typos: Rectifying drafting errors from the use of multiple wills

Complex estates often require complex estate planning for the purposes of, among other reasons, reducing probate taxes. However, the more complex the testamentary document or documents, the more likely an error may occur.

In this case, the deceased had created both a primary and limited will for the purpose of avoiding probate taxes on the shares of a closely held corporation. Both wills were intended to be read harmoniously. Unfortunately, the primary will contained a drafting error in that it expressly applied to "all property" of the deceased, rather than all property excepting the shares of the closely held corporation.

Because of this error, the two wills were contradictory, as both appeared to deal with the shares of the corporation. Not only would the estate be liable for a substantial additional probate tax if the shares were dealt with under the primary will, but the court would not even issue probate under the primary will because of the conflict in the two documents.

The executor of the estate therefore sought construction and, if necessary, rectification of the two wills to comport with the testator's intent.

LAWPRO assisted the applicant in successfully arguing that rectification was not necessary, as the testator's intent could be inferred from the context of both documents along with affidavit evidence provided by the lawyer that drafted the documents as to the testator's intentions at the time of drafting. Therefore, probate was able to be granted excluding the corporate shares, in accordance with the original intentions.

Small fixes now prevent big problems later

Immediately notifying LAWPRO of potential errors or omissions means steps can be taken to resolve the situation before it develops into a malpractice claim. If you make an error or believe you could be accused of making an error down the road, don't try to resolve the problem on your own. A call to LAWPRO means we can provide expedient and experienced advice and assistance.

What we did in 2022

DEFENDING LAWYERS IN COURT

Despite attempts to resolve claims without litigation, sometimes court is inevitable. Every year, LAWPRO steps in to defend licensees from frivolous lawsuits and accusations.

DEFENDING LAWYERS

Here are a few examples of defences successfully advanced by LAWPRO in 2022 on behalf of insureds

Tax and contract litigation – Allegedly failing to follow explicit client instructions

Lawyers themselves can sometimes make for challenging clients. As backseat drivers, they may feel they know more or are better qualified to make strategic and procedural decisions than the lawyer they have retained.

In this case, a Lawyer-client (the "Plaintiff") retained an Ontario law firm to handle a complex tax and contract dispute between the Plaintiff and the Plaintiff's son. The dispute between the two parties was complex, with multiple mostly unrelated suits being pursued simultaneously in different jurisdictions.

The Ontario lawsuit involved a dispute over taxes owing to the CRA by the estate of the Plaintiff's father. The Plaintiff had arranged for their son to be the beneficiary of the Plaintiff's father's estate, in name only, so as to avoid various creditors. The Plaintiff was also the executor and trustee of their father's estate, and was responsible for paying taxes and other fees. The CRA, claiming the taxes were unpaid, demanded payment from both the Plaintiff and the Plaintiff's son.

The Plaintiff's son maintained that he did not, in fact, receive the proceeds of the estate, as he was beneficiary in name only, and sought indemnification from the Plaintiff. The Plaintiff maintained that the CRA was mistaken and all relevant taxes were paid.

Unfortunately, the dispute between the Plaintiff and the son came to litigation, and the Plaintiff retained the Defendant Lawyers to handle the case. After the conclusion of litigation between the Plaintiff and their son, the Plaintiff sued the Defendant lawyers for malpractice and breach of the terms of the retainer, seeking an order returning all legal fees paid as well as an order that the Defendant Lawyers pay all costs ordered and legal fees incurred pertaining to the legal dispute between the Plaintiff and their son.

The Plaintiff alleged that it was an implied term of their retainer with the Defendants that the more senior lawyer handling the file would attend all court appearances personally. As well, the Plaintiff alleged that they had explicitly instructed the Defendants to "immediately" proceed with a motion for security for costs, as it would pressure the Plaintiff's son into dropping the case. Finally, the Plaintiff alleged that the Defendants were negligent by failing to advance a claim for subrogation, assignment, and/or carriage of the CRA tax proceeding.

LAWPRO successfully assisted the Defendant Lawyers in refuting the Plaintiff's allegations. The court found that it was not an express or implied term of the retainer that the more senior lawyer would attend all court appearances personally--while the Plaintiff had expressed a desire for this, the more senior Defendant had never assured the Plaintiff it would occur. With regards to the alleged strategic failures, the court found that the Plaintiff had accepted the timing of the procedural matters brought forward by the Defendants during the course of the retainer, and had not expressly instructed the Defendants to pursue a motion for security for costs immediately. Finally, the Plaintiff conceded during testimony that they had not, in fact, instructed the Defendants to advance a claim for subrogation, assignment, and/or carriage of the tax proceeding "other than by implication." Because the Defendant lawyers had reasonably followed the Plaintiff's instructions, the court rejected the claim of negligence.

Real estate purchase and sale agreements – Allegedly bad legal advice

A client involved in litigation often has one question above all others: What are the chances they'll win? Although lawyers will often use statistical language to describe potential outcomes (a "50/50 chance", a "60% chance of success", a "long shot 25% chance of winning"), giving a reasonable answer is more of an art than a science.

It's natural to want to express confidence against daunting odds, especially to a client that has put their faith in a lawyer's abilities, but expressing unreasonable confidence to a client can be dangerous if it encourages the client to proceed with a weak claim.

In this case, the Plaintiff had entered into two residential real estate purchase and sale agreements in the Greater Toronto Area. A subsequent drop in real estate prices, coupled with the identification of potential negatives regarding the properties after the agreements had already been signed, led the Plaintiff to seek advice from the Defendant Lawyer on extricating himself from one of the agreements.

According to the Plaintiff at trial, the Defendant Lawyer had initially informed the Plaintiff that there was a "100 to 120% chance" that they could extricate the Plaintiff from the unwanted deal. Unfortunately, although there were a few initial avenues of exploration for potential ways to vitiate the contract, it soon became clear that there was no viable way to walk away from the agreement.

For their part, the Defendant Lawyer denied expressing any such absolute confidence in success.

The Plaintiff failed to close the deal and was sued by the vendors for breach of contract. The Plaintiff eventually paid a settlement amount and sought damages from the Defendant lawyer for negligent legal advice.

LAWRO successfully assisted the Defendant Lawyer in rebutting the Defendant's accusations. Although a client's testimony and recollection of events is often given greater weight in determining what advice was or was not given, the trial judge found the Plaintiff's testimony to be unreliable due to the Plaintiff's admission that they had made various false statements, including as to whether or not they had the funds to close the disputed real estate transaction in the first place. Additionally, the Defendants Lawyer's own notes and written correspondence with the Plaintiff supported the Defendant's position that they had warned the Plaintiff that the chances of success were low. The court rejected the allegation that the Defendant Lawyer fell below the standard of care.

Criminal law – Ineffective counsel accusations

Ineffective assistance of counsel claims, as an independent basis for appeal, can sometimes arise against defence counsel after unsuccessful criminal trials, regardless of their possibly tenuous basis. Criminal trials are complex beasts, and Defendants can sometimes be overwhelmed by the stakes involved and confused by the procedural and strategic nuances. Nevertheless, it is incumbent on the lawyer to ensure that their client makes informed decisions about key elements of their case, to a reasonable standard of care.

In this case, the Defendant had been convicted of impaired driving and driving with a blood alcohol content over the legal limit. The driver was initially not present at the scene of the accident, and the damaged vehicle was discovered abandoned on a grassy median. Shortly after the police arrived at the scene of the accident, the criminal Defendant arrived on the scene by foot. During this period the Defendant also made a 9-1-1 call to report the accident. Officers at the scene described the Defendant as "walking very, very slowly", "stumbling", and "out of balance", and amphetamines and oxycodone were found in the vehicle.

The Defendant initially denied driving the car, although over the course of conversations at the scene of the accident the Defendant allegedly changed their position to saying they were driving the car, before correcting themselves to again say that they were not the driver.

The Defendant was arrested for impaired driving and retained a Lawyer to defend the case. The Defendant continued to claim that they were not driving the vehicle in question, and pressed their Lawyer to present evidence to that effect. The Defendant provided the Lawyer with the name of a potential witness that could corroborate this story.

The Lawyer, on reviewing the case, determined that this proposed witness would be unreliable and unhelpful. Further, the Lawyer advised the Defendant that they should not testify at their own trial, as their story had changed multiple times during not only their conversations with attending police officers, but during the recorded 9-1-1 call itself. The Defendant agreed with the Lawyer's assessments and declined to testify.

The Defendant was found guilty and appealed the case on the grounds of, among others, ineffective assistance of counsel. The Defendant alleged that they were not permitted to testify in their own defence, that the Lawyer did not follow their instructions, and that the Lawyer had failed to pursue strong arguments, including an allegation of excess force against an arresting officer when the officer took the Defendant's phone out of their hand at the scene of the accident.

LAWPRO successfully assisted the Lawyer in showing there was no ineffective counsel or negligence in the conduct of the trial. The judge found that the Defendant had been properly informed of the reasons against testifying and had agreed with the Lawyer's recommendation. Further, the court found that the Lawyer "provided clear and reasonable advice to [the Defendant] from the commencement of [their] retainer" and provided "reasonable and appropriate" recommendations.

Family law – Claims against adverse lawyers

It is difficult for a client to pursue a claim against the opposing party's lawyer. In this case, the Plaintiff was unhappy with her matrimonial settlement. She alleged that the opposing party's lawyers conspired with her adult children to commence and advance divorce proceedings when her former husband lacked capacity and allegedly "did not want to be divorced."

The Defendant lawyers argued that the correct venue to argue as to whether or not the divorce proceedings were a "sham", so to speak, was the divorce proceeding itself. Once that proceeding concluded by way of settlement, it was an abuse of process to attack it. Additionally, the Defendants maintained that they owed no duty of care to the Plaintiff.

LAWPRO successfully assisted the Lawyer in defending the claim. The court agreed that the matter was an abuse of process and an attempt to relitigate the divorce proceedings. The Plaintiff was aware of the questions regarding her husband's capacity, and could have advanced the conspiracy and tort claims against her children during the divorce proceedings. The court also agreed that the Defendant Lawyers owed no duty of care to the Plaintiff as the opposing party in the divorce proceedings.

Corporate law – Limitation periods, settlements, and abuse of process

Limitation periods exist to give peace of mind to would-be-defendants and avoid the dangers of deterioration of evidence and memories over time. This can sometimes be frustrating for plaintiffs who discover new evidence or information down the road that could have strengthened an abandoned case.

Those were the alleged facts in this matter. The dispute involved the finances of a closely held family business. The business was built by two brothers over many years. After one of the brothers passed away, the deceased brother's family (the "Plaintiffs") took issue with the way the remaining brother (the "Defendant Brother") was running the business and suspected potential misappropriation of funds. In 2006, the Plaintiffs initiated a lawsuit against the Defendant Brother.

However, primarily due to the costs of pursuing the lawsuit, the Plaintiffs eventually settled with the Defendant Brother, who was bought out of the company as part of the settlement. Many years later, in 2019, the Plaintiffs pursued a new action against the Defendant Brother along with other parties, including the Defendant Brother's lawyers (the "Lawyer Defendants"). This new claim advanced many of the same claims as the original 2006 lawsuit, with the addition of claims of conflict of interest and bad faith against the Defendant Lawyers.

One of the foundations of the new, 2019 claim was the apparent discovery of evidence suggesting that the Lawyer Defendants were acting in a conflict of interest during the 2006 period by representing both the Defendant Brother in his personal capacity as well as the family business.

The Defendants all alleged that this matter was barred by the settlement agreement concluding the 2006 action, which expressly waived all claims against the Defendant Brother and his representatives. The matter was also statute barred by the expiration of the 2-year limitation period, since the events at issue had all occurred prior to 2006. Finally, the Defendant Lawyers claimed that they owed no duty of care to the Plaintiffs, as the Plaintiffs were not and never had been their clients.

LAWPRO successfully assisted the Defendant Lawyers in having the claim dismissed on summary judgment. The court found that the Plaintiffs had discovered these claims prior to the 2006 action, and they were now statute barred. The discovery of new evidence that could potentially bolster the case does not extend the running of the limitation period, as it did not lead to the discovery of a new claim. Further, the settlement of the 2006 action barred any future suits on the same facts as an abuse of process. The court found that the Plaintiffs were also barred from pursuing the claim against the Defendant Lawyers, as the Plaintiffs could not evade the abuse of process claims by simply adding a new defendant.

Additionally, the court agreed that the Defendant Lawyers owed no duty of care to the Plaintiffs, as the Plaintiffs were not their clients.

Standing firm

A malpractice claim doesn't necessarily mean a lawyer made a mistake, but a defence still needs to be raised. LAWPRO was successful on five of seven claims taken to trial in 2022, as well as 20 of 22 summary judgment motions and five of eight summary judgment appeals. LAWPRO provides effective assistance and prides itself on defending licensees.

What we did in 2022

WE HELPED:

The practicePRO program

The practicePRO program provides risk management, claims prevention and law practice management information for free. Its resources, precedents and checklists are intended to help Ontario lawyers take proactive steps to avoid legal malpractice claims and grow successful and thriving law practices.

In 2022, practicePRO focused on continuing to help lawyers adapt to workplace and practice changes brought about by COVID-19, the ongoing and evolving varieties of fraud, and areas of law with increased claims risks.

practicePRO's multi-pronged fraud prevention approach continued to address wire fraud while also taking on the rapid emergence of ID frauds. Efforts included sending an Alert to educate lawyers about real estate frauds involving private mortgages, regularly speaking on fraud issues at continuing professional development programs, and holding a LAWPRO CPD in September 2022 focused on educating insureds about both wire fraud and ID frauds.

Click each resource to learn more about top programs offered by practicePRO in 2022:

Setting S.M.A.R.T. goals

This worksheet to help define goals that are Specific Measurable Achievable Relevant and Time-based.

CPD: Tips for corporate/ commercial lawyers

This program with three LAWPRO speakers includes a number of practicePRO resources including the corporate/commercial claims fact sheet, conflict of interest tips, commercial transactions checklist and extensive coverage of fraud and cybercrime risks.

CPD: Tips for Wills & Estates Lawyers

Leading wills and estates lawyers and LAWPRO counsel discuss practice trends and tips for success. Over 1,000 views since it was posted on YouTube.

Series opener: Time Management Tips Tuesdays

Time and deadline errors account for 20% of LAWPRO claims. These weekly tips aimed at helping lawyers maximize their time and productivity, include topics like settings goals and fighting procrastination.

CPD: Family Law Tips

Key risk areas in family law and how to effectively manage them are discussed in this CPD. The program materials include the family law claims tip sheet, the family law intake process and how to communicate better with clients over the phone.

Free legal research resources for lawyers and law clerks

This article recommends free sources of legal research including CANLII, local law libraries, law blogs and Law Society resources.

Update about fund transfers

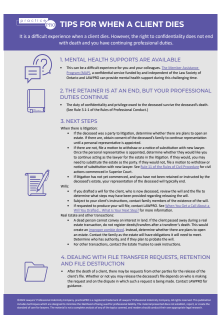
This article looks at how lawyers receive and deliver money from their trust accounts on behalf of their clients as part of a transaction. It discusses the current payment system and attempts to modernize it, the risks of fraud, and links to additional information from the Canadian Bar Association's lender-lawyer working group.

LAWPRO Magazine: After Covid-19

This issue features a discussion of how firms can adjust to the new reality of remote work and client expectations as the COVID pandemic receded. It includes articles on changes to the Planning Act and what to do if you have been duped by fraudsters into wiring funds to the wrong account. In addition to being emailed as a web version to all Ontario lawyers, it has been downloaded in full over 1,800 times.

This AvoidAClaim.com post alerts real estate lawyers to the new federal Underused Housing Tax

Lawyers acting for non-resident non-Canadian purchasers were given notice to forewarn their clients of the tax and filing obligations that would come into effect January 1, 2023.



Tips when a client dies

This tip sheet explains the steps to take upon learning that a client has passed away, depending on whether the matter involved litigation, wills or real estate, as well what a lawyer should do if they receive a request to transfer their file.

CPD Survival Tips to Prevent Fraud

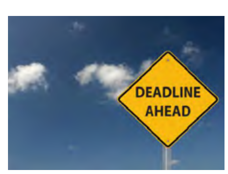
A follow-up to the Avoiding the Wire Fraud Nightmare CPD from December 2021, this program draws on actual frauds and close calls, reviews the most recent fraud efforts targeting lawyers, law firms and their clients, and provide practical tips to help manage these risks.

Getting started on investing in tech

This article addresses the key concerns that lawyers, paralegals and legal professionals should consider when investing in new technology. It provides tips to get started, and key questions to consider. A technology product assessment worksheet is included with the article.

CPD: Tips for real estate lawyers

LAWPRO is seeing a range of real estate claims and new dangerous real estate frauds. Three LAWPRO speakers shared practical tips about key risk areas.



Small Claims Court deadline change

Reminder lawyers of a change in deadline (3 days to 10 days) in Small Claims Court to email documents to staff.

practicePRO®

Most downloaded resources in 2022

1 Check your cheques: Five ways to spot fraudulent cheques

2 Tips for calculating limitations deadlines accounting for the COVID-19 emergency suspension period

3 Non-resident Sale Holdback Flowchart

4 Subdivision Control under the Planning Act. What do you need to know?

5 General Retainer Letter

6 CPD: Tips for Advocates

7 CPD: Avoiding the wire fraud nightmare: What you need to know to protect yourself and your clients

8 CPD: Tips for Wills & Estates Lawyers

9 CPD: Diversity, Inclusion & Cultural Competence to Avoid Claims

10 Limitations and Notice Periods Chart

11 Tendering correctly: Preserve your client's rights (and avoid a claim!)

12 The Top 10 changes to the Planning Act you need to know about and why

13 CPD: Survival Tips to Prevent Fraud

14 CPD: Family Law Tips

15 Managing Conflict of Interest Situations

WHAT WE VALUE

is built into everything we do

Corporate Social Responsibility at LAWPRO is informed by a 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

Supporting our future legal community

LAWPRO's efforts and activities to support law students included 14 presentations at law schools, LPP programs and colleges and the sponsorship of the annual Caron Wishart Memorial Scholarship, which went to University of Toronto Faculty of Law student Ethan Lewis.

We published four issues of LAWPRO Magazine, including the New Lawyer edition featuring interviews with lawyers from across the province about what they love about being a lawyer. Outreach efforts included interacting with insured and exempt lawyers, law students, law associations, cultural and equity groups, and MPPs and government staff. LAWPRO employees gave almost 100 presentations to lawyers and associations.

Promoting health and wellness

In furtherance of LAWPRO's commitment to advancing mental health awareness, LAWPRO provided approximately one-half of the funding for the Law Society arm's-length Member Assistance Program (MAP).

Lawyers are exposed to high levels of stress on a daily basis. Stress and the problems it creates can be contributing factors in many LAWPRO claims.

In 2022, LAWPRO rolled out sessions of the Mental Health Commission of Canada's "The Working Mind for the Legal Sector" (TWM) program to reduce the stigma around mental health and create a culture that fosters greater awareness and support for mental health in the workplace. A paid day off ("Me Day") was also provided for employees to use to recharge anytime during the year.

Highlighting the importance of inclusion

LAWPRO continued its Equity, Diversity and Inclusion journey in partnership with the Canadian Centre for Diversity and Inclusion. Free webinars and resources were shared by the EDI Advisory Group to raise awareness and initiate dialogue.

In 2022, as a reminder of the need to pursue truth and reconciliation, LAWPRO installed an onsite land acknowledgment in the main lobby - an original, acrylic on canvas painting by Anishnaabe artist Roy Thomas entitled Air Land Water Fire, which depicts the Life Spirits in traditional teachings.

Giving back to the Canadian community

Over 90% of employees participated in LAWPRO's employee-led charitable giving program and the funds raised were matched by LAWPRO. LAWPRO continued to encourage employees to take a paid day to volunteer at an eligible charity of their choice. Other initiatives included running a food drive and participating in Partners for Life (Canadian Blood Services).

To strengthen our community, LAWPRO staff nominate and elect five charities to support each year through employee payroll deductions and special events. In 2022, $31,230 was raised for the following five charities: Canadian Fanconi Anemia Research Fund, The Toronto Humane Society, The equality effect, Daily Bread Food Bank and Minwaashin Lodge - Aboriginal Women's Support Centre. LAWPRO employees are proud to support charities that are doing critical work to build a more just and equitable future.

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, 2022, in comparison with the year ended December 31, 2021. 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 2022 the Company generated a loss of $7.2 million, a decrease of $9.4 million over 2021, and experienced a comprehensive loss of $24.4 million, a decrease of $40.6 million from 2021.

Premiums

Gross written premiums decreased by $2.5 million to $126.4 million, mainly due to reduced real estate transaction levies. Premiums earned, net of reinsurance ceded, decreased by $3.0 million to $118.6 million in 2022. Gross written premiums from the mandatory Ontario errors and omissions ("E&O") insurance program were $2.7 million lower than 2021 results. The optional excess E&O insurance program grew by $0.5 million in the year, while TitlePLUS premiums decreased by $0.3 million from 2021 results.

Net claims incurred

Incurred claims in 2022, net of reinsurance recoveries, was $16.6 million lower than in 2021. Due to a significant increase in market interest rates in 2022, discounted actuarial reserves were decreased by $41.7 million compared to a decrease of $8.2 million in 2021. Undiscounted reserves were increased by $2.9 million for prior fund years (compared to favorable development of $8.3 million in 2021 which decreased reserves).

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% retention in the optional excess E&O 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 2022 were $3.7 million higher than 2021, and $5.3 million lower than its annual budget, primarily due to salaries and benefits, professional fees, and information systems related expenses. The increase from 2021 was due to unusually low expenses due to the pandemic and additional costs related to the implementation of IFRS 17, whereas the lower expenses to budget were mainly timing related.

Commissions earned

The Company earned reinsurance commissions of $1.7 million on premium ceded in respect of its 2022 optional excess E&O insurance program, compared to a similar result of $1.5 million in 2021.

Investment income

Investments generated a $13.8 million loss in 2022, a $22.8 million decrease from 2021 income of $9.0 million. Investment income from interest and dividend receipts increased by $3.2 million to $17.3 million, primarily due to the rising interest rates. The Company experienced a $23.5 million change in unrealized losses on its fixed income security portfolio used to match its claims liabilities, compared to $13.7 million change in unrealized losses in 2021. In addition, there was $25.4 million change in unrealized losses in the Company's surplus portfolio, compared to a $17.3 million unrealized gain in 2021. The Company had net realized losses on the total investment portfolio of $6.1 million in 2022 compared to a realized gain of $10.0 million in 2021. The losses in 2022 were mainly due to the movement in the Bank of Canada key rate from 0.25% at the start of the year to 4.25% at year end and poor performance of equity markets.

Statement of comprehensive income

Other comprehensive loss

During 2022, LAWPRO experienced other comprehensive loss of $17.1 million, primarily due to a significant increase in net unrealized losses on its surplus investment fixed income products. These results compare to other comprehensive income of $14.0 million experienced during 2021.

Statement of financial position

The Company ended 2022 with shareholder's equity of $261.4 million, down $24.4 million from last year. $18.7 million of the decrease was in other comprehensive income and $5.7 million in retained earnings. The latter was comprised of $7.2 million in net loss offset by and $1.6 million in remeasurement gain on the supplemental designated executive plan transferred from other comprehensive income.

Investments

As of December 31, 2022, the market value of the Company's investment portfolio was less than its cost base by $13.3 million, compared to 2021 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 $53.5 million to $684.5 million as of December 31, 2022. This reflects the overall poor performance of the fixed income portfolios.

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.

Claims liabilities

The claims liabilities represent the amount required to satisfy all the Company's obligations to claimants prior to reinsurance recoveries. This balance decreased by $27.6 million in 2022. As Reinsurance recoverables decreased by $18.4 million, the decrease in the net provision is $9.2 million. This decrease is attributable to the increased discount rate which reflects the significant increase in interest rates from year end 2021 to 2022.

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 E&O 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.

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 23, 2024

Dan Pinnington	*Krista Franklin*
Daniel E. Pinnington	Krista Franklin
President & CEO	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, 2021 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, 2022;
- 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 significant accounting policies and other explanatory information.

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.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1416 863 1133, F: +1416 365 8215

Independent Auditor’s Report

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 24, 2023

Appointed Actuary's Report

ECKLER

February 16, 2023

I have valued the policy liabilities including reinsurance recoverables of Lawyers' Professional Indemnity Company for its statement of financial position as at 31 December 2022 and their changes in the statement of income 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.

Louis-Christian Dupuis, FCAS, FCIA

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

Statement of Financial Position

Amounts stated in thousands of Canadian dollars

AS AT		DECEMBER 2022	DECEMBER 2021
Assets			
Cash and cash equivalents	$	35,741	24,473
Investments (note 5)		645,130	710,522
Investment income due and accrued		3,583	2,924
Due from reinsurers		1,339	123
Due from insureds		2,150	2,221
Due from the Law Society of Ontario (note 13)		11,541	6,908
Reinsurers' share of provisions for: Claims liabilities (note 10)		31,173	49,583
Other receivables		5,497	476
Other assets		6,051	3,744
Property and equipment (note 7)		9,902	10,637
Intangible asset (note 8)		2,577	1,906
Income taxes recoverable		6,754	415
Deferred income tax asset (note 15)		11,233	5,397
Total assets	**$**	**772,671**	**819,329**
Liabilities			
Claims liabilities (note 9, 10)	$	490,008	517,596
Unearned premiums (note 11)		1,316	1,267
Due to reinsurers		893	944
Due to insureds		38	29
Expenses due and accrued		9,026	3,267
Lease liabilities (note 9)		9,437	9,859
Other taxes due and accrued		522	586
	$	**511,240**	**533,548**
Equity			
Capital stock (note 17)		5,000	5,000
Contributed surplus (note 17)		30,645	30,645
Retained earnings		221,794	227,465
Accumulated other comprehensive income		3,992	22,671
	$	261,431	285,781
Total liabilities and equity	**$**	**772,671**	**819,329**

Accompanying notes are an integral part of the financial statements.

On behalf of the Board

Andrew J. Spurgeon
Andrew J. Spurgeon
Director

Daniel E. Pinnington
Daniel E. Pinnington
Director

Statement of Profit or Loss

Amounts stated in thousands of Canadian dollars

FOR THE YEAR ENDED DECEMBER 31		2022	2021
Income			
Gross written premiums	$	126,388	128,915
Premiums ceded to reinsurers (note 12)		(7,746)	(7,143)
Net written premiums		118,642	121,772
(Increase) decrease in unearned premiums (note 11)		(49)	(137)
Net premiums earned		**118,593**	**121,635**
Net investment income (note 5)		(13,750)	8,996
Ceded commissions		1,657	1,534
	$	**106,500**	**132,165**
Expenses			
Gross claims incurred (note 10)	$	67,752	100,925
Reinsurers' share of gross claims incurred (note 10)		17,144	575
Net claims incurred		84,896	101,500
Operating expenses (note 16)		27,632	23,886
Finance costs		380	397
Premium taxes		3,792	3,868
		116,700	**129,651**
Profit (loss) before income taxes	**$**	**(10,200)**	**2,514**
Income tax expense (recovery) (note 15)			
Current		3,426	247
Deferred		(6,398)	86
		(2,972)	**333**
Profit (loss)	**$**	**(7,228)**	**2,181**

Accompanying notes are an integral part of the financial statements.

Statement of Comprehensive Income

Amounts stated in thousands of Canadian dollars

FOR THE YEAR ENDED DECEMBER 31		2022	2021
Profit (loss)	$	(7,228)	2,181
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 $562 [2021: $475] (note 14)		1,557	1,317
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 ($7,101) [2021: $6,666]		(19,692)	18,488
Reclassification adjustment for (gains) losses recognized in profit or loss, net of income tax (expense) recovery of $365 [2021: ($2,082)]		1,013	(5,775)
Other comprehensive income (loss)		**(17,122)**	**14,030**
Total comprehensive income (loss)	**$**	**(24,350)**	**16,211**

Statement of Changes in Equity

Amounts stated in thousands of Canadian dollars

		Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Equity
Balance at December 31, 2020	**$**	**5,000**	**30,645**	**223,967**	**9,958**	**269,570**
Total comprehensive income (loss) for the year		-	-	2,181	14,030	16,211
Transfer of defined benefit remeasurements from OCI to retained earnings		-	-	1,317	(1,317)	-
Balance at December 31, 2021	**$**	**5,000**	**30,645**	**227,465**	**22,671**	**285,781**
Total comprehensive income (loss) for the year		-	-	(7,228)	(17,122)	(24,350)
Transfer of defined benefit remeasurements from OCI to retained earnings		-	-	1,557	(1,557)	-
Balance at December 31, 2022	**$**	**5,000**	**30,645**	**221,794**	**3,992**	**261,431**

The aggregate of retained earnings and accumulated other comprehensive income as at December 31, 2022 is $225,786 (December 31, 2021: $250,136).

Accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

Amounts stated in thousands of Canadian dollars

FOR THE YEAR ENDED DECEMBER 31	2022	2021
Operating Activities		
Profit (loss)	$ (7,228)	2,181
Items not affecting cash:		
Deferred income taxes	(6,398)	86
Amortization of property and equipment	1,217	1,121
Amortization of intangible asset	580	207
Realized (gains) losses on disposition or impairment	6,148	(10,019)
Amortization of premiums and discounts on bonds	1,514	2,271
Changes in unrealized (gains) losses	23,527	13,736
	19,360	9,583
Changes in non-cash working capital balances:		
Investment income due and accrued	(659)	53
Due from reinsurers	(1,267)	12
Due from insureds	80	1,350
Due from the Law Society of Ontario	(4,633)	1,028
Reinsurers' share of claims liabilities	18,410	606
Other receivabless	(5,021)	320
Other assets	(188)	(485)
Income taxes due and accrued (recoverable)	396	(61)
Claims liabilities	(27,588)	5,441
Unearned premiums	49	137
Expenses due and accrued	5,759	(4,599)
Other taxes due and accrued	(64)	115
Net cash inflow from operating activities	**$ 4,634**	**13,500**
Investing Activities		
Purchases of property and equipment	(482)	(68)
Purchases of intangible asset	(1,251)	(1,107)
Purchases of investments	(365,632)	(412,570)
Proceeds from sales and maturities of investments	374,420	417,374
Net cash outflow from investing activities	**$ 7,055**	**3,629**
Financing Activities		
Payment of lease liabilities	(421)	(404)
Total cash inflow (outflow) from financing activities	(421)	(404)
Net change in cash and cash equivalents during the year	11,268	16,725
Cash and cash equivalents, beginning of year	24,473	7,748
Cash and cash equivalents, end of year	**$ 35,741**	**24,473**
Cash and cash equivalents at end of year consists of:		
Cash	2,895	6,835
Cash equivalents	32,846	17,638
	$ 35,741	**24,473**
Supplemental disclosure of cash flow information:		
Net income taxes paid (operating activity)	3,031	307
Interest received (investing activity)	16,041	14,282
Interest paid (financing activity)	382	398
Dividends received (investing activity)	2,056	2,123

Accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

For the year ended December 31, 2021 (Amounts stated in thousands of Canadian dollars)

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 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 Regulatory Authority of Ontario ("FSRA"), 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, 2022. None of the accounting requirements of FSRA represent exceptions to IFRS. These financial statements were authorized for issuance by the Company's Board of Directors on [February 24, 2023].

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 claims liabilities, 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.

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
Unpaid claims incurred	Note 10
Income taxes	Note 15

Financial instruments – recognition and measurement

Financial assets are classified as fair value through profit or loss ("FVTPL"), available-for-sale ("AFS"), 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 discounts estimated future cash receipts 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 asset-liability matched ("ALM") 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 net claims liabilities. The ALM 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 ALM 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.

AFS financial assets

Financial assets classified as AFS 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 net investment income in the statement of 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 AFS fixed income securities resulting from changes to foreign exchange rates are recognized in net investment income as incurred. Changes in the fair value of AFS fixed income securities related to the underlying investment in its issued currency, as well as all elements of fair value changes of AFS 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.

Financial assets in the Company's surplus portfolio (consisting of all investments outside the ALM portfolio), including fixed income securities and equities, are designated as AFS.

Loan and receivables and other liabilities

The Company has not designated any financial assets as held to maturity. Due from reinsurers, insureds and Law Society of Ontario and Other receivables and Due to reinsurers and insureds are carried at amortized cost using the effective interest rate method. Given the short-term nature of these financial assets and liabilities, amortized cost approximates fair value.

Leases

The Company is a lessee under various operating leases relating to premises and equipment. For all leases, except for leases which are short term or of low value, a right-of-use asset and a lease liability are recognized on the statement of financial position. Right-of-use assets are initially measured at cost, which comprises the amount of the initial measurement of the lease liability. Right-of-use assets are subsequently measured at amortized cost. Right-of-use assets are depreciated on a straight-line basis over the lease term. Lease liabilities are measured at the present value of future payments, using the Company's incremental borrowing rates. An interest charge is applied based on the discount rate used in the calculation of the initial lease liability, and increases the value of the lease liability. Amounts paid under the terms of the lease are deducted from the value of the lease liability, representing the reduction in the Company's payment obligations.

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
Right-of-use assets	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 or internally developed 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

AFS 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 AFS 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 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.

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. 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.

Claims liabilities

The Claims liabilities 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 Claims liabilities 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 claims liabilities 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 gross claims incurred 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 claims liabilities 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 assets also include tax losses not deductible in the current year. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets and liabilities 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 way 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 ("DCPP") for its employees. It also maintains a supplemental designated executive plan ("SDEP"), for certain designated employees, which provides benefits in excess of the benefits provided by the Company's DCPP. For the SDEP, 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.

DCPP expenses are recognized in the reporting period in which services are rendered. Regarding the SDEP, 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 SDEP. 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, 2022.

a) Amendments to Conceptual Framework for Financial Reporting

Amended to (i) replace references to the 2001 Conceptual Framework for Financial Reporting to the 2018 Conceptual Framework for Financial Reporting in order to determine what constitutes an asset or liability in a business combination, (ii) add a new exception for certain liabilities and contingent liabilities to refer to IAS 37 or IFRIC 21 rather than the 2018 Conceptual Framework, and (iii) clarify that an acquirer should not recognize contingent assets at the acquisition date.

The adoption of these amendments did not have an impact on the Company's financial statements.

b) Amendment to Onerous Contracts – Cost of Fulfilling a Contract

Amended to clarify (i) the meaning of "costs to fulfil a contract", and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

The adoption of this amendment did not have an impact on the Company's financial statements.

c) Amendment to Proceeds before Intended Use

Amended to (i) prohibit an entity from deducting from the cost of an item of Property, Plant & Equipment ("PP&E") any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly), (ii) clarify that an entity is "testing whether the asset is functioning properly" when it assesses the technical and physical performance of the asset and (iii) require certain related disclosures.

The adoption of this amendment did not have an 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 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 fair value through profit and loss ("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 regards 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.

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.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Retrospective application is required with certain exceptions. An entity whose activities are predominantly connected with insurance is eligible to apply a temporary exemption to adopt IFRS 9 in conjunction with its adoption of IFRS 17. The Company has chosen to apply the temporary exemption to defer the application of IFRS 9 until the effective date of IFRS 17. The Company will restate comparative information for IFRS 9 and will recognize any resulting net difference in equity on the January 1, 2022 opening balance sheet.

Based on the company's overall investment objective of preserving capital and maximizing the return, the company's entire investment portfolio is under FVTPL model. On transition, this will result in all unrealized gains and losses in Accumulated Other Comprehensive Income, to be recognized through Retained Earnings.

b) IFRS 17 "*Insurance Contracts*"

In March 2020 meeting the IASB decided to defer the effective date of IFRS 17 to January 1, 2023.

IFRS 17 provides a General Measurement Model (”GMM”) for the recognition of long-duration contracts, as well as a simplified model which is Premium Allocation Approach (“PAA”) for short-duration 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 IFRS17 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;

- 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, 2023. IFRS 17 will be applied retrospectively as of January 1, 2022 to each group of Insurance contracts, as a result comparative information will be restated, however, if full retrospective application 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. On transition, for title insurance the Company will apply a fair value approach for years prior to 2021 and full retrospective approach for 2021 and 2022. For all other lines, which are measured under the PAA approach, the company will transition applying the full retrospective approach.

Implementation update

During 2022, the Company has finalized the determination of its accounting policies and continues its efforts towards documenting detailed requirements and designing new business processes and controls. The Company has nearly finalized the development, testing, and implementation of the new technology solutions that will enable it to meet the requirements of the standards. The IFRS 17 opening balance sheet for the company will be finalized in the first half of 2023. The Company will continue its change management processes with a priority being placed on the training of various stakeholders throughout the organization.

In July 2022, the Office of the Superintendent of Financial Institutions issued the final Minimum capital test guidelines relating to IFRS 17 and FSRA has adopted the same guidelines effective January 1, 2023.

Financial impact

The Company is currently evaluating the impact that IFRS 17 will have on its financial statements. The Company’s business is predominantly short tail and the current accounting practices of claims liabilities are fairly aligned with IFRS 17. The Company will use PAA for its Mandatory E&O, Excess E&O and Reinsurance portfolios. GMM will be used for TitlePLUS. The recognition of the company’s GMM portfolio is expected to create a long tail liability on the Statement of Financial Position. In the Company’s portfolio of contracts under PAA and GMM, some onerous contracts have been identified. The Company is expecting an increase to Retained

Earnings on transition and a neutral to slightly negative impact on its regulatory capital. This preliminary estimate was determined based on current working assumptions; it was not determined using the technological solutions that continue to be implemented as the Company transitions to IFRS 17.

Key Accounting policy choices & judgements

The Company's main accounting policies under IFRS 17 compared to IFRS 4 are summarized below:

Scope and separating components

Under IFRS 17, the Company is required to determine if contracts are in scope of the insurance contract standard and separate its components if required.

The Company issues insurance contracts (direct business) and holds reinsurance contracts (ceded business). The Company will continue to assess its insurance and reinsurance contracts to determine whether they contain non-insurance components that require accounting treatment in a different IFRS standard. The Company's insurance policies do not include any components that require separation.

Level of aggregation of insurance contracts

Under IFRS 17, insurance and reinsurance contracts need to be aggregated into portfolios and groups for measurement purposes.

The Company divides its direct and ceded business into portfolios. The IFRS 17 portfolios align to the Company's lines of business. Portfolios are then divided into groups of contracts based on expected profitability and cannot include contracts issued more than one year apart. The Company will measure the insurance contract liability using annual cohorts.

Measurement models

Under IFRS 17, insurance contracts are measured under the new GMM or the simplified PAA. Entities are eligible to use the PAA, where the coverage period is one year or less or would not result in a materially different liability if measured under the GMM. The accounting under the PAA is similar to the current approach under IFRS 4.

The Company will use PAA for its Mandatory E&O, Excess E&O and Reinsurance portfolios. GMM will be used for TitlePLUS.

Onerous contracts

Under IFRS 17, the groups of onerous contracts need to be identified at a more granular level as compared to IFRS 4.

The Company has identified both onerous and non-onerous contracts and will recognize a loss component accordingly. There are no portfolios identified as profitable with no significant possibility of becoming onerous.

Discount rate

IFRS 17 introduces new requirements that change the way the discount rate is determined as compared to the requirements under IFRS 4.

The Company has chosen to use a bottom-up approach to estimate the discount rate whereby a liquid risk-free yield curve is adjusted to reflect the liquidity characteristics of the insurance contract liabilities. The discount rate curve chosen by the company at the date of initial recognition is the locked-in curve for a group of insurance contracts and will be applied at the group level.

Risk adjustment

IFRS 17 requires a risk adjustment in the measurement of insurance liabilities to reflect the risk associated with the uncertainty about the amount and timing of the cash flows that arises from non-financial risks.

The Company has chosen risk adjustment factors based on confidence levels for the group of contracts measured under PAA method and is using the Margin Method for the group of contracts measured under GMM. These risk adjustment factors will be applied to the present value of future loss cashflows.

Insurance revenue

Under IFRS 17, premium written will no longer be used as a basis for calculating revenue and will not be presented on the Statement of Profit or Loss. Insurance revenue reflects the consideration to which the insurer is entitled in exchange for the services provided on an earned basis. Insurance revenue will exclude any investment components.

Insurance revenue under the PAA is the amount of premiums received allocated to the period. The allocation of premiums received to each period of coverage is based on the passage of time as this does not differ significantly from the timing of expected incurred losses during the coverage period.

Under the GMM, insurance revenue comprises amounts relating to changes in the liability for remaining coverage (“LRC”) as follows:

- Insurance service expenses incurred during the period;
- Change in risk adjustment for non-financial risk for service provided in the period;
- Contractual Service Margin recognized in profit or loss because of the transfer of services in the period; and
- An allocation of acquisition cash flows.

Insurance service expenses

Insurance service expenses represent the costs an insurer will incur to fulfill the obligations of its insurance contracts. These will, at a minimum, comprise the following:

- Incurred claims and other incurred insurance service expenses that are directly attributable to a group of contracts under both PAA & GMM models;
- Amortization of insurance acquisition cash flows directly attributable to portfolio of contracts under GMM model; and
- Changes that relate to past service (i.e., relating to Liability for Incurred Claims (”LIC”) under both PAA & GMM models;
- Losses on onerous contracts and reversals under both PAA & GMM models.

Insurance service expenses related to group of contracts exclude any investment components. Similar to the requirement for revenue, these amounts will need to be identified and excluded from the related claims expense.

The Company will present Insurance service expenses in one line. For contracts measured under the PAA model, the Company will expense acquisition costs as incurred. For contracts measured under the GMM model, directly attributable expenses are included in the estimates of future cash flows used for measurement of both the liability for remaining coverage and the liability for incurred claims.

Presentation and disclosures

Under IFRS 17, the new requirements streamline the existing practice for the presentation of insurance line items on an insurer’s Statement of Financial Position into groups of insurance and reinsurance contract assets and liabilities; replacing the current presentation format where other insurance related items are presented on separate lines, for example Due from insureds.

The Statement of Profit or Loss will comprise two separate distinct sections under IFRS 17: Insurance service result, and Investment result.

Insurance service result will represent an entity’s performance from issuing and fulfilling insurance and reinsurance contracts. The insurance service result includes insurance revenue and insurance service expenses. Insurance service results will also include the effects of reinsurance held, however unlike today, this is not shown as a reduction in gross revenue.

Investment result will be presented after the insurance service result on the income statement, the investment result will include a separate line item for presenting insurance finance income or expenses, as well as the investment income from invested assets.

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

c) Amendments to IAS 1 *'Presentation of financial statements'* – Classification of liabilities as current or non-current Effective date EU adoption status

On 23 January 2020, the IASB issued a narrow-scope amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. The amendment changes the guidance for the classification of liabilities as current or non-current. It could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. The amendments apply retrospectively to annual periods beginning on or after January 1, 2023. The Company is currently assessing the impact of these amendments.

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, 2022			DECEMBER 31, 2021		
	Fair value	Cost or amortized cost	Net unrealized gain (loss)	Fair value	Cost or amortized cost	Net unrealized gain (loss)
Available-for-sale						
Fixed income securities	$ 164,734	176,931	(12,197)	172,475	174,894	(2,419)
Common equities (pool funds)	112,602	94,467	18,135	140,415	106,644	33,771
	277,336	271,398	5,938	312,890	281,538	31,352
Designated as FVTPL						
Fixed income securities	367,367	386,417	(19,050)	397,032	392,727	4,305
Preferred equities	427	615	(188)	600	615	(15)
	367,794	387,032	(19,238)	397,632	393,342	4,290
Total	**$ 645,130**	**658,430**	**(13,300)**	**710,522**	**674,880**	**35,642**
Reconciled in aggregate to asset classes as follows:						
Fixed income securities	532,101	563,348	(31,247)	569,507	567,621	1,886
Equities	113,029	95,082	17,947	141,015	107,259	33,756
Total	**$ 645,130**	**658,430**	**(13,300)**	**710,522**	**674,880**	**35,642**

As at December 31, 2022, the Company had gross unrealized losses of $12,350,343 in the AFS portfolio (2021: $2,593,727) and did not hold any impaired securities (2021: nil).

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

b) Maturity profile of fixed income securities

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

	DECEMBER 31, 2022			
	Within 1 year	1 to 5 years	Over 5 years	**Total**
Available-for-sale				
Issued or guaranteed by:				
Canadian federal government	$ -	15,827	25,395	**41,222**
Canadian provincial and municipal governments	-	10,495	31,485	**41,980**
Mortgage-backed securities	-	-	473	**473**
Corporate debt	-	47,846	33,213	**81,059**
	$ -	74,168	90,566	**164,734**
Designated as FVTPL				
Issued or guaranteed by:				
Canadian federal government	$ 6,867	15,305	-	**22,172**
Canadian provincial and municipal governments	14,353	45,119	65,970	**125,442**
Mortgage-backed securities	-	5,501	-	**5,501**
Corporate debt	32,187	122,566	59,499	**214,252**
	53,407	188,491	125,469	**367,367**
Fixed income securities	**$ 53,407**	**262,659**	**216,035**	**532,101**
Percent of total	**10%**	**49%**	**41%**	**100%**

	DECEMBER 31, 2021			
	Within 1 year	1 to 5 years	Over 5 years	**Total**
Available-for-sale				
Issued or guaranteed by:				
Canadian federal government	$ -	19,100	15,917	**35,017**
Canadian provincial and municipal governments	-	18,427	37,424	**55,851**
Mortgage-backed securities	-	-	686	**686**
Corporate bonds	2,074	38,906	39,941	**80,921**
	$ 2,074	76,433	93,968	**172,475**
Designated as FVTPL				
Issued or guaranteed by:				
Canadian federal government	$ 43,824	45,472	-	**89,296**
Canadian provincial and municipal governments	13,819	68,071	60,570	**142,460**
Mortgage-backed securities	1,056	938	8,353	**10,347**
Corporate debt	26,704	79,905	48,320	**154,929**
	85,403	194,386	117,243	**397,032**
Fixed income securities	**$ 87,477**	**270,819**	**211,211**	**569,507**
Percent of total	**15%**	**48%**	**37%**	**100%**

The weighted average duration of fixed income securities as at December 31, 2022 is 4.10 years (December 31, 2021: 3.92 years). The effective yield on fixed income securities as at December 31, 2022 is 3.24% (December 31, 2021: 2.62%).

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

c) Impairment Analysis

Management performs a quarterly analysis of the Company's AFS 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.

The Company did not recognize any impairment in 2022 or 2021.

d) Net investment income

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

	2022			2021		
	Designated as FVTPL	Available-for-sale	**Total**	Designated as FVTPL	Available-for-sale	**Total**
Interest and dividends	$ 11,170	6,086	**17,256**	9,652	4,442	**14,094**
Net realized gains (losses)	(4,768)	(1,378)	**(6,146)**	2,150	7,857	**10,007**
Change in net unrealized gains (losses)	(23,527)	8	**(23,519)**	(13,735)	(1)	**(13,736)**
	(17,125)	4,716	**(12,409)**	(1,933)	12,298	**10,365**
Less: Investment expenses	(335)	(1,006)	**(1,341)**	(352)	(1,017)	**(1,369)**
Net investment income	**$ (17,460)**	**3,710**	**(13,750)**	**(2,285)**	**11,281**	**8,996**

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

6. FAIR VALUE MEASUREMENTS OF FINANCIAL ASSETS

The following tables present the Company's financial assets measured at fair value:

AS AT DECEMBER 31, 2022	CARRYING AMOUNT			FAIR VALUE			
	Designated at fair value	Available-for-sale	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets measured at fair value							
Cash and cash equivalents	$ 35,741	-	**35,741**	35,741	-	-	**35,741**
Fixed income securities	367,367	164,734	**532,101**	226,032	306,069	-	**532,101**
Common equities (pool funds)	-	112,602	**112,602**	112,602	-	-	**112,602**
Preferred equities	427	-	**427**	-	427	-	**427**
	$ 403,535	277,336	**680,871**	374,375	306,496	-	**680,871**

AS AT DECEMBER 31, 2021	CARRYING AMOUNT			FAIR VALUE			
	Designated at fair value	Available-for-sale	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets measured at fair value							
Cash and cash equivalents	$ 24,473	-	**24,473**	24,473	-	-	**24,473**
Fixed income securities	397,032	172,475	**569,507**	312,916	256,591	-	**569,507**
Common equities (pool funds)	-	140,415	**140,415**	140,415	-	-	**140,415**
Preferred equities	600	-	**600**	-	600	-	**600**
	$ 422,105	312,890	**734,995**	477,804	257,191	-	**734,995**

There were no transfers between any levels during the year ended December 31, 2022 (2021: none).

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	Right-of-use assets	**Total**
January 1, 2021	$ 349	655	224	555	9,907	**11,690**
Additions	11	61	(4)	-	-	**68**
Amortization	(160)	(210)	(98)	(75)	(578)	**(1,121)**
December 31, 2021	200	506	122	480	9,329	**10,637**
Additions	51	284	147	-	-	**482**
Amortization	(162)	(291)	(110)	(75)	(579)	**(1,217)**
December 31, 2022	**$ 89**	**499**	**159**	**405**	**8,750**	**9,902**

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

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

	DECEMBER 31, 2022				DECEMBER 31, 2021		
		Cost	Accumulated amortization	Carrying value	Cost	Accumulated amortization	Carrying value
Furniture and fixtures	$	2,267	(2,178)	89	2,216	(2,016)	200
Computer equipment		3,899	(3,400)	499	3,615	(3,109)	506
Computer software		1,438	(1,279)	159	1,291	(1,169)	122
Leasehold improvements		4,403	(3,998)	405	4,403	(3,923)	480
Right-of-use assets		11,065	(2,315)	8,750	11,065	(1,736)	9,329
Total	**$**	**23,072**	**(13,170)**	**9,902**	**22,590**	**(11,953)**	**10,637**

The right-of-use assets above is the office premises and equipment leases, which were recognized on January 1, 2019 as per IFRS 16.

The Company has a lease agreement for premises at 250 Yonge Street, 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. The above capitalized amount takes into account 10 years of extension.

8. INTANGIBLE ASSET

The Company's intangible asset consists of a license and internally developed platform for the TitlePLUS product. The license associated software became available for use during 2015, and as a result, has been amortized over its expected useful life of 68 months, which ended December 31, 2020. The Company also started capitalization of development costs related to the platform on January 1, 2019, with amortization beginning on June 1, 2020. During the years ending December 31, details of the movement in the carrying values are as follows:

		2022	2021
Cost			
Balance, beginning of year	$	3,356	2,249
Software in development not yet in use		1,251	1,107
Balance, end of year	$	4,607	3,356
Accumulated amortization and impairment			
Balance, beginning of year	$	(1,450)	(1,243)
Amortization expense		(580)	(207)
Balance, end of year		(2,030)	(1,450)
Carrying amount	**$**	**2,577**	**1,906**

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

9. CLAIM LIABILITIES AND LEASE LIABILITIES

Provisions and other liabilities are comprised of the following:

		2022	2021
Claims Liabilities			
Expected to be settled in less than one year	$	103,501	107,454
Expected to be settled in more than one year		386,507	410,142
Total	**$**	**490,008**	**517,596**
Lease Liabilities			
Expected to be settled in less than one year		450	421
Expected to be settled in more than one year	$	8,987	9,437
Total	**$**	**9,437**	**9,858**

10. CLAIMS LIABILITIES

a) Nature of claims liabilities

The determination of the claims liabilities 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 claims liabilities, 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 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 claims liabilities, 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 claims payments and adjustment expenses are determined based on one or more of the following actuarial methods: the chain ladder method, the paid frequency and severity method, the expected loss ratio method, and the Borheutter Ferguson 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 either by "accident year", which is the year in which such claims are made for the Company's professional liability policies, or by "policy year", 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, accident/policy years and development periods in a format known as claims development triangles.

A description of each of these methods is as follows:

i. 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.

ii. Paid Frequency and Severity ("PFS") method

The PFS 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.

iii. Expected Loss Ratio ("ELR") 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.

iv. Bornheutter-Ferguson ("BF") method

The BF method applied to reported loss data relies on the assumption that remaining unreported losses are a function of total expected losses rather than a function of currently reported losses. The BF method is most useful when the actual reported losses do not provide a good indicator of future losses (e.g. for immature and/or unstable accident years).

Claims data includes external claims adjustment expenses (External claims costs), and for a portion of the portfolio includes internal claims adjustment expenses (Internal claims costs). A provision for internal claims costs has been derived by a revised approach that is based on the number of expected future claims transactions by lines of business. In 2021, the method was based on the Mango-Allen claim staffing technique. The difference between the two approaches is immaterial.

The claims liabilities are 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 claims liabilities as at December 31, 2022, which was 4.55% (December 31, 2021: 1.77%). Reinsurance recoverable estimates and claims recoverable from other insurers are discounted in a manner consistent with the method used to establish the related liability. The provision for adverse development has been selected based on the risk associated with development and within the prescribed CIA guidelines.

As the claims liabilities are recorded on a discounted basis and reflect 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.

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

The following table shows claims liabilities on an undiscounted basis and a discounted basis:

	DECEMBER 31, 2022		DECEMBER 31, 2021	
	Undiscounted	Discounted	Undiscounted	Discounted
Claims Liabilities	$ 500,332	490,008	480,785	517,596
Recoverable from reinsurers	(32,050)	(31,173)	(46,737)	(49,583)
Net	**$ 468,282**	**458,835**	**434,048**	**468,013**

Details of the claims liabilities, by line of business, are summarized as follows:

	DECEMBER 31, 2022			DECEMBER 31, 2021		
	Gross	Ceded	**Net**	Gross	Ceded	**Net**
Professional liability	471,038	(31,133)	**439,905**	499,188	(49,557)	**449,631**
Title	18,970	(40)	**18,930**	18,408	(26)	**18,382**
Total	**$ 490,008**	**(31,173)**	**458,835**	**517,596**	**(49,583)**	**468,013**

The claims liabilities by case reserves and IBNR are as follows:

	DECEMBER 31, 2022			DECEMBER 31, 2021		
	Gross	Ceded	**Net**	Gross	Ceded	**Net**
Case reserves	$ 326,957	(2,965)	**323,992**	356,125	(5,032)	**351,093**
IBNR	163,051	(28,208)	**134,843**	161,471	(44,551)	**116,920**
Total	**$ 490,008**	**(31,173)**	**458,835**	**517,596**	**(49,583)**	**468,013**

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 claims liabilities compared to the liability that was originally established. As adjustments to estimated claims liabilities become necessary, they are reflected in current operations.

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

c) Changes in methodologies or basis of selection of assumptions

The methods used to compute the claim liabilities are largely unchanged from those used in the previous actuarial valuation, except for Excess E&O, which was historically based on the ELR method, revised to the BF method for 2022 (impact was to reduce liabilities by $1,829,867). The assumptions employed in the actuarial valuation process were struck in a similar manner to those used in the previous valuation and were selected after giving consideration to the experience that emerged to the end of 2022.

Details of the claims incurred for the year ended December 31 are as follows:

	2022			2021		
	Gross	Ceded	**Net**	Gross	Ceded	**Net**
Claims & external adjustment expenses paid	$ 83,756	1,267	**82,489**	84,267	8	**84,259**
Change in case reserves	2,270	(1,695)	**3,965**	9,175	914	**8,261**
Change in IBNR	15,763	(12,992)	**28,755**	1,993	(606)	**2,599**
Discount expense	(47,136)	(3,724)	**(43,412)**	(8,074)	(891)	**(7,183)**
Internal claims cost	11,585	-	**11,585**	11,217	-	**11,217**
Change in provision for internal claims costs	1,514	-	**1,514**	2,347	-	**2,347**
Total	**$ 67,752**	**(17,144)**	**84,896**	**100,925**	**(575)**	**101,500**

Changes in the claims liabilities recorded in the statement of financial position during the year is comprised of the following:

	2022	2021
Claims Liabilities – January 1 – net	$ 468,013	461,966
Change in net Claims Liabilities:		
Prior years' incurred claims	2,255	(8,643)
Current year's incurred claims	126,053	117,326
Net claims liabilities paid in relation to:		
Prior years	(77,268)	(79,809)
Current year	(16,806)	(15,644)
Impact of discounting	$ (43,412)	(7,183)
Provision for Claims Liabilities – December 31 – net	458,835	468,013
Reinsurers' share of Claims Liabilities	$ 31,173	49,583
Provision for Claims Liabilities– December 31 – gross	**$ 490,008**	**517,596**

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

d) Loss development tables

The tables on the following pages show the development of claims, excluding ULAE, 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 ULAE as well as the effect of discounting and the PfAD, as at December 31, 2022, is presented based on the net amounts of the two triangles.

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

LAWPRO as at December 31, 2022 – Gross Basis

						POLICY YEAR						
	All Prior Years	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	**Total**
Estimate of Ultimate Claims												
At end of Policy year	$	102,937	103,962	106,879	113,990	112,943	109,102	112,533	96,552	107,803	115,890	
One Year Later		95,423	92,844	96,377	107,475	100,803	93,763	105,152	92,501	105,973		
Two Years Later		91,649	87,845	91,393	99,401	97,582	95,653	106,825	92,254			
Three Years Later		89,307	88,634	95,395	97,735	96,340	94,937	102,506				
Four Years Later		88,060	84,889	92,689	95,765	93,853	95,726					
Five Years Later		85,900	81,410	90,670	95,742	93,832						
Six Years Later		83,205	81,121	90,276	95,064							
Seven Years Later		82,179	80,577	88,518								
Eight Years Later		81,271	79,132									
Nine Years Later		79,037										
Cumulative Claims Paid												
At end of Policy year		(4,167)	(5,516)	(5,896)	(7,299)	(6,969)	(8,043)	(8,233)	(7,632)	(9,712)	(10,885)	
One Year Later		(18,406)	(18,123)	(19,993)	(21,104)	(22,535)	(21,020)	(25,783)	(21,182)	(22,773)		
Two Years Later		(30,668)	(30,339)	(30,943)	(35,102)	(33,687)	(32,348)	(41,616)	(31,751)			
Three Years Later		(41,705)	(40,880)	(42,433)	(45,204)	(41,954)	(43,269)	(53,060)				
Four Years Later		(50,229)	(45,911)	(54,319)	(55,156)	(51,263)	(51,596)					
Five Years Later		(56,457)	(51,069)	(59,854)	(61,265)	(58,983)						
Six Years Later		(62,188)	(55,520)	(65,522)	(66,154)							
Seven Years Later		(65,879)	(59,455)	(69,743)								
Eight Years Later		(69,466)	(64,354)									
Nine Years Later		(71,738)										
Estimate of Ultimate Claims		79,037	79,132	88,518	95,064	93,832	95,726	102,506	92,254	105,973	115,890	
Cumulative Claims Paid		(71,738)	(64,354)	(69,743)	(66,154)	(58,983)	(51,596)	(53,060)	(31,751)	(22,773)	(10,885)	
Undiscounted Claims Liabilities	29,703	7,299	14,778	18,775	28,910	34,849	44,130	49,446	60,503	83,200	105,005	**476,598**
Provision for ULAE	1,092	389	521	615	882	1,352	1,629	2,296	2,837	4,265	7,856	**23,734**
Discounting (including PfAD)	16	(252)	(317)	(304)	58	(75)	(415)	(1,091)	(1,949)	(3,387)	(2,608)	**(10,324)**
Present Value recognized in the Statement of Financial Position	$ 30,811	7,436	14,982	19,086	29,850	36,126	45,344	50,651	61,391	84,078	110,253	**490,008**

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

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

LAWPRO as at December 31, 2022 – Net Basis

		POLICY YEAR										
	All Prior Years	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	**Total**
Estimate of Ultimate Claims												
At end of Policy year	$	98,696	99,579	102,534	109,643	108,683	104,752	108,190	92,253	103,449	112,275	
One Year Later		91,183	88,460	92,032	103,128	96,542	89,413	100,810	88,202	102,839		
Two Years Later		87,409	83,462	87,047	95,054	93,322	91,303	102,482	89,372			
Three Years Later		85,066	84,251	91,049	93,388	92,079	90,587	99,617				
Four Years Later		83,819	80,506	88,344	91,419	89,592	93,222					
Five Years Later		81,660	77,027	86,324	91,395	89,782						
Six Years Later		78,964	76,737	85,931	90,980							
Seven Years Later		77,938	76,194	86,635								
Eight Years Later		77,030	76,990									
Nine Years Later		77,594										
Cumulative Claims Paid												
At end of Policy year		(4,167)	(5,516)	(5,896)	(7,299)	(6,969)	(8,043)	(8,233)	(7,632)	(9,712)	(10,885)	
One Year Later		(18,406)	(18,123)	(19,993)	(21,104)	(22,535)	(21,020)	(25,783)	(21,182)	(22,765)		
Two Years Later		(30,668)	(30,339)	(30,943)	(35,002)	(33,687)	(32,348)	(41,447)	(31,751)			
Three Years Later		(41,705)	(40,880)	(42,433)	(45,105)	(41,954)	(43,269)	(52,877)				
Four Years Later		(50,229)	(45,911)	(54,319)	(53,954)	(51,263)	(51,596)					
Five Years Later		(56,449)	(51,069)	(59,854)	(60,139)	(58,983)						
Six Years Later		(62,180)	(55,520)	(65,522)	(65,056)							
Seven Years Later		(65,871)	(59,455)	(69,743)								
Eight Years Later		(69,458)	(63,952)									
Nine Years Later		(71,731)										
Estimate of Ultimate Claims		77,594	76,990	86,635	90,980	89,782	93,222	99,617	89,372	102,839	112,275	
Cumulative Claims Paid		(71,731)	(63,952)	(69,743)	(65,056)	(58,983)	(51,596)	(52,877)	(31,751)	(22,765)	(10,885)	
Undiscounted Claims Liabilities	24,581	5,863	13,038	16,892	25,924	30,799	41,626	46,740	57,621	80,074	101,390	**444,548**
Provision for ULAE	1,092	389	521	615	882	1,352	1,629	2,296	2,837	4,265	7,856	**23,734**
Discounting (including PfAD)	87	(188)	(259)	(252)	88	(19)	(362)	(1,004)	(1,827)	(3,228)	(2,483)	**(9,447)**
Present Value recognized in the Statement of Financial Position	$ 25,760	6,064	13,300	17,255	26,894	32,132	42,893	48,032	58,631	81,111	106,763	**458,835**

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

11. UNEARNED PREMIUMS

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

		2022	2021
Balance, as at January 1	$	1,267	1,130
Net premiums written during the year		118,642	121,772
Less: Net premiums earned during the year		(118,593)	(121,635)
Increase (decrease) in unearned premiums		49	137
Balance, as at December 31	**$**	**1,316**	**1,267**

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.

12. REINSURANCE

The Company's reinsurance program consists of a 90% quota share cession on its excess professional liability policies (2021: 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.

13. 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, 2022 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 claims liabilities 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, 2022, $111,076,937 of the gross premiums written related to mandatory insurance coverage provided to the Law Society and its members (2021: $113,715,505). As at December 31, 2022, the Company had a balance due from the Law Society of $11,540,253 (December 31, 2021: $6,907,841 due from Law Society). The balance due from Law Society is due on demand and bears no interest.

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

The Law Society offers a wellness program to their members, the Company shares a portion of this cost in order to make the program available to their insureds. The amounts expensed are included in operating expenses under professional fees (see note 16).

The total compensation to Officers and Directors of the Company, being those having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, is as follows:

		2022	2021
Short-term compensation and benefits	$	3,913	3,823
Post employment benefits		560	594
	$	**4,473**	**4,417**

14. EMPLOYEE BENEFITS

The Company has a DCPP 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 2022, the Company made payments of $837,398 (2021: $834,235) and recorded pension expense of $858,427 (2021: $903,743).

The Company also has an SDEP 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 SDEP commenced in 2005, with no contributions made in 2022 (2021: $916,910) and recorded pension expenses of $342,052 in 2022 (2021: $437,294). Funding requirements are reviewed annually with an actuarial valuation for funding purposes effective as at December 31. As the Company's SDEP 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, 2022. Management's preliminary estimate is that there are no required contributions to the plan during the year ending December 31, 2023.

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

The SDEP 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.

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

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:

SDEP obligation		2022	2021
Accrued benefit obligation			
Balance, as at January 1	$	10,058	10,565
Current service cost		424	461
Interest cost		307	264
Remeasurement (gains) losses:			
Acturarial (gains) losses - demographic assumptions		96	-
Actuarial (gains) losses - financial assumptions		(2,084)	(733)
Actuarial (gains) losses - experience adjustments		(717)	(19)
Benefits paid		(455)	(480)
Balance, as at December 31	**$**	**7,629**	**10,058**

SDEP assets

		2022	2021
Plan assets			
Fair value, as at January 1	$	13,215	11,449
Interest income on plan assets		389	289
Remeasurement gains (losses):			
Return on plan assets greater (less) than interest income		(586)	1,040
Benefits paid		(455)	(480)
Employer contribution		-	917
Fair value, as at December 31	**$**	**12,563**	**13,215**

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

The SDEP 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, 2022	DECEMBER 31, 2021
Equity securities	26.4%	36.4%
Fixed income securities	13.2%	18.2%
Real Estate	13.2%	0.0%
Cash and cash equivalents	0.4%	0.5%
Refundable-tax account	46.8%	44.9%
	100.0%	**100.0%**

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, 2022	DECEMBER 31, 2021
Fair value of plan assets	$ 12,563	13,215
Accrued benefit obligation	(7,629)	(10,058)
Accrued benefit asset	**$ 4,934**	**3,157**

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

SDEP expense

	2022	2021
Service cost:		
Current service cost	$ 424	461
Net interest (income) expense	(82)	(24)
Components of defined benefit costs recognized in profit or loss	**$ 342**	**437**
Remeasurement on the net defined benefit liability:		
Actuarial (gain) loss due to liability experience	(718)	(19)
Actuarial (gain) loss due to liability assumption changes	(1,987)	(733)
Actuarial (gain) loss arising during year	(2,705)	(752)
Return on plan assets (greater) less than discount rate	586	(1,040)
Components of defined benefit costs recognized in OCI	**$ (2,119)**	**(1,792)**

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

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

	2022	2021
Discount rate	5.05%	3.00%
Rate of compensation increase	3.50% starting in 2023	3.50% starting in 2022
Mortality	CPM 2014 Priv mortality table 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 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, 2022, if the discount rate was 1.0% higher / (lower) the defined benefit obligation would increase by $916,851 (decrease by $767,081). 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 SDEP obligation as at December 31, 2022 is as follows:

		2023	2024	2025	2026	2027	Thereafter
Expected benefit payments	$	437	435	434	432	431	3,086

The SDEP obligation as at December 31, 2022 by participant category is as follows:

Active participants	1,639
Pensioners	5,990
	7,629

15. 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:

		2022	2021
Current income tax			
Expensed (recovered) during the year	$	3,759	232
Prior year adjustments		(333)	15
Total current income tax expense		**3,426**	**247**
Deferred income tax			
Origination and reversal of temporary differences		(6,398)	86
Total deferred income tax expense		(6,398)	86
Total income tax expense (recovery)	**$**	**(2,972)**	**333**

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

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

		2022	2021
Unused tax losses	$	(6,916)	-
Pensions		(124)	154
Investments		(39)	(39)
Claims liabilities and unearned premiums		122	(108)
Property and equipment and other		559	79
Total deferred income tax expense (recovery)	**$**	**(6,398)**	**86**

b) Income tax expense recognized in other comprehensive income

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

		2022	2021
Current income tax			
Unrealized investment gains (losses) on available-for-sale portfolio	$	(6,736)	4,584
Total current income tax expense		**(6,736)**	**4,584**
Pensions		562	475
Total deferred income tax expense		**562**	**475**
Total income tax expense in OCI	**$**	**(6,174)**	**5,059**

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:

		2022	2021
Profit or loss before income taxes	$	(10,200)	2,514
Statutory income tax rate		26.50%	26.50%
Provision for (recovery of) income taxes at statutory rates		(2,703)	666
Increase (decrease) resulting from:			
Investments		(264)	(310)
Other non-deductible items		(16)	(27)
Non-deductible meals and entertainment		11	4
Provision for (recovery of) income taxes	**$**	**(2,972)**	**333**

The statutory rate applicable to the Company at December 31, 2022, is the same as at December 31, 2021.

During the year, the Company made income tax payments of $3,493,360 (2021: $601,984) and received income tax refunds of $462,211 (2021: $295,116) from the various taxing authorities.

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

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, 2022	DECEMBER 31, 2021
Deferred tax assets			
Unused tax losses	$	6,916	-
Claims liabilities and unearned premiums		6,080	6,229
Property and equipment & other		308	164
		13,304	6,393
Deferred income tax liabilities			
Investments		(119)	(159)
Property and equipment & pension		(1,952)	(837)
		(2,071)	(996)
Total net deferred tax assets	**$**	**11,233**	**5,397**
Deferred tax assests			
Within one year		1,357	1,425
Greater than one year		11,947	4,968
		13,304	6,393
Deferred income tax liabilities			
Within one year		(40)	(39)
Greater than one year		(2,031)	(957)
		(2,071)	(996)
Total net deferred tax assets	**$**	**11,233**	**5,397**

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.

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

16. OPERATING EXPENSES

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

		2022	2021
Salaries and benefits	$	14,533	13,742
Professional fees		4,894	2,908
Information systems		2,522	2,486
Amortization of property and equipment		1,382	826
Office and administrative expenses		1,185	339
Financial Processing Fees		1,166	1,235
Directors Renumeration		950	1,021
Occupancy Lease		690	1,099
Communication		310	230
Total	**$**	**27,632**	**23,886**

Included in salaries and benefits are amounts for future employee benefits under a DCPP of $837,398 (2021: $834,235) and a supplementary defined benefit plan of $342,052 (2021: $437,294).

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 does not hold any security for amounts recoverable from unregistered reinsurers of $127,224 (2021: $135,512).

19. CAPITAL MANAGEMENT

Capital is comprised of the Company's equity. As at December 31, 2022 the Company's equity was $261,430,556 (December 31, 2021: $285,780,626). 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.

FSRA, 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 Financial Condition Testing ("FCT"). FSRA mandates the MCT guideline which sets out 100% as the minimum and 150% as the supervisory target for property and casualty insurance companies. To ensure that it attains its objectives, the Company has established an internal target of 170% (2021: 170%) in excess of which, under normal circumstances, the Company will maintain its capital. During the year ended December 31, 2022, the Company complied with the various provincial regulators' guidelines and as at December 31, 2022, the Company has a MCT ratio of 227% (December 31, 2021: 241%). Annually, the Company's Appointed Actuary prepares a FCT 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 FCT report to management and the Audit Committee. The FCT 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.

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, 2022 and 2021. 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 expressed below 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 (2021: 99%) and 93% in professional liability (2021: 93%), and consequently is exposed to trends, inflation, judicial changes and regulatory changes affecting these segments.

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.

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

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 claims liabilities 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 claims liabilities. Given this line of business and the actuarial methods utilized to estimate the related claims liabilities, 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 claims liabilities 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, 2022		DECEMBER 31, 2021	
	Net claims liabilities	Equity	Net claims liabilities	Equity
Unreported claims +20%	$ 5,356	(3,937)	4,792	(3,522)
Average claim severities +1%	$ 3,693	(2,714)	3,841	(2,823)

b) Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a borrower or counterparty to fulfil 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.

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

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

	DECEMBER 31, 2022						
	AAA	AA	A	BBB	BB and lower	Not rated	**Carrying value**
Cash and cash equivalents	$ 32,846	-	2,808	-	-	87	**35,741**
Fixed income securities	69,701	116,908	255,329	89,172	991	-	**532,101**
Investment income due and accrued	271	408	1,982	776	5	141	**3,583**
Due from reinsurers	-	-	1,339	-	-	-	**1,339**
Due from insureds	-	-	-	-	-	2,150	**2,150**
Due from the Law Society of Ontario	-	-	-	-	-	11,541	**11,541**
Reinsurers' share of claims liabilities	-	-	31,173	-	-	-	**31,173**
Other receivables	-	-	-	-	-	5,497	**5,497**
Total	**$ 102,818**	**117,316**	**292,631**	**89,948**	**996**	**19,416**	**623,125**

	DECEMBER 31, 2021						
	AAA	AA	A	BBB	BB and lower	Not rated	**Carrying value**
Cash and cash equivalents	$ 17,638	-	6,202	-	-	633	**24,473**
Fixed income securities	140,543	136,544	208,092	81,679	2,426	223	**569,507**
Investment income due and accrued	300	374	1,440	631	19	160	**2,924**
Due from reinsurers	-	-	123	-	-	-	**123**
Due from insureds	-	-	-	-	-	2,221	**2,221**
Due from the Law Society of Ontario	-	-	-	-	-	6,908	**6,908**
Reinsurers' share of Claims liabilities	-	-	49,583	-	-	-	**49,583**
Other receivables	-	-	-	-	-	476	**476**
Total	**$ 158,481**	**136,918**	**265,440**	**82,310**	**2,445**	**10,621**	**656,215**

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.

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

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 ALM 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 AFS 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 maturities of the assets and contractual obligations 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, 2022				
		Within one year	One to five years	More than five years	No fixed maturity	**Total**
Assets						
Cash and cash equivalents	$	35,741	-	-	-	**35,741**
Investments - designated as FVTPL		53,407	188,491	125,469	427	**367,794**
Investments - available-for-sale		-	74,168	90,566	112,602	**277,336**
Investment income due and accrued		3,583	-	-	-	**3,583**
Due from reinsurers		1,339	-	-	-	**1,339**
Due from insureds		2,150	-	-	-	**2,150**
Reinsurers' share of claim liabilities		7,718	16,683	7,649	-	**32,050**
Due from Law Society of Ontario		11,541	-	-	-	**11,541**
Other receivable		5,497	-	-	-	**5,497**
Other assets		1,117	-	-	4,934	**6,051**
Total	**$**	**122,093**	**279,342**	**223,684**	**117,963**	**743,082**
Liabilities						
Claims liabilities		106,418	262,805	131,109	-	**500,332**
Due to reinsurers		893	-	-	-	**893**
Due to insureds		38	-	-	-	**38**
Lease liabilities		816	3,275	8,527	-	**12,618**
Expenses due and accrued		9,026	-	-	-	**9,026**
Total	**$**	**117,191**	**266,080**	**139,636**	**-**	**522,907**

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

		DECEMBER 31, 2021				
		Within one year	One to five years	More than five years	No fixed maturity	**Total**
Assets						
Cash and cash equivalents	$	24,473	-	-	-	**24,473**
Investments - designated as FVTPL		85,403	194,386	117,243	600	**397,632**
Investments - available-for-sale		2,074	76,433	93,968	140,415	**312,890**
Investment income due and accrued		2,924	-	-	-	**2,924**
Due from reinsurers		123	-	-	-	**123**
Due from insureds		2,221	-	-	-	**2,221**
Reinsurers' share of claim liabilities		11,862	23,992	10,883	-	**46,737**
Due from Law Society of Ontario		6,908	-	-	-	**6,908**
Other receivable		476	-	-	-	**476**
Other assets		586	-	-	3,158	**3,744**
Total	**$**	**137,050**	**294,811**	**222,094**	**144,173**	**798,128**
Liabilities						
Claims liabilities		108,672	256,759	115,354	-	**480,785**
Due to reinsurers		944	-	-	-	**944**
Due to insureds		29	-	-	-	**29**
Lease liabilities		803	3,272	9,346	-	**13,421**
Expenses due and accrued		3,267	-	-	-	**3,267**
Total	**$**	**113,715**	**260,031**	**124,700**	**-**	**498,446**

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 AFS generally do not support actuarial liabilities. Changes in fair value, other than foreign exchange rate gains and losses, of AFS fixed income securities are recorded to OCI.

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

The following chart provides the estimated increase (decrease) on the Company's net income before tax, and other comprehensive income before tax, 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, 2022		
			Net income before tax	OCI before tax	CI before tax
Interest rates	+1%	$	(580)	(7,634)	(8,214)
	-1%	$	468	8,185	8,653

			DECEMBER 31, 2021		
			Net income before tax	OCI before tax	CI before tax
Interest rates	+1%	$	435	(8,009)	(7,574)
	-1%	$	(803)	8,541	7,738

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 AFS 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.

			2022	2021
			After-tax OCI	
Equity prices	+10%	$	8,276	10,320
	-10%	$	(8,276)	(10,320)

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.

		2022		2021	
Currency		Effect on profit (loss) before taxes (+/-)	Effect on OCI (+/-)	Effect on profit (loss) before taxes (+/-)	Effect on OCI (+/-)
US Dollar	$	11	3,500	9	3,997
Euro		-	220	-	174
Other		-	1,460	-	1,863
	$	**11**	**5,180**	**9**	**6,034**

For the year ended December 31, 2022 (Amounts stated in thousands of Canadian dollars)

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, 2022					
	Cash and cash equivalents	Fixed income securities	Equities	Investment income due and accrued	**Total**	**% of total**
Canada	$ 35,568	495,234	42,762	3,201	576,765	**84.3%**
USA	106	36,867	47,560	246	84,779	**12.4%**
Switzerland	13	-	6,934	-	6,947	**1.0%**
United Kingdom	-	-	6,521	-	6,521	**1.0%**
Others	54	-	9,252	136	9,442	**1.3%**
Total	**$ 35,741**	**532,101**	**113,029**	**3,583**	**684,454**	**100.0%**

	DECEMBER 31, 2021					
	Cash and cash equivalents	Fixed income securities	Equities	Investment income due and accrued	**Total**	**% of total**
Canada	$ 24,172	551,348	59,285	2,654	637,459	**86.4%**
USA	88	13,085	54,299	71	67,543	**9.2%**
Switzerland	-	-	8,623	12	8,635	**1.2%**
United Kingdom	-	-	8,366	-	8,366	**1.1%**
Others	213	5,074	10,442	187	15,916	**2.1%**
Total	**$ 24,473**	**569,507**	**141,015**	**2,924**	**737,919**	**100.0%**

Board of Directors

As at December 31, 2022

Andrew J. Spurgeon
Chair of the Board

Susan M. Armstrong, FCPA FCA
Board Vice Chair

Daniel E. Pinnington
President & CEO, LAWPRO

Robert Adourian
Devry Smith Frank LLP

Clare A. Brunetta
Principal, Clare A. Brunetta

Eteinne Esquega

Frederick W. Gorbet, O.C.

Rita Hoff
President, R. Hoff Financial Management Ltd.

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

Binah Nathan

David R. Oliver
President and CEO, BRJO Investments Ltd.

Clare Sellers
Bencher-Director

Mark D. Tamminga
Partner, Gowling WLG

Anne-Marie Vanier

FCA denotes Fellow Chartered Accountant

FCPA denotes Fellow Chartered Professional Accountant

Management

As at December 31, 2022

Daniel E. Pinnington
President & CEO

Stephen R. Freedman
Executive Vice President and General Counsel

Krista Franklin
Chief Financial Officer

Domenic Bellacicco
Vice President, Claims

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

Lisa Weinstein
Vice President, TitlePLUS

Naomi Dummett
Director of Communications

Ray Leclair
Vice President Public Affairs

Juda Strawczynski
Director, practicePRO

Karen Wood
Director, Human Resources & Administration

Board Committees

EXECUTIVE COMMITTEE[1]

Frederick W. Gorbet
Daniel E. Pinnington (A)

AUDIT COMMITTEE[2]

Frederick W. Gorbet*
Diana C. Miles (A)
Binah Nathan
David R. Oliver
Anne-Marie Vanier

CONDUCT REVIEW COMMITTEE[2]

Susan M. Armstrong*
Frederick W. Gorbet
Binah Nathan
David R. Oliver
Anne-Marie Vanier

INVESTMENT COMMITTEE

Rita Hoff*
Binah Nathan
David R. Oliver
Clare Sellers

GOVERNANCE COMMITTEE

Clare A. Brunetta*
Robert P. Adourian
Etienne Esquega
Frederick W. Gorbet
Rita Hoff

RISK COMMITTEE

Clare A. Brunetta
Frederick W. Gorbet
Rita Hoff
Anne-Marie Vanier*
Mark D. Tamminga
Clare Sellers

TECHNOLOGY STRATEGY WORKING GROUP (RISK SUB-COMMITTEE)

Mark D. Tamminga*
Daniel E. Pinnington* (A)
Susan M. Armstrong
Ernest Solomon
Andrew J. Spurgeon

* Committee Chair

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

N.B. The Chair and Vice-Chair of LAWPRO are ex-officio members of all committees, by resolution of the Board.

[1] The Prudent Portfolio Governance Policy provides that a quorum of Executive Committee requires at least one member of the Committee who is not affiliated with LAWPRO.

[2] The Audit and Conduct Review Committees must have at least three director-members and a majority must be non-affiliated directors. Officers or employees of LAWPRO cannot be members of the Committees.

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 their 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.

lawpro.ca

Risk management
practicepro.ca

Additional professional
liability insurance
lawpro.ca/excess

Title insurance
titleplus.ca

AvoidAClaim.com

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LAWPRO insurance
TitlePLUS Home Buying Guide – Canada

LAWPRO
TitlePLUS

Design and production: Freeman Communications

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