
Financial statements of
Canadian Lawyers Liability Assurance
Society

December 31, 2023

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Independent Auditor's Report

To the Advisory Board of
Canadian Lawyers Liability Assurance Society

Opinion

We have audited the financial statements of Canadian Lawyers Liability Assurance Society (the "Society"), which comprise the statement of financial position as at December 31, 2023, and the statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including material accounting policy information (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Society as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). 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 are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 Society'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 Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Society'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 GAAS 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 GAAS, 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 Society'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 Society'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 Society 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.

The signature "Deloitte LLP" is written in a dark, cursive script.

Chartered Professional Accountants
Licenced Public Accountants
February 27, 2024

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF FINANCIAL POSITION
FOR THE PERIOD ENDED DECEMBER 31, 2023

	December 31, 2023	December 31, 2022 (Restated – Note 2)	January 1, 2022 (Restated – Note 2)
Assets			
Cash	4,618,783	2,872,993	3,533,877
Short term investments (Note 5)	8,297,545	11,590,166	11,361,485
Bonds (Note 5)	7,081,571	5,677,588	6,043,762
Interest income due and accrued	34,146	25,153	23,630
Prepaid expenses	242,616	236,651	150,826
Reinsurance contract assets (Note 4)			
Asset for incurred claims	71,209,278	72,018,164	64,021,442
Asset for remaining coverage	3,303,542	2,665,644	3,235,738
	94,787,481	95,086,359	88,370,760
Liabilities			
Insurance contracts liabilities (Note 4)			
Liability for incurred claims	72,378,249	76,144,667	68,922,369
Liability for remaining coverage	7,747,704	3,931,901	4,060,376
	80,125,953	80,076,568	72,982,745
Accounts payable & accrued charges	-	1,585,000	-
	80,125,953	81,661,568	72,982,745
Subscribers' equity			
Retained Earnings	14,845,045	13,754,427	15,283,175
Accumulated other comprehensive income (loss)	(183,517)	(329,636)	104,840
	14,661,528	13,424,791	15,283,175
	94,787,481	95,086,359	88,370,760

(Gordon Goodman)

, Chair of the Audit Committee

(Kenneth Crofoot)

, Director

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED DECEMBER 31, 2023

	2023	2022
Insurance service result		
Insurance revenue	17,956,690	14,004,146
Insurance service expense		
Incurred claims expenses	8,575,314	14,005,243
Operating expenses	1,346,526	1,414,914
Premium taxes	538,605	478,153
Insurance service result before reinsurance	7,496,245	(1,894,164)
Allocation of reinsurance premiums	15,249,537	12,174,308
Amounts recovered from reinsurers	8,412,298	14,004,668
	6,837,239	(1,830,360)
Net insurance service result	659,006	(63,804)
Investment result		
Investment income	739,173	393,562
Insurance finance income (expense)		
For insurance contracts	(4,141,027)	4,299,959
For reinsurance contracts	3,833,466	(3,963,465)
Net investment result	431,612	730,056
Net income	1,090,618	666,252
Change in Unrealized gains (losses) arising during the year	146,119	(434,476)
Recognition of realized gain (loss) included in income	-	-
Other comprehensive income (loss) for the year	146,119	(434,476)
Total comprehensive income	1,236,737	231,776

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF CHANGES IN EQUITY
DECEMBER 31, 2023

	Minimum Surplus	Additional Surplus	Accumulated Other Comprehensive Income	Total Equity
Balance, beginning of year	50,000	12,677,965	104,840	12,832,805
Adjustment on initial adoption of IFRS 17 (note 2)	-	2,555,210	-	2,555,210
Balance as at January 1, 2022 (restated)	50,000	15,233,175	104,840	15,388,015
Comprehensive income for the year				
Net income for the year	-	666,252	-	666,252
Other comprehensive income				
Unrealized gains and losses arising during the year	-	-	(434,476)	(434,476)
Recognition of realized gain included in income	-	-	-	-
Total comprehensive income (loss) for the year	-	666,252	(434,476)	231,776
Return of surplus	-	(2,195,000)	-	(2,195,000)
Balance at December 31, 2022	50,000	13,704,427	(329,636)	13,424,791
Comprehensive income for the year				
Net income for the year	-	1,090,618	-	1,090,618
Other comprehensive income				
Unrealized gains and losses arising during the year	-	-	146,119	146,119
Recognition of realized gain included in income	-	-	-	-
Total comprehensive income for the year	-	1,090,618	146,119	1,236,737
Return of surplus	-	-	-	-
Balance at December 31, 2023	50,000	14,795,045	(183,517)	14,661,528

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED DECEMBER 31, 2023

	2023 \$	2022 (Restated) \$
Cash provided by (used in):		
Operating activities:		
Net income (loss) for the year	1,090,618	666,252
Changes in no-cash items		
Interest income due and accrued	(8,995)	(1,527)
Income (expenses) from insurance contract	(3,355,220)	(2,405,795)
Income (expense) from reinsurance contract	3,003,772	2,133,105
Prepaid expenses	(5,965)	(85,824)
Accounts payable and accrued liabilities	(1,585,000)	1,585,000
Operating items involving cash outlays		
Change in insurance contract liabilities	3,404,605	9,499,620
Change in reinsurance contract assets	(2,832,784)	(9,559,736)
	(288,969)	1,831,096
Financing activity		
Return of premium surplus	-	(2,195,000)
Investing activities		
Purchase of bonds	(2,359,736)	(1,073,373)
Disposal of bonds	1,150,000	1,000,000
Purchase of short-term investments	(38,748,040)	(58,136,191)
Disposition of short-term investments	42,142,226	58,014,375
Amortization of bond premium	(150,470)	(110,702)
Amortization of bond discount	779	8,911
Cash provided by (used in) investing activities	2,034,759	(296,980)
Net (decrease) increase in cash	1,745,790	(660,884)
Cash balance, beginning of year	2,872,993	3,533,877
Cash beginning, end of year	4,618,783	2,872,993
Cash balance comprises		
Cash at bank	4,618,783	2,872,993
Interest received	580,488	290,245

The Canadian Lawyers Liability Assurance Society (the “Society”) was formed under the Reciprocal Insurance Exchange Agreement for select Canadian Law Firms dated December 22, 1986 (“Subscription Agreement”). The Society is licensed by the Superintendent of Insurance, Alberta and other provinces in Canada to provide lawyers professional liability insurance and cyber insurance to its subscribers. The Society commenced operations on June 30, 1987.

The address and registered office is Bay Adelaide Centre – West Tower, 333 Bay Street, Suite 3400, Toronto, Ontario, M5H 2S7.

The Society does not have any employees and is managed by an independent third party that reports to the Advisory Board. The Advisory Board has the authority and responsibility for planning, directing and controlling the activities of the entity. The Chair of the Advisory Board receives an annual honorarium of \$150,000 (\$150,000 in 2022) and the other members of the Advisory Board receive no compensation.

1. Basis of preparation:

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as defined by the International Accounting Standards Board (“IASB”).

These financial statements have been prepared on the historical cost basis, except for the valuation of financial instruments which are measured at fair value and outstanding claims and reinsurance are measured at discounted amounts with a risk adjustment for non-financial risk.

This is the first set of the Society’s annual financial statements in which IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments have been applied. The related changes to significant accounting policies, including impacts on comparative periods, are described in note 2.

2. Adoption of new accounting standards:

On 12 February 2021, the IASB issued Disclosure of Accounting Policies (Amendments to IAS 1) - An entity is now required to disclose its material accounting policy information instead of its significant accounting policies. There is no significant impact on the Society’s financial statements following the adoption.

The Society adopted IFRS 17 on January 1, 2023, which replaces IFRS 4 – Insurance Contracts (“IFRS 4”). The standards have brought significant changes to the accounting for insurance contracts.

2. Adoption of new accounting standards (continued):

IFRS 17 has been applied retrospectively as at January 1, 2022. As a result, the Society has restated the comparative amounts at December 31, 2022 and presented a third statement of financial position as of January 1, 2022.

The nature and effects of key changes in the Society's accounting policies resulting from its adoption of IFRS 17 are summarized below:

(a) Recognition, measurement and presentation of Insurance Contracts IFRS 17 – Insurance Contracts

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. Organizations have the option to use the Premium Allocation Approach ("PAA") model, which is a simplified measurement model for short-duration contracts. The Society meets the criteria for and chose to apply the PAA model for all of its insurance and reinsurance contracts since these contracts have a coverage period of 12 months. The accounting under the PAA model is similar to IFRS 4, but differs in the following key areas:

- (i) Acquisition costs – previously, all acquisition costs directly attributable to selling or underwriting insurance contracts were recognized and presented as separate assets from the related insurance contracts ("deferred policy acquisition costs") until those costs were included in net earnings or loss. Under IFRS 17, the Society elected to recognize insurance acquisition costs as expenses when the costs are incurred, which is permitted when applying the PAA model.
- (ii) Onerous contracts – IFRS 17 requires the identification of groups of onerous contracts at a more granular level than IFRS 4. Where groups of onerous contracts are identified, a loss component is recognized upon issuing the contracts in net income or loss, resulting in earlier recognition compared to IFRS 4. Onerous contracts did not have a significant impact on transition to IFRS 17.
- (iii) Discount rate – IFRS 17 requires the liability for incurred claims to be discounted at a rate that reflects the characteristics of the liabilities, including their timing and liquidity. The Society has established discount yield curves using risk-free rates adjusted to reflect the appropriate illiquidity characteristics of applicable insurance contracts. Under IFRS 4, claims liabilities were discounted using a rate that reflected the estimated market yield of the underlying assets supporting these claim liabilities at the reporting date.

2. Adoption of new accounting standards (continued):

- (iv) Risk adjustment – Under IFRS 17, the liability for incurred claims includes an explicit risk adjustment for non-financial risk (“risk adjustment”) which replaces the margin for adverse deviation in assumptions for claims development applied under IFRS 4. The margin for adverse deviation for financial risks such as asset default and reinvestment risks were released at the transition to IFRS 17.
- (b) Changes to presentation and disclosures
IFRS 17 introduces significant changes to the presentation and disclosure of insurance contracts in the financial statements.

Statement of Financial Position

Previously reported line items: premiums receivable, accounts payable and accrued charges, provision for unpaid claims and adjusting expenses, unearned premiums and premium deficiency liability are presented together on a single line called insurance contract liabilities. Costs included in the previously reported line-item deferred policy acquisition costs are no longer recognized and are recorded to insurance service expenses when incurred.

Previously reported line items: reinsurers’ share of unearned premiums, provision for unpaid claims and adjustment expenses recoverable from reinsurers and reinsurance receivable are presented together on a single line called reinsurance contract assets.

Statement of Comprehensive Income

Underwriting performance is presented in the statement of comprehensive income and consists of insurance service revenue and insurance service expense related to direct business. IFRS 17 resulted in changes to underwriting expenses since expenses previously classified as operating expenses or premium taxes are now included in insurance service expense.

Disclosures

IFRS 17 introduces incremental disclosure requirements on the amounts recognized from insurance contracts and extent of risks arising from these contracts.

2. Adoption of new accounting standards (continued):

(c) Transition

Changes in accounting policies resulting from the adoption of IFRS 17 have been applied using a full retrospective approach to the extent practicable. Under the full retrospective approach, at January 1, 2022, the Society:

- Identified and recognized each group of insurance contracts as if IFRS 17 had always applied.
- Derecognized previously reported balances that would not have existed if policy choices under IFRS 17 had always been applied, including:
 - Premiums due from subscribers, accounts payable and accrued charges, provision for unpaid claims and adjusting expenses, unearned premiums and premium deficiency liability which are measured as insurance contract liabilities under IFRS 17.
 - Provision for unpaid claims and adjustment expenses recoverable from reinsurers, reinsurance receivable, reinsurers' share of unearned premiums and amounts due to reinsurers which are measured as reinsurance contract assets under IFRS 17.
- Derecognized previously reported deferred policy acquisition costs which are recorded to insurance service expenses when incurred under IFRS 17.
- Recognized any resulting net difference in surplus.

2. Adoption of new accounting standards (continued):

The following table summarizes the impact of adopting IFRS 17 on the Society's statement of financial position on transition:

As of January 1, 2022	As presented	Presentation	Reclassification	Restated January 1, 2022
Total assets	95,350,095	(6,718,809)	(260,528)	88,370,758
Total liabilities	(82,517,290)	6,718,809	2,815,738	(72,982,743)
Earned Surplus	12,832,805	0	2,555,210	15,388,015
Measurement impact of IFRS 17 on liabilities:				
As at January 1, 2022				IFRS 17
Discount rate methodology change				3,078,460
Risk adjustment methodology change				866,627
Loss component impact				(1,129,349)
				2,815,738
Measurement impact of IFRS 17 on assets:				
As at January 1, 2022				IFRS 17
Expensing of policy acquisition costs				(41,179)
Provision for reinsurance non-performance				2,401,853
Discount rate methodology change				(2,806,964)
Risk adjustment methodology change				(859,027)
Loss-recovery component impact				1,044,789
				(260,528)

(d) IFRS 9 – Financial Instruments

IFRS 9 includes three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"), and fair value through profit and loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held-to-maturity investments, loans and receivables, and available-for-sale ("AFS") financial assets.

2. Adoption of new accounting standards (continued):

Upon adoption of IFRS 9, certain investments previously classified as AFS are now reclassified as FVOCI. The Society's investment portfolio is comprised of bonds and short-term investments. All the financial assets within the portfolio are considered to be within the scope of IFRS 9 and based on the IFRS 9 two-criteria classification approach all the financial instruments are classified and measured at FVOCI.

Unrealized gains or losses on AFS investments previously recognized in other comprehensive income or loss ("OCI") continue to be recognized in OCI.

The following table summarizes the classification and measurements impacts of IFRS 9 on transition:

As at January 1, 2023	Measurement Category		Carrying amount	
	IAS 39	IFRS 9	IAS 39	IFRS 9
Cash and cash equivalents	Amortized cost	Amortized cost	2,872,993	2,872,993
Investments	AFS	FVOCI	17,292,910	17,292,910

3. Material accounting policies:

The Society's material accounting policies have been applied consistently to all years presented in these financial statements and are as follows:

(a) Financial assets and liabilities:

i) Investments:

Investments are measured at fair value through other comprehensive income or loss (FVOCI) because doing so reduces volatility of the profit and loss statement. The investment portfolio consists primarily of bonds and short-term investments. Movements in fair value are accounted for through OCI, except for the recognition of impairment or gains and losses which are accounted for in the net income.

3. Material accounting policies (continued):

When measuring the fair value of investments, the Society uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques. The fair value hierarchy is based on quoted prices in active markets (Level 1), models using inputs other than quoted prices but with observable market data (Level 2), or models using inputs that are not based on observable market data (Level 3).

ii) Other financial assets and liabilities:

Cash and cash equivalents and accounts payable are measured at amortized cost.

iii) Acquisition expenses:

Costs that vary with, and are directly related to, the production of new and renewal business are accounted as insurance acquisition costs. As the Society's contracts issued have a coverage period of one year or less, the Society chooses to expense insurance acquisition costs as they occur.

(b) Income taxes:

No provision for income taxes has been made in these financial statements as the Society is exempt from such taxes provided certain conditions are met.

(c) Accounting standards issued but not yet effective:

The International Sustainability Standards Board (ISSB) sits alongside the IASB which issues International Financial Reporting Standards. On June 26, 2023, the ISSB released its finalized IFRS S1 – General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 – Climate-related Disclosure standards. These standards aim to create a global baseline for sustainability information in order to meet the sustainability information needs of capital markets. While it is expected, Canada has not yet adopted the ISSB standards, as such an impact assessment has not yet been conducted by the Society, however the upcoming standards are not expected to have a material impact on the Society's financial statements in the period of initial application.

4. Insurance and reinsurance contracts

(a) Contract classification:

The Society has four portfolios of contracts subject to similar risks and managed together: Professional Liability insurance, Professional Liability reinsurance, Cyber Insurance and Cyber reinsurance.

There is no investment component in the insurance contracts.

Professional Liability

The Society only underwrites Professional Liability contracts with a coverage period of 12 months and those contracts have the same effective date of July 1 annually. The contracts cover identical risks and have essentially the same policy limits and provisions, except for optional benefits which constitute a very small proportion of the premium. In practice, most subscribers opt for substantially similar optional coverages.

The insurance contracts are also reinsured under 12-month contracts effective July 1 annually, which is aligned with the coverage period and inception date of the underlying insurance contracts. The reinsurance structure includes several reinsurance contracts by layer as well as for optional coverages selected under the primary policies.

Cyber

The Society only underwrites Cyber contracts with a coverage period of 12 months and those contracts cover identical risks but have different policy limits based on size and risk appetite. The contracts have an effective date of October 15 annually with the exception of one subscriber that has a July 1 effective date annually.

The Society purchases two policy-attaching reinsurance contracts to cover the risk:

- the first contract covers claims in the \$5 million xs \$1 million layer and incepts on July 1 annually
- the second contract covers claims in the \$4 million xs \$6 million layer and incepts on October 14 annually

Each reinsurance contract has a term of 12 months.

4. Insurance and reinsurance contracts (continued):

(b) Level of aggregation:

Insurance contracts are aggregated into groups for measurement purposes. Groups of insurance contracts are determined by identifying portfolios of insurance contracts, each comprising contracts subject to similar risks and managed together, and dividing each portfolio into annual cohorts and each annual cohort into three groups:

- any contracts that are onerous on initial recognition
- any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and
- any remaining contracts in the annual cohort.

An insurance contract issued by the Society is recognized from the earliest of:

- the beginning of its coverage period (i.e., the period during which the Society provides services in respect of any premiums within the boundary of the contract);
- when the first payment from the policyholder becomes due or, if there is no contractual due date, when it is received from the policyholder; and
- when facts and circumstances indicate that the contract is onerous.

When a contract is recognized, it is added to an existing group of contracts or, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future contracts are added.

(c) Onerous contracts:

Each annual cohort of insurance contracts are separated into either:

- contracts that are onerous at initial recognition: Insurance contracts where the premium set is lower than the actuarial cost valued under IFRS 17
- any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and
- other contracts: Remaining insurance contracts.

4. Insurance and reinsurance contracts (continued):

The Society assumes that no contracts in the portfolio are onerous at initial recognition unless facts and circumstances indicate otherwise. For contracts that are not onerous, the Society assesses, at initial recognition, that there is no significant possibility of becoming onerous subsequently by assessing the likelihood of changes in applicable facts and circumstances.

All policies for the Society are priced using the same rating algorithm and rebalanced to achieve the overall premium level adopted by the Board, as such the entire annual cohort will either be considered onerous or in the other contracts category.

(d) Contract boundary:

Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with insurance contract services.

(e) Measurement models:

The General Measurement Model ("GMM") is the default model for the recognition and measurement of insurance contracts; however, insurance and reinsurance contracts are automatically eligible for the simplified PAA approach if their coverage period is one year or less. All contracts issued by the Society meet the definition of an insurance contract and have a coverage period of one year or less. The Society chose to apply the PAA model for all its insurance contracts.

The carrying value of insurance contract liabilities at the end of the reporting period is comprised of the following:

Liability for remaining coverage ("LRC"):

The LRC is an obligation to investigate and pay valid claims under existing insurance contracts for insured events that have not yet occurred. The LRC using the PAA model is initially measured at the value of premiums received. The LRC is subsequently remeasured to recognize additional premium received and insurance service revenue for services provided based on the passage of time, which is usually 12 months.

4. Insurance and reinsurance contracts (continued):

Liability for incurred claims ("LIC"):

The LIC is the obligation to investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not been reported. The Society estimates the LIC as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows. They reflect current estimates from the perspective of the Society and include an explicit risk adjustment. The fulfillment cash flows are discounted to reflect the time value of money and financial risk that considers the characteristics of the liabilities and the duration of the contract portfolio.

Asset for remaining coverage ("ARC"):

The ARC represents the provision for the right to receive coverage from a reinsurer after the reporting period for reinsured events that have not yet occurred.

Asset for incurred claims ("AIC"):

The AIC represents the provision for the right to receive compensation for reinsured events that have already occurred, including events that have occurred, but for which reinsured claims have not been reported.

(f) Risk adjustment:

The measurement of insurance contract liabilities and reinsurance contract assets includes a risk adjustment for non-financial risk which is the compensation the Society requires for bearing the uncertainty about the amount and timing of the cash flows that arise as it fulfils the contracts.

(g) Insurance service revenue:

Insurance service revenue consists of expected premium receipts and is allocated pro-rata over the period of the contract (typically 12 months).

(h) Insurance service expense:

Insurance service expense includes fulfillment and acquisition cash flows which are costs directly attributable to insurance contracts and are comprised of both direct costs and an allocation of indirect costs. It is composed of the following:

4. Insurance and reinsurance contracts (continued):

- Incurred claims and other insurance service expenses, excluding insurance finance income and expense, and include direct incurred claims and non-acquisition costs directly related to fulfilling insurance contracts;
- Insurance acquisition cash flows;
- Losses and reversals on onerous contracts.

The Society does not disaggregate changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. All changes in the risk adjustment for non-financial risk are included in the insurance service result.

(i) Insurance finance income or expense:

Insurance finance income or expense comprise the changes in the carrying amount of the group of contracts arising from:

- Discount unwinding;
- Changes in discount rates; and
- The effect of financial risk and changes in financial risk.

All insurance finance income and expenses is presented in net income. The Society does not disaggregate the amount between net income and other comprehensive income.

4. Insurance and reinsurance contracts (continued):

(a) Activity in the insurance contract liabilities are summarized as follows:

	Liability for remaining coverage			Liability for Incurred Claims		
December 31, 2023	Excluding Loss Component	Loss Component	Total	Present value of cash flows	Risk adjustment	Total
Insurance contract liabilities, beginning of year	3,931,901	-	3,931,901	69,857,493	6,287,174	76,144,667
Changes in the statement of comprehensive income						
Insurance revenue	(17,956,690)	-	(17,956,690)	-	-	-
Insurance service expenses:						
Incurred claims relating to current year	-	-	-	12,897,982	1,187,819	14,085,801
Incurred claims relating to prior years	-	-	-	(4,011,681)	(1,498,808)	(5,510,489)
Losses (and reversal) on onerous contracts	-	-	-	-	-	-
Incurred insurance acquisition cash flows	538,605	-	538,605	-	-	-
Other incurred insurance service expenses	-	-	-	1,346,526	-	1,346,526
Insurance service result	(17,418,085)	-	(17,418,085)	10,232,826	(310,989)	9,921,838
Insurance finance expense (income)	-	-	-	4,141,028	-	4,141,028
Net change in statement of comprehensive income	(17,418,085)	-	(17,418,085)	14,373,854	(310,989)	14,062,866
Changes in cash flows:						
Premiums received	21,558,537	-	21,558,537	-	-	-
Insurance acquisition cash flows paid	(324,649)	-	(324,649)	-	-	-
Claims paid	-	-	-	(16,482,758)	-	(16,482,758)
Other insurance service expenses paid	-	-	-	(1,346,526)	-	(1,346,526)
Net change in cash flows	21,233,889	-	21,233,889	(17,829,284)	-	(17,829,284)
Insurance contract liabilities, end of year	7,747,704	-	7,747,704	66,402,063	5,976,186	72,378,249

The insurance contract liabilities as of December 31, 2023, include \$3,043,523 for Cyber Insurance

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

December 31, 2023

4. Insurance and reinsurance contracts (continued):

Activity in the insurance contract liabilities are summarized as follows:

		Liability for remaining coverage			Liability for Incurred Claims		
	December 31, 2022	Excluding Loss Component	Loss Component	Total	Present value of cash flows	Risk adjustment	Total
<hr/>							
Insurance contract liabilities, beginning of year		2,931,027	1,129,349	4,060,376	63,231,531	5,690,838	68,922,369
<hr/>							
Changes in the statement of comprehensive income							
Insurance revenue		(14,004,146)	-	(14,004,146)	-	-	-
Insurance service expenses:							
Incurred claims relating to current year		-	-	-	13,644,177	1,195,945	14,840,121
Incurred claims relating to prior years		-	-	-	894,078	(599,608)	294,470
Losses (and reversal) on onerous contracts		-	(1,129,349)	(1,129,349)	-	-	-
Incurred insurance acquisition cash flows		478,153	-	478,153	-	-	-
Other incurred insurance service expenses		-	-	-	1,414,914	-	1,414,914
<hr/>							
Insurance service result		(13,525,993)	(1,129,349)	(14,655,342)	15,953,169	596,337	16,549,506
Insurance finance expense (income)		-	-	-	(4,299,959)	-	(4,299,959)
<hr/>							
Net change in statement of comprehensive income		(13,525,993)	(1,129,349)	(14,655,342)	11,653,210	596,337	12,249,547
<hr/>							
Changes in cash flows:							
Premiums received		14,919,456	-	14,919,456	-	-	-
Insurance acquisition cash flows paid		(392,588)	-	(392,588)	-	-	-
Claims paid		-	-	-	(3,612,334)	-	(3,612,334)
Other insurance service expenses paid		-	-	-	(1,414,914)	-	(1,414,914)
<hr/>							
Net change in cash flows		14,526,868	-	14,526,868	(5,027,248)	-	(5,027,248)
<hr/>							
Insurance contract liabilities, end of year		3,931,901	-	3,931,901	69,857,493	6,287,174	76,144,667

The insurance contract liabilities as of December 31, 2022 include \$2,486,825 for Cyber Insurance.

4. Insurance and reinsurance contracts (continued):

(b) Activity in the reinsurance contract assets are summarized as follows:

December 31, 2023	Asset for Remaining Coverage		Asset for Incurred Claims	
	Excluding Loss-Recovery Component	Loss-Recovery Component	Present value of cash flows	Risk adjustment
Total	Total		Total	
Reinsurance contract assets, beginning of year	2,665,644	-	66,194,861	5,823,303
72,018,164				
Changes in the statement of comprehensive income				
Allocation of reinsurance premiums	(14,592,934)	-	-	-
Amounts recovered from reinsurers:				
Incurred claims relating to current year	-	-	11,881,124	1,080,342
Incurred claims relating to prior years	-	-	(3,187,018)	(1,425,674)
Recovery of losses and reversal on recovery of losses	-	-	-	-
Changes in non-performance risk of reinsurers	-	-	63,524	-
Other incurred insurance service expenses	-	-	(656,602)	-
Net expense from reinsurance contracts	(14,592,934)	-	8,101,028	(345,332)
Reinsurance finance income (expense)	-	-	3,833,467	-
7,755,696				
Net change in statement of comprehensive income	(14,592,934)	-	11,934,494	(345,332)
11,589,163				
Changes in cash flows:				
Premiums paid	15,230,831	-	-	-
Amounts received	-	-	(13,054,649)	-
Reinsurance acquisition cash flows	-	-	656,602	-
656,602				
Net change in cash flows	15,230,831	-	(12,398,047)	-
(12,398,047)				
Reinsurance contract assets, end of year	3,303,542	-	65,731,307	5,477,971
71,209,278				

The reinsurance contract assets as of December 31, 2023, include \$763,798 for Cyber Insurance

4. Insurance and reinsurance contracts (continued):

Activity in the reinsurance contract assets are summarized as follows:

	Asset for Remaining Coverage			Asset for Incurred Claims		
	Excluding Loss-Recovery Component	Loss-Recovery Component	Total	Present value of cash flows	Risk adjustment	Total
Reinsurance contract assets, beginning of year	2,190,949	1,044,789	3,235,738	58,782,944	5,238,498	64,021,442
Changes in the statement of comprehensive income						
Allocation of reinsurance premiums	(11,619,994)	-	(11,619,994)	-	-	-
Amounts recovered from reinsurers:						
Incurred claims relating to current year	-	-	-	12,420,503	1,102,524	13,523,027
Incurred claims relating to prior years	-	-	-	1,896,839	(517,719)	1,379,120
Recovery of losses and reversal on recovery of losses	-	(1,044,789)	(1,044,789)	-	-	-
Changes in non-performance risk of reinsurers	-	-	-	147,309	-	147,309
Other incurred insurance service expenses	-	-	-	(554,314)	-	(554,314)
Net expense from reinsurance contracts	(11,619,994)	(1,044,789)	(12,664,783)	13,910,338	584,805	14,495,142
Reinsurance finance income (expense)	-	-	-	(3,963,465)	-	(3,963,465)
Net change in statement of comprehensive income	(11,619,994)	(1,044,789)	(12,664,783)	9,946,873	584,805	10,531,678
Changes in cash flows:						
Premiums paid	12,094,690	-	12,094,690	-	-	-
Amounts received	-	-	-	(3,089,269)	-	(3,089,269)
Reinsurance acquisition cash flows	-	-	-	554,314	-	554,314
Net change in cash flows	12,094,690	-	12,094,690	(2,534,955)	-	(2,534,955)
Reinsurance contract assets, end of year	2,665,644	-	2,665,644	66,194,861	5,823,303	72,018,164

The reinsurance contract assets as of December 31, 2022, include \$404,827 for Cyber Insurance

4. Insurance and reinsurance contracts (continued):

Liability for incurred claims – Estimate of undiscounted future cash flows

The Society establishes a provision to cover the estimated liability for the cash flows associated with incurred losses as at the date of the statement of financial position, including claims not yet reported (“IBNR”) and loss adjustment expenses incurred with respect to insurance contracts written by the Society.

The establishment of undiscounted future cash flows is based on known facts and interpretation of circumstances and is, therefore, a complex and dynamic process influenced by a large variety of factors. These factors include the Society’s experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, 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 personnel managing the Society’s claims 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, court decisions, economic conditions and public attitudes. 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 payment or settlement of the claims, the more variable the ultimate settlement amount can be.

Consequently, the establishment of the undiscounted future cash flows relies on the judgment and opinions of a number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made. These provisions are monitored and recalculated annually.

Discounting

All cash flows are discounted using risk-free yield curves adjusted to reflect the characteristics of the cash flows and liquidity of the insurance contracts. The Society determines the risk-free rates by reference to the yields of Government of Canada bonds. To reflect the liquidity characteristics of the insurance contracts, the risk-free yield curves are adjusted by an illiquidity premium. The adopted approach for estimating the illiquidity premium is to compare the risk-free yield curve to a corporate bond yield curve. The spread estimates the illiquidity premium.

4. Insurance and reinsurance contracts (continued):

The table below sets out the yield curves used to discount the cash flows of insurance contracts.

Year	2023		2022	
	Liquid yield curve	Illiquid yield curve	Liquid yield curve	Illiquid yield curve
1	4.50%	4.89%	4.32%	5.11%
2	3.85%	4.56%	3.97%	4.92%
3	3.46%	4.36%	3.72%	4.78%
4	3.28%	4.28%	3.54%	4.70%
5	3.17%	4.25%	3.42%	4.65%
10	3.09%	4.29%	3.28%	4.70%
15	3.14%	4.38%	3.39%	4.88%
20	3.12%	4.41%	3.42%	4.95%

Risk adjustment

The Society has estimated the risk adjustment on a net of reinsurance basis and has selected a risk adjustment approach which is based on the application of a percentage margin to the discounted unpaid claims. Given the size and complexity of the Society and the limited claims data available to derive credible confidence levels based on the Society's history, an approach based on the Minimum Capital Test factors adjusted for the diversification of the Society is considered to be a reasonable approach to estimate the confidence level. Based on actuarial judgement, the net liability for incurred claims recorded correspond to a confidence level in the range of 65% to 70%.

The following table reconciles the effects of discounting and risk adjustment on the liability and asset for incurred claims:

	December 31 2023	December 31 2022
Undiscounted liability for incurred claims	78,826,747	84,866,864
Effect of discounting	(12,424,684)	(15,009,371)
Risk adjustment	5,976,186	6,287,174
Liability for incurred claims	72,378,249	76,144,667

4. Insurance and reinsurance contracts (continued):

	December 31 2023	December 31 2022
Undiscounted asset for incurred claims	72,338,792	78,627,675
Effect of discounting	(11,472,448)	(13,924,310)
Risk adjustment	5,477,971	5,823,303
Claims receivable from reinsurers	4,864,963	1,491,496
Asset for incurred claims	71,209,278	72,018,164

Sensitivity analysis

The liability for incurred claim's sensitivity to certain key assumptions is outlined below. It is not possible to quantify the sensitivity of certain assumptions, such as legislative changes or uncertainty in the estimation process.

The analysis is performed for possible movements in the assumptions with all other assumptions held constant, showing the impact on net earnings. Movements in these assumptions may be non-linear and may be correlated with one another.

The table below sets out the yield curves used to discount the cash flows of insurance contracts.

	2023	2022
5% increase in expected loss ratio	144,434	103,336
5% decrease in expected loss ratio	(115,831)	(108,111)
1% increase in discount rate	(199,331)	(201,246)
1% decrease in discount rate	213,045	216,238

5. Investments

(a) The Society's investments consist of the following:

	2023		2022	
	Fair value and carrying value \$	Amortized cost \$	Fair value and carrying value \$	Amortized cost \$
Short term investments	8,297,545	8,340,370	11,590,166	11,596,070
Bonds	7,081,571	7,222,262	5,677,588	6,001,319
	15,379,116	15,562,632	17,267,754	17,597,389

The difference between amortized cost and market value of the AFS investments consists of gross unrealized gains of \$0 (\$0 in 2022) and gross unrealized losses of \$183,516 (\$329,635 in 2022).

The Society limits its bonds to securities issued or guaranteed by the Government of Canada, any province of Canada or Canadian corporations having a rating of A or better. In December 2021 the investment policy was amended to allow up to 10% of long-term investments to be invested in BBB Corporate Bonds. Short term investments are invested in securities issued by the Government of Canada or a Canadian Province having a rating of A or better, or a Canadian Chartered Bank having a rating of R-1 or better. These securities have a maturity of less than 1 year from the purchase date.

5. Investments (continued)

(b) Maturity profile of investments as at December 31:

	Within 1 year \$	1-5 years \$	Over 5 years \$	2023 Total \$
Short term investments	8,297,545			8,297,545
Government of Canada bonds	247,609	770,117	924,269	1,941,995
Canadian public authorities bonds	-	1,358,383	1,349,273	2,707,656
Canadian corporate bonds	247,396	1,545,131	639,393	2,431,920
	8,792,550	3,673,631	2,912,935	15,379,116

	Within 1 year \$	1-5 years \$	Over 5 years \$	2022 Total \$
Short term investments	11,590,166			11,590,166
Government of Canada bonds	196,916	531,363	729,626	1,457,905
Canadian public authorities bonds	496,392	1,051,054	566,119	2,113,565
Canadian corporate bonds	444,922	1,320,661	340,535	2,106,118
	12,728,396	2,903,078	1,636,280	17,267,754

5. Investments (continued)

(c) Net investment income has the following components:

	2023	2022
	\$	\$
Interest income		
Bonds	176,445	151,681
Cash, cash equivalents and short term investments	413,037	140,087
	5,89,482	291,768
Amortization of discount (premium) on investments	149,691	101,794
Total net investment income	739,173	393,562

(d) Fair value measurements

The Society measures certain assets and liabilities using fair value. Fair value is a market-based measurement and not an entity-specific measurement and requires the use of a fair value hierarchy with the highest priority given to quoted prices in active markets. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents the Society's financial instruments that have been measured at fair value, on a recurring basis, as at December 31.

	Level 1	Level 2	Level 3	2023 Total
	\$	\$	\$	\$
Cash at bank	4,618,783	-	-	4,618,783
Investments – available-for-sale				
Short term investments	-	8,297,545	-	8,297,545
Bonds	-	7,081,571	-	7,081,571
	4,618,783	15,379,116	-	19,997,899

5. Investments (continued)

	Level 1	Level 2	Level 3	2022 Total
	\$	\$	\$	\$
Cash at bank	2,872,993	-	-	2,872,993
Investments – available-for-sale				
Short term	-	11,590,166	-	11,590,166
investments				
Bonds	-	5,677,588	-	5,677,588
	2,872,993	17,267,754	-	20,140,747

The Society did not have any transfers between any levels during the year.

6. Roles of the actuary and auditors:

The actuary has been appointed by the Advisory Board of the Society. With respect to the preparation of financial statements, the actuary is required to carry out a valuation of the Society's insurance contract liabilities and report thereon to the subscribers. The valuation is in accordance with accepted actuarial practice and regulatory requirements. In performing the valuation of the liabilities, which are by their nature inherently variable, assumptions are made as to the future loss ratios, trends, rates of claims frequency and severity, inflation, reinsurance recoveries, investment rates of return, and both internal and external adjustment expenses, taking into consideration the circumstances of the Society's and the nature of the insurance policies in force. The provisions do not include estimates for extraordinary future emergence of either new classes of claims or claims categories not sufficiently recognized in the claims database. The actuary relies on accounting policy positions and data supplied by the Society. The actuary, in verifying the management information provided by the Society used in the valuation, also makes use of the work of the external auditors. The actuary's report outlines the scope of the work and opinion provided.

The external auditors have been appointed by the subscribers pursuant to the Alberta Insurance Act to conduct an independent and objective audit of the financial statements of the Society's in accordance with Canadian generally accepted auditing standards and to report thereon to the subscribers. In carrying out their audit, the auditors also make use of the work of the actuary and the report on the Society's insurance contract liabilities. The auditors' report outlines the scope of their audit and their opinion.

7. Reinsurance Program

- (a) The Society has obtained proportional reinsurance coverage which limits its net liability to a maximum amount of \$975,000 effective for the annual Professional Liability coverage period beginning on July 1, 2023 (\$975,000 in July 1, 2022) on any one loss.
- (b) On July 1, 2022, CLLAS introduced a Cyber Insurance policy of up to \$10 million aggregate per insured firm. CLLAS retains the first \$1 million and purchases reinsurance for \$9 million excess \$1 million.
- (c) Colchester Reinsurance Limited ("Colchester") is an off-shore captive reinsurer domiciled in Barbados. The shareholders of Colchester are twelve Toronto based legal firms or their related service corporations. Those twelve shareholders are unrelated to each other. However, each of Colchester's shareholders is, or is related to the Society's current and past subscribers. For the annual Professional Liability policy coverage period beginning on July 1, 2023, Colchester received from the Society premiums of \$4,744,433 (\$3,603,874 in July 1, 2022).

Colchester provides aggregate stop-loss reinsurance protection for a portion of the Society's retained risk on the Professional Liability Policy. On July 1, 2023, this reinsurance had an attachment point of \$5,000,000 (\$5,000,000 on July 1, 2022), and an annual aggregate limit of \$10,000,000 (\$10,000,000 on July 1, 2022). Starting July 1, 2011, the attachment point and limit were determined with reference to the combined net claim liabilities of the Society and Colchester. Starting on July 1, 2012, the attachment point and limit are solely determined with reference to the net claim liabilities of the Society.

- (d) In 2012, the Society initiated a Loss Portfolio Transfer ("LPT") with Colchester to transfer the outstanding net retained liabilities for the Professional Liability policy year periods from inception to the period ended June 30, 2012, for a premium of \$44,260,000. The net retained liability was estimated as \$33,103,000 at the time of LPT.

As at December 31, 2023, the total reserves held and recoverable on the Society's financial statements relating to LPT was \$1,410,000 (\$4,604,951 in 2022). A Reinsurance Security Agreement ("RSA") is in place which requires Colchester to set up on behalf of the Society deposits equal to 120% of Colchester's share of claim liabilities. At December 31, 2023 the value of the security deposits exceeds the required amount.

- (e) Reinsurance does not discharge the primary liability of the Society.

8. Income taxes:

The Society is a reciprocal insurance exchange as defined under Part 1 of the Alberta Insurance Act, RSA 2000, c I- 3. Accordingly, no provision for income taxes is made in these financial statements.

9. Equity

In accordance with the Reciprocal Insurance Exchange Agreement ("Agreement"), subscribers were not obligated to contribute any amounts to the Society in the form of a capital contribution. The subscribers' equity therefore represents cumulative surplus and may be used to cover potential future catastrophic claims or reduce future premiums, if appropriate. The Agreement provides that additional assessments may be made to cover the actual loss, claims and costs experienced by the Society.

Under the terms of the Agreement, the Society is obligated to return a share of the Society's surplus (if any) to a departed Subscriber subsequent to the fifth anniversary of its departure, based on that Subscriber's participation in the Society. A Subscriber withdrew from the Society on June 30, 2012, and another on June 30, 2017.

10. Risk management

Insurance risk management

The Society accepts insurance risks through its insurance contracts where it assumes the risk of loss from persons or organizations subject to the underlying loss. The Society is exposed to uncertainty surrounding the timing, frequency and severity of claims under these contracts and the principal risk that the actual claims payments exceed the carrying amount of the insurance liabilities or that claims are under-reserved.

The Society manages insurance risk via its underwriting and reinsurance strategy within an overall risk management framework. Pricing is based on assumptions which have regard to trends and past experience. Exposures are managed by having documented underwriting limits and rating criteria. Reinsurance is purchased to mitigate the effect of potential loss to the Society from individual large events. Reinsurance policies are written with approved reinsurers (two of the current reinsurers are unlicensed) on either a proportional, aggregate or excess of loss treaty basis.

10. Risk management (continued):

There is some concentration of risk since the underlying insured's are a homogeneous group where all are engaged in the practice of law in Canada. There is some risk of increased claim activity due to the occurrence of events that could increase the number of or value of legal actions against lawyers. Examples could be changes in legislation or a severe economic downturn. This risk is mitigated to some extent by the use of aggregate and excess of loss reinsurance. Concentration risk regarding reinsurance is mitigated by the use of multiple reinsurers with varying participations and an annual assessment of the financial strength of all reinsurers.

Claim development

Uncertainty exists on reported claims in that all information may not be available at the reporting date; therefore, the claim cost may rise or fall at some date in the future when the information is obtained. In addition, claims may not be reported to the Society immediately; therefore, estimates are made as to the value of claims incurred but not yet reported, a value which may take several years to finally determine. In order to determine the liability, assumptions are developed considering the characteristics of the line of business, the historical pattern of payments, the amount of data available and any other pertinent factors. In general, the longer the term required for the settlement of a group of claims, the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported. The following table shows the development of claims over a 10-year period, on both a gross and net of reinsurance basis:

10. Risk management (continued):

Analysis of claims development – gross:

10 years	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
End of year	14,098,000	13,475,000	13,856,000	12,376,000	13,081,000	18,559,000	14,806,274	14,940,774	17,616,857	8,528,906	\$
1 year later	12,934,000	12,485,000	14,531,000	11,504,000	12,176,000	15,774,661	13,830,857	17,098,468	14,955,652		
2 years later	9,278,000	8,949,000	13,196,000	8,400,000	8,850,446	11,982,585	10,446,908	15,494,613			
3 years later	6,855,000	9,176,000	11,352,000	6,683,361	7,291,393	10,699,495	10,438,193				
4 years later	4,885,000	8,166,000	9,109,049	4,688,919	7,419,973	12,158,972					
5 years later	2,369,000	9,049,066	5,520,074	2,938,566	4,415,956						
6 years later	1,719,115	9,256,610	4,407,746	1,193,165							
7 years later	1,658,007	13,129,425	4,150,239								
8 years later	2,498,054	13,281,321									
9 years later	1,896,474										
Current estimate of ultimate	1,896,474	13,281,321	4,150,239	1,193,165	4,415,956	12,158,972	10,438,193	15,494,613	14,955,652	8,528,906	86,513,491
Cumulative payments	566,645	6,541,531	3,181,835	-	1,011,944	416,634	-	3,765,025	-	-	15,483,614
Outstanding claims	1,329,829	6,739,790	968,404	1,193,165	3,404,012	11,742,338	10,438,193	11,729,588	14,955,652	8,528,906	71,029,877
Liability for all prior years											5,315,642
Estimated unallocated loss adjusting expenses ("ULAE")											2,481,229
Effect of discounting											(12,424,684)
Risk adjustment for non-financial risk											5,976,186
Insurance contract liability for incurred claims in statement of financial position											72,378,251

10. Risk management (continued):

Analysis of claims development – net:

10 years	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
End of year	440,000	424,000	444,000	387,000	419,000	1,244,000	451,976	478,224	1,492,207	486,663	\$
1 year later	413,000	392,000	1,062,000	360,000	390,000	945,824	423,257	628,826	903,149		
2 years later	308,000	281,000	950,000	263,000	283,415	827,527	420,972	486,945			
3 years later	284,000	218,000	891,000	208,864	225,484	777,910	390,325				
4 years later	222,000	162,000	818,782	146,535	265,048	718,939					
5 years later	164,000	67,235	719,890	120,301	141,956						
6 years later	1,112,261	18,753	696,225	48,847							
7 years later	1,110,357	115,683	680,705								
8 years later	1,229,095	78,428									
9 years later	1,226,618										
Current estimate of ultimate	1,226,618	78,428	680,705	48,847	141,956	718,939	390,325	486,945	903,149	486,663	5,162,574
Cumulative payments	144,636	-	650,000	-	-	416,634	-	-	-	-	1,211,270
Outstanding claims	1,081,982	78,428	30,705	48,847	141,956	302,305	390,325	486,945	903,149	486,663	3,951,304
Liability for all prior years											55,422
Estimated unallocated loss adjusting expenses ("ULAE")											2,481,229
Effect of discounting											(952,236)
Risk adjustment for non-financial risk											498,215
Other payables net of receivables											(4,864,963)
Insurance contract liability for incurred claims in statement of financial position											1,168,972

10. Risk management (continued):

Financial risk management

The Society has policies related to the identification, monitoring and mitigation of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risk (interest rate, equity and currency). The following describes how the Society manages each of these risks.

(a) Credit risk

Credit risk is the risk of loss due to the failure of debtors to make payments when due. Credit risks are primarily associated with invested assets and the probability of default by a counterparty on its obligations to the Society. The investment portfolio's exposure to credit risk is managed through policies and procedures including a credit evaluation by the investment manager and investment guidelines which specify investment quality and exposure limits. The portfolio is monitored and reviewed regularly by the Board. Credit risk of the counterparties present minimal risk due to the short-term nature of their obligations towards the Society and the historic/financial relationship with the Society as a reciprocal insurance exchange. The Society evaluates the financial condition of its reinsurers and monitors concentrations of credit risk of the reinsurers to minimize its exposure to significant losses from their insolvency. The Society believes that it has taken appropriate steps to manage credit risk and has made appropriate provision for any such exposures. As at December 31, 2023 and 2022, the Society does not have a significant impairment. One of the primary reinsurers is Colchester as discussed in Note 7. The credit risk related to Colchester is managed by maintaining a security account pursuant to the RSA and a quarterly review of Colchester's financial condition. The balance held in the account at December 31, 2023 is \$ \$33,644,779 (\$36,915,226 in 2022).

10. Risk management (continued):*(i) Exposure to credit risk*

The following table summarizes the exposure to credit risk related to financial instruments and certain insurance assets at carrying value:

	2023	2022(Restated)
	\$	\$
Cash	4,618,783	2,872,993
Short term investments	8,297,545	11,590,166
Bonds	7,081,571	5,677,588
Interest income due and accrued	34,150	25,156
Reinsurance Contract Assets	74,512,820	74,683,808
Total credit exposure	94,544,869	94,849,711

(ii) Concentration of credit risk

The Society utilizes an investment policy to minimize the concentration of credit risk by ensuring diversification across asset classes. The following table summarizes the distribution of investments by credit risk:

	2023	2022
	%	%
R-1 (high)	54	67
AAA	30	8
AA	11	22
A	2	1
BBB	3	2
	100	100

10. Risk management (continued):*(b) Liquidity risk*

Liquidity risk is the risk that the Society will not be able to meet all cash outflow obligations as they come due. The primary potential cash outflow is the payment of insurance claims and is represented by the provision for unpaid claims and adjustment expenses liability on the statement of financial position. In order to manage the liquidity risk associated with this liability, an investment policy is in place.

The amount payable on demand amounts to \$659,235 as at December 31, 2023.

The following table summarizes the exposure to liquidity risk:

December 31, 2023	Year1	Year2	Year 3	Year 4	Year 5	Year 6	Total
Insurance contract liabilities for incurred claims	11,462,468	11,443,859	10,220,822	9,346,060	8,530,226	27,823,314	78,826,748
Reinsurance Contract Assets for Incurred Claims	15,123,429	10,476,446	9,383,710	8,595,487	7,852,531	25,772,153	77,203,755
Total	(3,660,961)	967,413	837,112	750,573	677,695	2,051,161	1,622,992

December 31, 2022	Year1	Year2	Year 3	Year 4	Year 5	Year 6	Total
Insurance contract liabilities for incurred claims	13,700,063	12,041,480	11,369,915	8,318,764	7,459,126	31,977,516	84,866,864
Reinsurance Contract Assets for Incurred Claims	14,219,039	11,106,047	10,514,719	7,695,133	6,888,940	29,695,292	78,627,675
Total	(518,976)	935,433	855,196	623,631	570,186	2,282,224	6,239,190

10. Risk management (continued):

(c) *Market risk*

The Society is exposed to market risk through its investing activities. Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity markets and foreign currency rates. The primary market risk exposures are discussed below.

(i) *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument or insurance contract or reinsurance contract will fluctuate because of changes in interest rates.

The Society is exposed to interest rate risk if the cash flows from the investments are not matched to the liabilities that they support. This risk is partially mitigated by the investment policy which specifies that the timing of the settlement of unpaid claims be considered when selecting the duration of invested assets.

(ii) *Equity risk*

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. To mitigate this risk, the Society's investment policy does not allow exposure to equity markets.

(iii) *Currency risk*

The Society does not have any material exposure to foreign currency.

11. Equity management and adequacy

Equity is comprised of minimum and additional surplus and AOCI. At December 31, 2023, the equity was \$ 14,661,532 (\$13,424,794 in 2022- restated). The Society's objectives for the management of surplus are for the prudent operation of the reciprocal and to provide relatively predictable premium costs for its members over time. A surplus management policy is approved by the Advisory Board which oversees the surplus management process.

As a reciprocal insurance exchange, the requirement for surplus is lower than that of an incorporated insurance company. A reciprocal may rely on the contractual agreement among its members to contribute to the losses incurred by other members and to make assessments for additional contributions to surplus if required and accordingly, can rely on the credit worthiness of its subscribers.

11. Equity management and adequacy (continued):

The Society is regulated by the Superintendent of Insurance, Alberta and in British Columbia, Ontario and Nova Scotia where licenses are held, all of which expect incorporated insurance companies to meet a Minimum Capital Test ("MCT") ratio of capital available to capital required of at least 150%. As of December 31, 2023, the Society's MCT ratio was 781% (560% in 2022 - restated). However, the minimum regulatory standard for reciprocal insurance exchanges in Alberta is adjusted equity exceeding \$50,000. The Society's practice is to maintain a surplus level which is significantly higher than the regulatory minimum. The Society's surplus adequacy is evaluated regularly and this evaluation takes into account the gross exposure to risk, the level and nature of reinsurance purchased and the resulting net exposure to members. Input from the appointed actuary, which includes an assessment of loss volatility, is factored into this evaluation.

In accordance with sections 99 and 100 of the Alberta Insurance Act, the Society is required to maintain a reserve and guarantee fund. At December 31, 2023 the total reserve and guarantee funds required are as follows:

	2023	2022 (Restated)
	\$	\$
Reserve fund		
Net premiums written during the period	21,559,000	14,919,000
Less: Amounts paid to license reinsurers	15,105,000	11,983,000
Requirement	6,454,000	2,936,000
	50%	50%
	3,227,000	1,468,000
Guarantee Fund		
Total liabilities	80,126,000	81,662,000
Less: Liability for Remaining Coverage	7,748,000	3,932,000
Recoverable from licensed reinsurers	71,186,000	74,426,000
Add: Statutory margin	50,000	50,000
	1,242,000	3,354,000
Total of reserve and guarantee fund	4,469,000	4,822,000
Cash and approved securities	19,998,000	20,141,000
Excess of cash and securities over reserve and guarantee fund	15,529,000	15,319,000

12. Date of authorization for issue

The financial statements were authorized for issue by the Advisory Board on February 27, 2024.