The Canadian Bar Insurance Association
Consolidated Financial Statements
For the year ended November 30, 2018

Contents

Tel: 905 270-7700
Fax: 905 270-7915
Toll-free: 866 248 6660
www.bdo.ca

BDO Canada **LLP**
1 City Centre Drive, Suite 1700
Mississauga ON L5B 1M2 Canada

Independent Auditor's Report

To the Members of The Canadian Bar Insurance Association

We have audited the accompanying consolidated financial statements of The Canadian Bar Insurance Association, which comprise the consolidated balance sheet as at November 30, 2018, and the consolidated statements of operations and changes in fund balances and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Canadian Bar Insurance Association as at November 30, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Independent Auditor's Report (continued)

Emphasis of Matter

We draw attention to Note 10 of the consolidated financial statements, which explains that certain comparative information presented for the year ended November 30, 2017 has been restated. Our opinion is not modified in respect of this matter.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Mississauga, Ontario
May 1, 2019

The Canadian Bar Insurance Association
Consolidated Balance Sheet

November 30

	2018			2017
				(Restated - Note 10)
	Operating Fund	**Reserve Fund**	**Total**	Total
Assets				
Cash and cash equivalents	**$ 312,685**	**$ 202,622**	**$ 515,307**	$ 469,522
Due from insurers	**350,388**	**1,331,168**	**1,681,556**	702,800
Settlement due from ceding insurer	**-**	**898,863**	**898,863**	1,422,919
Prepaid expenses and deposits	**98,398**	**105,057**	**203,455**	531,096
Marketable securities (Note 2)	**-**	**108,375,861**	**108,375,861**	108,638,733
Funds withheld by ceding insurer	**-**	**12,036,032**	**12,036,032**	12,693,599
Capital and intangible assets (Note 3)	**568,732**	**-**	**568,732**	426,959
	$ 1,330,203	**$122,949,603**	**$124,279,806**	$124,885,628
Liabilities and Fund Balances				
Accounts payable and accrued liabilities	**$ 1,547,168**	**$ 116,544**	**$ 1,663,712**	$ 2,371,083
Interfund payable (receivable)	**(2,507,599)**	**2,507,599**	**-**	-
Actuarial reserves (Note 4)	**-**	**19,060,723**	**19,060,723**	20,191,439
	(960,431)	**21,684,866**	**20,724,435**	22,562,522
Fund balances	**2,290,634**	**101,264,737**	**103,555,371**	102,323,106
	$ 1,330,203	**$122,949,603**	**$124,279,806**	$124,885,628

On behalf of the Board:

______________________ Director

______________________ Director

The accompanying notes are an integral part of these consolidated financial statements.

The Canadian Bar Insurance Association
Consolidated Statement of Operations and Changes in Fund Balances

For the year ended November 30

	2018			2017 (Restated - Note 10)
	Operating Fund	**Reserve Fund**	**Total**	Total
Revenue				
Net premiums earned	**$ -**	**$ 41,629,893**	**$ 41,629,893**	$ 41,222,909
Experience activity	**-**	**532,094**	**532,094**	721,769
Administration fees	**6,010,083**	**-**	**6,010,083**	5,799,852
Investment income (Note 8)	**63,587**	**410,947**	**474,534**	8,881,163
Other	**2,211**	**-**	**2,211**	8,938
	6,075,881	**42,572,934**	**48,648,815**	56,634,631
Expenses				
Claims incurred	**-**	**29,826,569**	**29,826,569**	29,043,063
Ceding insurer's fees and other expenses	**-**	**10,073,440**	**10,073,440**	10,027,699
Operating expenses	**5,366,304**	**920,151**	**6,286,455**	6,915,632
The Canadian Bar Association fees (Note 6)	**914,785**	**-**	**914,785**	860,993
Amortization of capital and intangible assets	**315,301**	**-**	**315,301**	301,500
	6,596,390	**40,820,160**	**47,416,550**	47,148,887
(Deficiency) excess of revenue over expenses for the year	**(520,509)**	**1,752,774**	**1,232,265**	9,485,744
Transfer from Reserve Fund to Operating Fund (Note 7)	**900,000**	**(900,000)**	**-**	-
Increase in fund balances	**379,491**	**852,774**	**1,232,265**	9,485,744
Fund balances, beginning of year, as previously stated	**1,911,143**	**98,111,771**	**100,022,914**	90,835,153
Prior period adjustment (Note 10)	-	**2,300,192**	**2,300,192**	2,002,209
Fund balances, beginning of year, as restated	**1,911,143**	**100,411,963**	**102,323,106**	92,837,362
Fund balances, end of year	**$ 2,290,634**	**$101,264,737**	**$103,555,371**	$102,323,106

The accompanying notes are an integral part of these consolidated financial statements.

The Canadian Bar Insurance Association
Consolidated Statement of Cash Flows

For the year ended November 30	2018	2017 (Restated - Note 10)
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses	**$ 1,232,265**	$ 9,485,744
Adjustments required to reconcile excess of revenue over expenses with net cash provided by operating activities		
Amortization of capital and intangible assets	**315,301**	301,500
Non-cash pooled fund distributions	**(923,139)**	(927,494)
Realized gain on disposal of investments	**(2,087,872)**	(402,981)
Unrealized loss (gain) on investments	**3,592,522**	(6,625,983)
Write-off of capital assets	**-**	16,317
	2,129,077	1,847,103
Changes in non-cash working capital balances		
Due from insurers	**(978,756)**	(360,499)
Settlement due from ceding insurer	**524,056**	(958,306)
Prepaid expenses and deposits	**327,641**	(462,986)
Funds withheld by ceding insurer	**657,567**	(649,600)
Accounts payable and accrued liabilities	**(707,371)**	53,878
Actuarial reserves	**(1,130,716)**	(979,519)
	821,498	(1,509,929)
Investing activities		
Purchases (disposals) of marketable securities, net	**(318,639)**	1,611,649
Purchase of capital and intangible assets	**(457,074)**	(231,809)
	(775,713)	1,379,840
Increase (decrease) in cash during the year	**45,785**	(130,089)
Cash and cash equivalents, beginning of year	**469,522**	599,611
Cash and cash equivalents, end of year	**$ 515,307**	$ 469,522

The accompanying notes are an integral part of these consolidated financial statements.

1. Significant Accounting Policies

Nature of Operations

The Canadian Bar Insurance Association [the "Association"] is a not-for-profit corporation, which arranges for the provision of insurance and financial products to members of the legal community, their families and employees. The products are planned and designed to meet the needs and reflect the special characteristics of the legal community at a cost that provides value and stability.

The Association's wholly-owned subsidiary, Chancery Reinsurance Limited ["Chancery"], was incorporated under the Companies Act of Barbados on June 23, 1992 and on July 2, 1992 obtained a license to engage in exempt insurance business from within Barbados, in accordance with the Exempt Insurance Act, 1983. Chancery reinsures insurance obligations relating to term life, disability income and business expense coverage.

Basis of Accounting

These consolidated financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. The preparation of consolidated financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Critical accounting estimates to which the Association is exposed include the estimation of the actuarial reserves arising from claims made under reinsurance contracts, estimates of amounts used to determine funds withheld by ceding insurer, and the assessment of impairment of marketable securities earned at cost. Actual results could differ from those estimates.

Fund Accounting

The Association uses fund accounting.

The Operating Fund accounts for the Association’s program delivery and administrative activities. This fund reports unrestricted resources and revenues.

The Reserve Fund reports resources maintained for the purpose of stabilizing members' premiums on the various insurance products offered. Investment income earned on the resources of the Reserve Fund is reported in the Reserve Fund.

Principles of Consolidation

The Association has elected to record its wholly-owned subsidiary on a consolidated basis. These consolidated financial statements include the accounts of the Association and its wholly-owned subsidiary, Chancery.

Cash and cash equivalents

Cash and cash equivalents is comprised of cash and short-term deposits with original maturity dates of three months or less.

1. Significant Accounting Policies (continued)

Capital and Intangible Assets

Capital assets and intangible assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis at the following annual rates:

Data processing software	- 33 %
Data processing hardware	- 20 %
Leasehold improvements	- over the term of the lease
Furniture and equipment	- 20 %

Financial Instruments

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, financial instruments are reported at cost or amortized cost less impairment, except actively traded marketable securities which are carried at fair value or designated by the Association to be measured at fair value. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items remeasured at fair value at each balance sheet date and charged to the financial instrument for those measured at amortized cost.

Revenue Recognition

Administration fee revenue is recognized in the month in which premiums collected are remitted to the insurance companies, when all services relating to the fees have been completed.

Positive and negative experience can accumulate as stabilization reserves on the records of the insurance companies on behalf of the Association. Experience refunds or contributions to/from these stabilization reserves are recorded by the Association as revenue/expense to the Reserve Fund when determined.

Investment income is recorded on an accrual basis. Realized and unrealized gains and losses on financial assets are included in income in the period they arise.

Net premiums earned are included in income on a pro-rata basis over the term of the contract.

Funds withheld by ceding insurer

This balance represents amounts held by various insurance providers to protect these providers against unfavourable developments in claims activity. When the amounts exceed contractually determined levels, excess funds are distributed to the Association.

1. Significant Accounting Policies (continued)

Actuarial reserves

Chancery reinsures term life, disability income, business expense and critical illness policies on a modified coinsurance basis. Under this approach, the ceding company retains liabilities arising from obligations under the contract on its books, along with the assets backing those liabilities. Chancery's independent actuary assesses the assumptions used by the ceding company's actuary, which may be based upon a wider range of lives assured than those applicable to Chancery, and determines whether those used are appropriate to the circumstances of the underlying business. If necessary, Chancery will book a reserve in order to bring the total level of reserves to a level considered appropriate to Chancery's particular circumstances.

Actuarial liabilities are calculated using methods and assumptions considered to be appropriate to the circumstances of Chancery and the business written. They include a provision for losses incurred but not reported and represent the amount which, in the opinion of Chancery's independent actuary is required to provide for future benefits on contracts reinsured by Chancery. This provision, while believed to be adequate to cover the ultimate cost of losses incurred, may ultimately be settled for a different amount.

Insurance and Reinsurance Contracts

In the normal course of business, Chancery seeks to reduce the losses to which it is exposed that may cause unfavourable underwriting results by reinsuring certain levels of risk in various areas of exposure. Reinsurance premiums and reserves related to reinsurance business are accounted for on a basis consistent with that used in accounting for the original policies issued and the terms of the reinsurance contracts. Reinsurance contracts ceded do not relieve Chancery from its obligations to the ceding insurer. Chancery remains liable to its ceding insurer for the portion reinsured, to the extent that the reinsurer does not meet the obligations assumed under the reinsurance agreements.

Foreign Currency Translation

Monetary assets and liabilities in currencies other than Canadian dollars are translated at the rates of exchange prevailing at the consolidated balance sheet date. Revenue and expenses are translated into Canadian dollars using the exchange rate in effect on the date the transaction occurred. Gains and losses on foreign exchange are included in the operating results for the year.

Income Taxes

The Association was incorporated without share capital under the laws of Canada as a not-for profit corporation exempt from income taxes under the Income Tax Act (Canada).

Under the provisions of the Exempt Insurance Act, 1983 of Barbados, Chancery is liable for tax at 0% for the first 15 years of its operations, and thereafter at 8% on the first U.S $125,000 of taxable income. On December 16, 2000 the Commissioner of Inland Revenue granted Chancery an extension of a further 30 years whereby its taxable income is taxed at zero percent.

2. Marketable Securities

Marketable securities consist of the following:

	2018	2017
Carried at fair value:		
Pooled funds:		
Fixed income	**$ 12,714,924**	$ 12,947,740
Global equities	**23,688,901**	25,506,390
Canadian equities	**22,856,696**	26,533,431
Canadian commercial mortgage funds	**4,456,385**	4,364,494
Bonds:		
Government bonds	**26,887,079**	24,502,551
Corporate bonds	**12,899,026**	10,865,766
Carried at cost:		
Canadian real estate property funds	**4,427,868**	3,527,674
Accrued investment income	**444,982**	390,687
	$108,375,861	$108,638,733

Included in Global and Canadian equities is $11,345,670 and $10,396,340 (2017 - $12,826,822 and $13,838,169) of investments that has been designated by the Association to be measured at fair value. The Canadian commercial mortgage fund has been designated by the Association to be measured at fair value.

The term to maturity on the bond portfolio based upon fair value is as follows:

	2018	2017
Less than 1 year	**$ 308,714**	$ 592,752
1 to 5 years	**17,187,086**	14,699,099
Over 5 years	**22,290,305**	20,076,466
	$ 39,786,105	$ 35,368,317

Bonds yield interest at coupon rates ranging from 0.500% to 8.500% (2017 - 0.500% to 10.250%) per annum. The bond credit ratings as rated by Moody's Investors Service, range from Aaa to Baa3 (2017 - Aaa to BBB-).

The Association is subject to interest rate risk, price risk, and currency risk with respect to its investments (Note 9).

3. Capital Assets and Intangible Assets

	2018		**2017**	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Data processing software	**$ 1,322,308**	**$ 1,139,592**	$ 1,234,854	$ 891,785
Data processing hardware	**163,786**	**135,857**	148,915	127,060
Leasehold improvements	**340,608**	**93,439**	206,913	165,709
Furniture and equipment	**274,461**	**163,543**	165,432	144,601
	$ 2,101,163	**$ 1,532,431**	$ 1,756,114	$ 1,329,155
Net book value		**$ 568,732**		$ 426,959

4. Actuarial Reserves

Actuarial liabilities are calculated using methods and assumptions considered to be appropriate to the circumstances of the Association and the business written. Material judgment is required in determining the actuarial liabilities and in the choice of assumptions. The assumptions used are based on past experience, current internal data, external market indices, Canadian regulatory requirements, and other published information. Assumptions are further evaluated on a continuous basis in order to ensure current, realistic and reasonable valuations.

Life and disability insurance liabilities are valued based on current assumptions and a margin for adverse deviation is generally included. Assumptions are made in relation to future deaths, future recoveries, investment returns and administration expenses. The assumptions are altered to reflect the current estimates.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

<u>Mortality and morbidity (recovery) rates</u>

Assumptions are based on tables developed by the ceding company and standard industry tables, according to the type of contract written, reflecting recent historical experience and are adjusted when appropriate to reflect the Association's own experiences. Assumptions are differentiated by age, sex, duration disabled, and, for disability insurance liabilities, elimination period. No assumptions are made for expected future improvements.

For the life insurance liabilities, an increase in mortality rates will lead to a larger number of claims, which will increase the expenditure and reduce the Association’s income.

4. Actuarial Reserves (continued)

For the disability insurance liabilities, a decrease in recovery rates will prolong claim durations and lead to an increase in the number of disability payments made, which will increase the expenditure and reduce the Association's net income.

Expenses

The expense assumptions reflect the reinsurance allowances payable to the ceding company and, for the disability insurance liabilities, the projected medical, accounting and legal costs incurred by the ceding company in adjudicating these claims. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation, if appropriate.

An increase in the level of expenses would result in an increase in expenditure thereby reducing the Association's income.

Discount rate

The insurance liabilities on reported claims are determined using the Canadian asset liability method (CALM). This method takes into consideration the expected benefits and future administration expenses directly related to the claim, the current assets supporting these claim liabilities at the valuation, and various prescribed future interest rate scenarios. The interest rates used are based on a review of the rates currently being credited on funds held by the ceding company and projected Canadian government treasury and bond rates.

The analysis below is performed for a range of movements in key assumptions considered reasonably possible with all other assumptions held constant, showing the impact on net actuarial liabilities. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

4. Actuarial Reserves (continued)

As at November 30, 2018

	Change in assumptions	Impact on net liabilities ($'000s)	Impact on net liabilities (%)
Life insurance:			
Mortality	+10%	$ 1,235	5.1%
Recovery	-10%	$ 5	0.0%
Lapse	-10%	$ 56	0.2%
Expenses	+10%	$ 103	0.4%
Discount rate	+1%	($ 1,144)	(4.7%)
Disability insurance:			
Recovery	-10%	$ 3,257	4.3%
Expenses	+10%	$ 308	0.4%
Discount rate	+1%	($ 989)	(1.3%)

As at November 30, 2017

	Change in assumptions	Impact on net liabilities ($'000s)	Impact on net liabilities (%)
Life insurance:			
Mortality	+10%	$ 1,189	5.0%
Recovery	-10%	$ 6	0.0%
Lapse	-10%	$ 56	0.2%
Expenses	+10%	$ 106	0.4%
Discount rate	+1%	($ 1,211)	(5.1%)
Disability insurance:			
Recovery	-10%	$ 3,366	4.3%
Expenses	+10%	$ 318	0.4%
Discount rate	+1%	($ 1,108)	(1.4%)

5. Contingencies

In the normal course of business, from time to time, the Association is named as a defendant in various lawsuits. Since these are primarily the responsibility of the insurer, the Association does not expect any significant liability to arise out of these claims.

6. Commitments

(a) The Association has lease commitments under operating leases for premises and equipment. The future minimum annual lease payments are approximately as follows:

2019	$ 213,800
2020	283,527
2021	285,393
2022	280,982
2023	279,977
Thereafter	1,302,419
	$ 2,646,098

(b) The Association has an agreement with Canadian Bar Association ("CBA") for an indefinite period whereby it pays to CBA a user fee calculated at 1% of total premiums processed.

7. Fund Balances

Included in the fund balances, as at November 30, 2018, is an investment in capital and intangible assets of $568,732 (2017 - $426,959).

The change in investment in capital assets is as follows:

		2018		2017
Balance, beginning of year	**$**	**426,959**	$	512,967
Purchase of capital and intangible assets		**457,074**		231,809
Amortization of capital and intangible assets		**(315,301)**		(301,500)
Write-off of capital assets		**-**		(16,317)
Balance, end of year	**$**	**568,732**	$	426,959

The Association has set up a Reserve Fund for the following purposes:

(i) The Association has accumulated reserves, which are maintained for the purpose of stabilizing members' premiums on the various insurance products offered by them, and

(ii) Actual future claims and claims adjustment expenses may not develop exactly as projected and may, in fact, vary significantly from the projections. Further, the projections make no provision for extraordinary future emergence of either new classes or claims or post-contractual expansion of policy coverage. For this reason, the directors and the actuary of the Association believe it prudent to establish a stabilization reserve to provide for the effects of adverse deviation on claims experience. Consistent with the terms of the Association's reinsurance agreements, this balance has been retained by the ceding company. The stabilization reserve is recorded as part of the Reserve Fund balance.

Subject to approval by the Board of Directors, a portion of the Reserve Fund may be transferred to the Operating Fund to meet expenses.

During the year, the Board of Directors approved an amount of $900,000 (2017 - $1,450,000) to be transferred from the Association's Reserve Fund to the Operating Fund.

8. Investment Income

		2018		2017
Unrealized (loss) gain on marketable securities	**$**	**(3,592,522)**	$	6,625,983
Realized gain on marketable securities		**2,087,872**		402,981
Pooled fund distributions		**923,139**		927,494
Interest		**1,056,045**		924,705
	$	**474,534**	$	8,881,163

9. Management of Insurance and Financial Risk

Insurance risk
The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and, therefore, unpredictable. The Association’s exposure to insurance risk is disclosed in Note 4 to these consolidated financial statements.

Financial risk
In the course of its business, the Association engages in the purchase and sale of securities and is subject to significant market risk arising from fluctuations in the market value of these securities. Market risk comprises interest rate, foreign currency and price risk and is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Association is exposed to financial risk through its financial assets and liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from the insurance contracts. The most important components of this financial risk are described below.

Interest rate risk
Differences in contractual re-pricing on maturity dates and changes in interest rates may expose the Association to interest rate risk. Interest rate risk is the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Association is subject to interest rate risk related to its bonds, as disclosed in Note 2 to these consolidated financial statements. The Association monitors the sensitivity of interest rate movements by analyzing investment returns on a regular basis and discussing market trends with the investment managers.

Foreign currency risk
Foreign currency risk is the risk that the value of a financial asset or liability will fluctuate due to changes in foreign currency rates. The Association is exposed to currency risk principally through its foreign denominated investments. The Association seeks to mitigate currency risk by, where possible, matching assets denominated in US dollars with liabilities.

The Association’s net exposure to foreign currency balances expressed in Canadian dollars at November 30, 2018 and 2017 was $21,742,010 and $26,664,998, respectively. This relates principally to equity investments denominated in United States dollars.

Price risk
Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable willing parties who are under no compulsion to act and is best evidenced by a quoted market value, if one exists. The Association's reported investments measured at fair value are traded on recognized exchanges and the market value of these investments as disclosed in Note 2 also represents the fair value.

There have been no significant changes from the previous year in the exposure to risks or policies, procedures and method used to measure the risks.

10. Prior Period Adjustment

During the year, management determined an adjustment to funds withheld by ceding insurers, fund balances and excess of revenue over expenses for the year was required to the prior year financial statements. The funds withheld by ceding insurers balance did not include amounts held by an insurance company related to a previously terminated contract. The correction of this error was adjusted retroactively as follows:

	2017
Funds on deposit with insurers, as previously stated	$ 10,393,407
Increase in funds on deposit with insurers	2,300,192
Funds on deposit with insurers, as restated	$ 12,693,599
Excess of revenue over expenses for the year, as previously stated	$ 9,187,761
Increase in experience activity	297,983
Excess of revenue over expenses for the year, as restated	$ 9,485,744
Fund balance, beginning of the year, as previously stated	$ 90,835,153
Increase in experience activity prior to 2017	2,002,209
Fund balance, beginning of the year, as restated	$ 92,837,362

11. Comparative Figures

Certain comparative amounts presented in the consolidated financial statements have been reclassified to conform to the current year's presentation.