The Canadian Bar Insurance Association
Consolidated Financial Statements
For the year ended November 30, 2019

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Independent Auditor's Report

To the Directors of The Canadian Bar Insurance Association

Opinion

We have audited the consolidated financial statements of The Canadian Bar Insurance Association and its subsidiaries (the Group), which comprise the consolidated balance sheet as at November 30, 2019, and the consolidated statement of operations and changes in fund balances and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at November 30, 2019 and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis of Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report (continued)

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Mississauga, Ontario
April 22, 2020

The Canadian Bar Insurance Association
Consolidated Balance Sheet

November 30

	2019			2018
	Operating Fund	**Reserve Fund**	**Total**	Total
Assets				
Cash and cash equivalents	**$ 64,888**	**$ 168,137**	**$ 233,025**	$ 515,307
Due from insurers	**334,701**	**216,852**	**551,553**	1,681,556
Settlement due from ceding insurer	**-**	**-**	**-**	898,863
Prepaid expenses and deposits	**96,747**	**112,095**	**208,842**	203,455
Marketable securities (Note 2)	**-**	**118,479,969**	**118,479,969**	108,375,861
Funds withheld by ceding insurer	**-**	**12,061,917**	**12,061,917**	12,036,032
Capital and intangible assets (Note 3)	**507,882**	**-**	**507,882**	568,732
	$ 1,004,218	**$ 131,038,970**	**$132,043,188**	$124,279,806
Liabilities and Fund Balances				
Accounts payable and accrued liabilities	**$ 1,695,598**	**$ 213,366**	**$ 1,908,964**	$ 1,663,712
Interfund payable (receivable)	**(2,544,460)**	**2,544,460**	**-**	-
Actuarial reserves (Note 4)	**-**	**22,868,283**	**22,868,283**	19,060,723
Settlement due to ceding insurer	**-**	**9,193,780**	**9,193,780**	-
	(848,862)	**34,819,889**	**33,971,027**	20,724,435
Fund balances	**1,853,080**	**96,219,081**	**98,072,161**	103,555,371
	$ 1,004,218	**$ 131,038,970**	**$132,043,188**	$124,279,806

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

	2019			2018
	Operating Fund	**Reserve Fund**	**Total**	Total
Revenue				
Net premiums earned	**$ -**	**$ 41,985,569**	**$ 41,985,569**	$ 41,629,893
Experience activity	**-**	**187,079**	**187,079**	532,094
Administration fees	**6,134,256**	**-**	**6,134,256**	6,010,083
Investment income (Note 8)	**100,520**	**13,299,136**	**13,399,656**	474,534
Other	**46,118**	**-**	**46,118**	2,211
	6,280,894	**55,471,784**	**61,752,678**	48,648,815
Expenses				
Claims incurred	**-**	**45,120,996**	**45,120,996**	29,826,569
Experience refund	**-**	**3,516,539**	**3,516,539**	-
Ceding insurer's fees and other expenses	**-**	**10,207,974**	**10,207,974**	10,073,440
Operating expenses	**6,090,050**	**1,071,931**	**7,161,981**	6,286,455
The Canadian Bar Association fees (Note 6)	**961,013**	**-**	**961,013**	914,785
Amortization of capital and intangible assets	**267,385**	**-**	**267,385**	315,301
	7,318,448	**59,917,440**	**67,235,888**	47,416,550
Excess (deficiency) of revenue over expenses for the year	**(1,037,554)**	**(4,445,656)**	**(5,483,210)**	1,232,265
Transfer from Reserve Fund to Operating Fund (Note 7)	**600,000**	**(600,000)**	**-**	-
Increase (decrease) in fund balances	**(437,554)**	**(5,045,656)**	**(5,483,210)**	1,232,265
Fund balances, beginning of year	**2,290,634**	**101,264,737**	**103,555,371**	102,323,106
Fund balances, end of year	**$ 1,853,080**	**$ 96,219,081**	**$ 98,072,161**	$103,555,371

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	2019	2018
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenses	**$ (5,483,210)**	$ 1,232,265
Adjustments required to reconcile excess (deficiency) of revenue over expenses with net cash provided by operating activities		
Amortization of capital and intangible assets	**267,385**	315,301
Non-cash pooled fund distributions	**(1,970,921)**	(923,139)
Realized gain on disposal of investments	**(470,579)**	(2,087,872)
Unrealized loss (gain) on investments	**(10,000,222)**	3,592,522
Changes in non-cash working capital balances		
Due from insurers	**1,130,003**	(978,756)
Settlement due from ceding insurer	**898,863**	524,056
Prepaid expenses and deposits	**(5,387)**	327,641
Funds withheld by ceding insurer	**(25,885)**	657,567
Accounts payable and accrued liabilities	**245,252**	(707,371)
Actuarial reserves	**3,807,560**	(1,130,716)
Settlement due to ceding insurer	**9,193,780**	-
	(2,413,361)	821,498
Investing activities		
Sales (purchases) of marketable securities, net	**2,337,614**	(318,639)
Purchase of capital and intangible assets	**(206,535)**	(457,074)
	2,131,079	(775,713)
Increase (decrease) in cash during the year	**(282,282)**	45,785
Cash and cash equivalents, beginning of year	**515,307**	469,522
Cash and cash equivalents, end of year	**$ 233,025**	$ 515,307

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" or "Group") 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.

The Association's wholly-owned subsidiary, Lawyers Financial Advisory Services Inc. ("LFAS"), was incorporated under the Canada Business Corporations Act on April 4, 2019.

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 subsidiaries on a consolidated basis. These consolidated financial statements include the accounts of the Association and its wholly-owned subsidiaries, Chancery and LFAS.

1. **Significant Accounting Policies** (continued)

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.

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 consolidated 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.

Experience Refund

At the discretion of the Board of Directors, the Association may declare an experience refund to its policyholders. This refund is recognized in the consolidated statement of operations and changes in net assets in the period in which it was declared.

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.

1. Significant Accounting Policies (continued)

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:

	2019	2018
Carried at fair value:		
Pooled funds:		
Fixed income	**$ 15,219,291**	$ 12,714,924
Global equities	**27,786,880**	23,688,901
Canadian equities	**25,956,002**	22,856,696
Canadian commercial mortgage funds	**4,707,020**	4,456,385
Bonds:		
Government bonds	**27,874,390**	26,887,079
Corporate bonds	**11,841,670**	12,899,026
Carried at cost:		
Canadian real estate property funds	**4,682,153**	4,427,868
Accrued investment income	**412,563**	444,982
	$ 118,479,969	$ 108,375,861

Included in Global and Canadian equities is $12,982,650 and $11,824,595 (2018 - $11,345,670 and $10,396,340) of investments that have 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:

	2019	2018
Less than 1 year	**$ 376,675**	$ 308,714
1 to 5 years	**15,826,451**	17,187,086
Over 5 years	**23,512,934**	22,290,305
	$ 39,716,060	$ 39,786,105

2. Marketable Securities (continued)

Bonds yield interest at coupon rates ranging from 0.500% to 10.250% (2018 - 0.500% to 8.500%) per annum. The bond credit ratings as rated by Moody's Investors Service, range from Aaa to Baa3 (2018 - Aaa to Baa3).

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

	2019		2018	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Data processing software	**$ 1,492,131**	**$ 1,328,916**	$ 1,322,308	$ 1,139,592
Data processing hardware	**174,871**	**144,653**	163,786	135,857
Leasehold improvements	**364,495**	**133,194**	340,608	93,439
Furniture and equipment	**276,201**	**193,053**	274,461	163,543
	$ 2,307,698	**$ 1,799,816**	$ 2,101,163	$ 1,532,431
Net book value		**$ 507,882**		$ 568,732

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.

4. Actuarial Reserves (continued)

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

Mortality and morbidity (recovery) rates

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.

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, 2019

	Change in assumptions	Impact on net liabilities ($'000s)	Impact on net liabilities (%)
Life insurance:			
Mortality	+10%	$1,313	4.9%
Recovery	-10%	$6	0.0%
Lapse	-10%	$59	0.2%
Expenses	+10%	$108	0.4%
Discount rate	+1%	($1,321)	(5.0%)
Disability insurance:			
Recovery	-10%	$3,639	4.5%
Expenses	+10%	$336	0.4%
Discount rate	+1%	($632)	(0.8%)

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%)

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:

2020	$ 283,527
2021	285,393
2022	280,982
2023	279,977
2024	281,309
Thereafter	1,021,110
	$ 2,432,298

(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, 2019, is an investment in capital and intangible assets of $507,882 (2018 - $568,732).

The change in investment in capital assets is as follows:

	2019	2018
Balance, beginning of year	$ 568,732	$ 426,959
Purchase of capital and intangible assets	206,535	457,074
Amortization of capital and intangible assets	(267,385)	(315,301)
Balance, end of year	$ 507,882	$ 568,732

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 up to $600,000 (2018 - $900,000) to be transferred from the Association's Reserve Fund to the Operating Fund.

8. Investment Income

	2019	2018
Unrealized (loss) gain on marketable securities	$ 10,000,222	$ (3,592,522)
Realized gain on marketable securities	470,579	2,087,872
Pooled fund distributions	1,970,921	923,139
Interest	957,934	1,056,045
	$ 13,399,656	$ 474,534

9. Management of Insurance and Financial Risk

On March 11, 2020, the World Health Organization declared the outbreak of the coronavirus (COVID-19) pandemic resulting in economic uncertainties impacting the Association's risks. At this time, the full potential impact of COVID-19 on the Association is not known.

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.

As a result of the COVID-19 pandemic, subsequent to year end there have been various factors that may have impacted the Association's exposure to insurance risk, including the effect of the pandemic on the discount rate, interest rates and assumptions related to mortality and morbidity rates.

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.

As a result of the COVID-19 pandemic, and the economic uncertainty it has given rise to, the credit ratings of the Association's fixed income investments may have deteriorated subsequent to year end. Many governments around the world have adjusted interest rates to mitigate the economic impact of the pandemic. Such changes to interest rates could have a material impact on the fair value of the Association's interest bearing investments.

9. Management of Insurance and Financial Risk (continued)

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, 2019 and 2018 was $24,807,245 and $21,742,010, respectively. This relates principally to equity investments denominated in United States dollars.

As a result of the COVID-19 pandemic, and the global economic uncertainty it has given rise to, there has been significant volatility in global foreign exchange rates subsequent to year end. The effect of the changes in foreign exchange rates may have an impact on the fair value of the Association's foreign currency investments.

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.

As a result of the COVID-19 pandemic, subsequent to year end there have been various factors that may have impacted the fair value of the underlying investments of the pooled funds. The global economic uncertainty has resulted in significant volatility in the global and domestic equity markets. The volatility may have an impact on the fair value of the Association's underlying investments.