



PRIVATE & CONFIDENTIAL

Canadian Lawyers Liability Assurance Society
(CLLAS)

Report to Reinsurers – Part I

for the Policy Period
July 1, 2018 – July 1, 2019

April 2018

Notice to Reader

This Report to Reinsurers has been prepared by the Canadian Lawyers Liability Assurance Society (“CLLAS”) to be provided to select underwriters (the “Underwriters”) on the understanding that it is for their exclusive use and that it and all information in, or pertaining to, it will be kept private and confidential.

All figures in this submission are expressed in Canadian currency unless otherwise specified.

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1.0 Introduction

1.1 Overview

The Canadian Lawyers Liability Assurance Society (CLLAS) is a reciprocal insurance exchange formed in Ontario in 1987. It currently has 10 members and operates on the basis of five-year underwriting periods (“Underwriting Periods”). July 1, 2017 marked the beginning of the seventh Underwriting Period, which saw 10 of the 11 member firms recommit to CLLAS following a difficult, but successful Underwriting Period renewal in which competitors quoted savings of 30% to 33% relative to the existing CLLAS pricing, with multi-year rate guarantees.

Dentons Canada LLP (“Dentons”) was the only firm not to renew; however, the firm’s departure was not as a result of direct competitive pressure. Following a series of international mergers in 2013, Dentons Canada made known that it would not renew participation in CLLAS on July 1, 2017 (the end of the then-current Underwriting period) to allow the Canadian firm to participate in Denton’s global insurance program designed to address the firm’s U.S., U.K., and Chinese exposures.

CLLAS has resolved to seek new members and has added two firms to its Associate Firm program, which allows firms to get acquainted with CLLAS before formally joining the reciprocal.

The total lawyer count on June 15, 2017 was 3,715. The total projected lawyer count for the 2018/2019 policy year is static at 3,715. While typically CLLAS experiences some organic growth in lawyer count, for projection purposes the assumption is an “as-is” count. No significant mergers or changes are anticipated at this time.

CLLAS greatly appreciated the cooperation of reinsurers last year, without which, CLLAS would likely have lost at least one significant member. As discussed during the renewal last year, CLLAS’ main objective for this renewal is to maintain the current terms and conditions, and focus on program stability for the years to come.

Mr. Nicholas Leblovic of Davies Ward Phillips & Vineberg LLP has stepped down as the Chair of CLLAS after a 10-year tenure in that position. CLLAS welcomes Mr. Kenneth Crofoot of Goodmans LLP as the incoming Chair. Mr. Crofoot has been a member of the CLLAS board since 2012 and is general counsel of his firm involved in all aspects of professional practice including insurance, risk management, conflict management and ethics and has been operating as incoming Chair for the last year. As such, he is very well positioned to provide a seamless transition, and will be actively engaged in CLLAS’ renewal negotiations and strategic initiatives.

This year we have decided to present the CLLAS Report to Reinsurers in two parts, as follows:

Part I of the Report to Reinsurers provides a review of the expiring terms (Section 2.0), overview of CLLAS’ Firm and Lawyer Count (Section 3.0), analysis of CLLAS’ loss experience (Section 4.0) and the expectations for reinsurance terms for the period July 1, 2018 to July 1, 2019 (Section 5.0).

Part II of the Report to Reinsurers will be issued in May, and will provide additional information to reinsurers on CLLAS’ risk management, operations, claims management process, and other informational items pursuant to feedback on Part I.

1.2 Background

CLLAS was initially established to provide professional liability protection to its member firms excess of the primary insurance provided on a mandatory basis by the Law Society of Ontario (formerly Law Society of Upper Canada). The CLLAS Program is now also excess of the mandatory insurance programs of the law society insurance programs in Alberta, British Columbia, Quebec and Nova Scotia where some member firms maintain offices. CLLAS, as a reciprocal

insurance exchange, provides professional liability protection pursuant to the terms and conditions of the insurance policies issued by it to its member firms.

The current underlying primary mandatory limits applicable to each of the provinces are as follows:

- Alberta: \$1,000,000 per claim/\$2,000,000 annual aggregate
- British Columbia: \$1,000,000 per claim/\$2,000,000 annual aggregate
- Ontario: \$1,000,000 per claim/\$2,000,000 annual aggregate
- Nova Scotia: \$1,000,000 per claim/\$2,000,000 annual aggregate
- Quebec: \$10,000,000 per claim

- Notes:
- 1) Above limits are on a per lawyer basis.
 - 2) The law society insurance programs have sub-limits for certain coverages.
 - 3) Because of the possibility of sub-limits, deductibles, wording differences or the exhaustion of the annual aggregate in the underlying coverage, CLLAS provides drop-down and in-fill protection on a difference in conditions (DIC) and difference in limits (DIL) basis through its Primary Policy.

CLLAS' geographic profile has changed with firm mergers that have taken place over the years (mainly 1999-2002) resulting in an improvement in the jurisdictional spread of risk, i.e. less concentration in the Province of Ontario compared to the earlier years (see Section 3.5 for details).

Risk management at the individual firm level, and at the overall CLLAS level, has been an area of focus and success since the formation of CLLAS. There are a number of risk management initiatives, including sophisticated risk management audits, educational seminars, and practice notes, that have been undertaken by CLLAS and the CLLAS member firms. These will be more fully described in Part II of the Report to Reinsurers.

1.3 CLLAS Objectives

The major objectives of CLLAS are:

- to enable a meaningful portion of the risk underwritten by CLLAS to be retained by CLLAS or by Colchester Reinsurance Limited (see Section 2.3);
- to provide insurance at cost with no profit or risk loadings for the retained risk;
- to provide increased availability and stability of insurance to its member firms;
- to provide a community of interest amongst its member firms in respect of professional liability matters in general, and loss prevention in particular; and
- to cultivate and maintain long-term relationships with its reinsurers.

These objectives have enabled CLLAS to provide significant, long-term benefits to member firms.

2.0 Expiring Policy, Coverage and Structure

2.1 Expiring Policy Coverage

The current coverage is as follows:

Type:

Lawyers Professional Liability Insurance (“claims-made” basis)

Policy Term:

July 1, 2018 to July 1, 2019

Policy Limit:

- a) Primary Policy (compulsory individual CLLAS policy issued to each CLLAS member firm)

\$50,000,000 each and every claim and in the annual aggregate, including costs, charges and expenses, inclusive of the minimum mandatory coverage provided by the applicable law society professional liability insurance program or by the professional liability insurance program of the governing body of a self-regulatory profession other than law and/or other applicable insurance and/or \$25,000 per claim self-insured retention.

- b) First Excess Policy (subscription policy purchased individually by each CLLAS member firm on which CLLAS participates)

Available limits between \$15,000,000 to \$50,000,000 each and every claim and in the annual aggregate, including costs, charges and expenses, excess of the CLLAS Primary Policy described above, or excess of specific underlying insurance arranged by certain CLLAS member firms for their offices in the U.S. and/or other international locations (see CLLAS International below), or excess of \$500,000 per claim self-insured retention.

As a subscription policy, CLLAS participates alongside commercial carriers on a quota share basis.

- c) Optional Second Excess Policy (subscription policy purchased individually by certain CLLAS member firms that elect to purchase this coverage)

Available limits of up to \$60,000,000 each and every claim and in the annual aggregate, including costs, charges and expenses, excess of \$50,000,000 each and every claim and in the annual aggregate, including costs, charges and expenses, and the CLLAS Primary Policy described above, or excess of specific underlying insurance arranged by certain CLLAS member firms for their offices in the U.S. and/or other international locations (see CLLAS International below), or excess of \$500,000 per claim self-insured retention.

As a subscription policy, CLLAS participates alongside commercial carriers on a quota share basis.

- d) Optional Third Excess Policy (individual CLLAS policy issued to certain CLLAS member firms that elect to purchase this coverage)

Available limits for this policy range from \$10,000,000 to \$60,000,000 (in increments of \$10,000,000) each and every claim and in the annual aggregate, including costs, charges and expenses, excess of \$110,000,000

each and every claim and in the annual aggregate, including costs, charges and expenses, and the CLLAS Primary Policy described above, or excess of specific underlying insurance arranged by certain CLLAS member firms for their offices in the U.S. and/or other international locations (see CLLAS International below), or excess of \$500,000 per claim self-insured retention.

The CLLAS Optional Excess Policy follows the terms and conditions of the First Excess Policy currently which in itself follows the terms and conditions of the CLLAS Primary Policy and has a drop-down feature excess of \$500,000 each claim in the event that it is broader than the CLLAS underlying coverage. Specifically, the First Excess Policy does not exclude coverage for U.S. offices nor for the practice of foreign law. It should be noted that a CLLAS member firm with any material international exposure would be insured for such exposures by the CLLAS International policies referred to below. The questionnaires completed by each member firm regarding the “drop-down” exposures that they may face are provided as Appendix B2.

e) Blanket Excess Policy (single CLLAS policy issued to all CLLAS member firms)

\$30,000,000 each and every claim and \$60,000,000 in the annual aggregate, including costs, charges and expenses, for all CLLAS member firms combined excess of not less than \$65,000,000 for each CLLAS member firm. This policy also follows the terms and conditions of the First Excess Policy and is excess of the Optional Excess Policy and/or excess of the CLLAS International Policies referred to below.

Territorial Scope:

Coverage under the CLLAS Primary Policy is provided to law firms whose operations are principally located in Canada, including foreign service offices anywhere in the world other than those situated in the U.S., and is limited to the practice of Canadian law. CLLAS also provides coverage for U.S. and other foreign exposures under the Excess, Optional Excess and Blanket Excess Policies.

CLLAS International:

Five member firms, namely:

- Davies Ward Phillips & Vineberg LLP;
- Fasken Martineau DuMoulin LLP;
- McCarthy Tétrault LLP;
- Osler Hoskin & Harcourt LLP; and
- Torys LLP

maintain offices in the U.S. and/or other international locations. Each of these firms purchases a dedicated primary policy to cover its U.S. and foreign offices and/or the practice of foreign law.

All five of these policies are written with the same group of insurers under a program referred to as “CLLAS International”. However, each of the policies stands alone with a separate aggregate limit of US\$30,000,000 and each firm is separately rated for this purpose. The self-insured retention is dependent on the location of the risk as follows:

- U.S. – US\$100,000 for all except US\$50,000 for McCarthy Tétrault LLP;
- U.K. – US\$350,000 for Fasken Martineau DuMoulin LLP; US\$75,000 for McCarthy Tétrault LLP; and
- Elsewhere in the world – US\$50,000 for all.

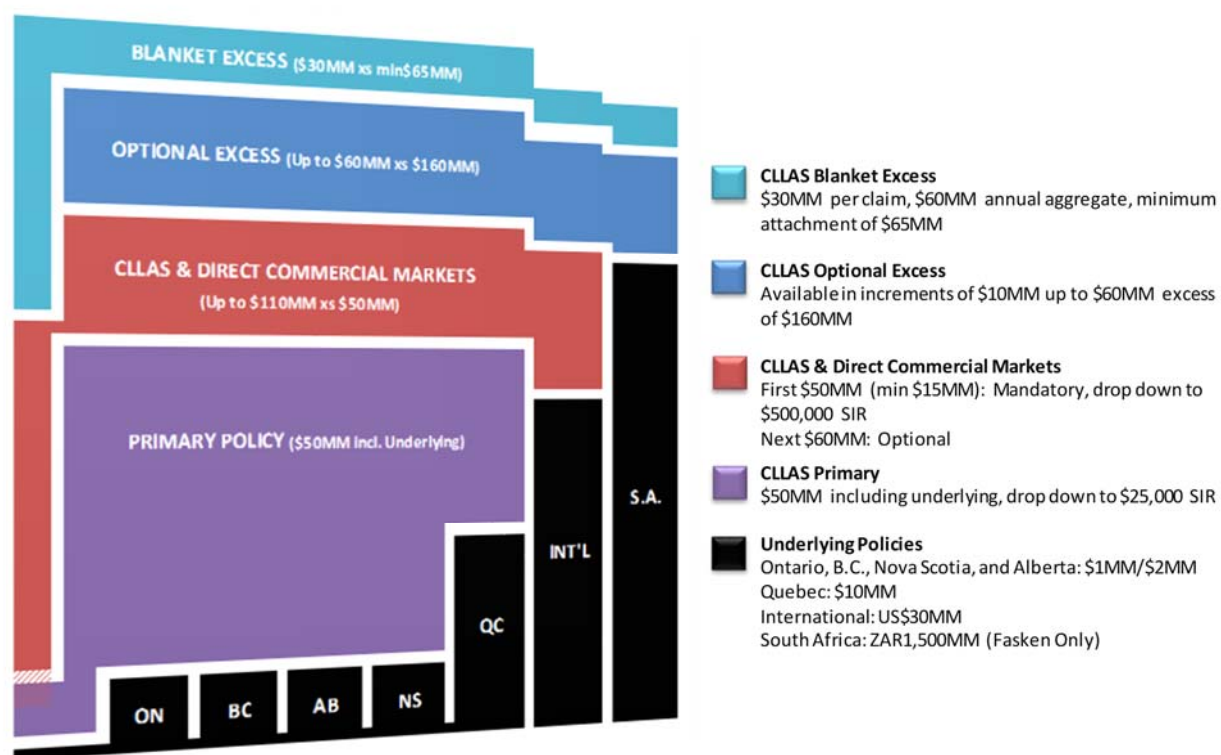
Following a merger with Bell Dewar Inc. in South Africa in February 2013, member firm Fasken Martineau DuMoulin LLP arranged a separate and dedicated tower of coverage for its South African office with a total limit of ZAR 1,500,000,000 which is equivalent to approximately \$162,609,000.

The First Excess and Optional Second Excess provide coverage in excess of the CLLAS International Policy but not the Fasken dedicated South African coverage. The Optional Third Excess and Blanket Excess policies do, however, respond excess of the dedicated South African coverage.

2.2 Reinsurance Structure

It is CLLAS' overall philosophy to retain, in combination with Colchester, a meaningful portion of its risk. At the end of its fifth Underwriting Period, CLLAS had assumed a significant amount of risk since inception and had built up meaningful loss reserves and supporting assets and surplus. Beginning with the sixth Underwriting Period, CLLAS decided to reduce its retained risk from 25% of the \$49,000,000 excess of \$1,000,000 reinsurance layer (Layer 1) and 100% of the \$975,000 drop down to only the drop down. At the same time, Colchester expanded its participation on Layer 1 and is currently at 20%. Colchester also currently takes up 5% of the Optional Third Excess Policy.

The CLLAS Primary, First Excess, Optional Second Excess, Optional Third Excess, and Blanket Excess Policies are each reinsured with specific placements. The schematic below outlines the current structure:



In recognition of the fact that Quebec represents a significantly reduced risk compared to the rest of Canada ("ROC") because of Quebec's \$10,000,000 underlying mandatory limit, a differential rating structure for Quebec lawyers in the CLLAS Primary Policy reinsurance layer is applied. Rates for the upper layers are consistent across all jurisdictions except in respect of the CLLAS International and Fasken's South African policies.

2.3 Colchester Reinsurance Limited

Colchester provides CLLAS with quota-share reinsurance protection for 20% of the CLLAS Primary Policy, 7.5% of the Optional Third Excess Policy and aggregate stop-loss reinsurance protection for CLLAS' retained risk. With respect to

aggregate stop-loss protection for the policy year ending June 30, 2018, Colchester provides a limit of \$10,000,000 in the annual aggregate excess of \$5,000,000 in the annual aggregate in respect of CLLAS' retained losses.

2.4 Mandatory Coverage and Changes

A chart detailing the differences in underlying mandatory coverages and a summary of the changes introduced by the underlying insurance carriers can be found in Appendices A1 and A2 respectively.

3.0 Firm and Lawyer Count

3.1 General

Now in its seventh Underwriting Period, CLLAS remains a material insurance buying group, despite losing Dentons as a subscriber. As part of a planned departure, Dentons' Canadian partnership moved its 502 lawyers from CLLAS into an international program organized by the Swiss Verein in which Dentons Canada LLP participates.

For 2018/19, CLLAS projects that 3,715 lawyers will renew across five provinces from 10 of the most prominent Canadian law firms. CLLAS' growth has been mostly organic over the last decade, but occasionally mergers or lateral hires from dissolving non-CLLAS firms will accelerate growth, as was the case with Heenan Blaikie LLP four years ago.

3.2 Number of Insured Lawyers

Below you will find estimates of lawyer count for the upcoming policy period. Lawyer counts will be revised in Part II of this Report to Reinsurers in May based on application responses, and then confirmed as of June 15th for the purposes of premium calculation.

Member Firm	No. of Lawyers June 15, 2017	Estimated No. of Lawyers June 15, 2018
Borden Ladner Gervais LLP	692	692
Cassels Brock & Blackwell LLP	208	208
Davies Ward Phillips & Vineberg LLP ⁽¹⁾	239	239
Fasken Martineau DuMoulin LLP ⁽¹⁾	709	709
Goodmans LLP	194	194
McCarthy Tétrault LLP ⁽¹⁾	566	566
McMillan LLP	257	257
Osler, Hoskin & Harcourt LLP ⁽¹⁾	424	424
Torys LLP ⁽¹⁾	325	325
WeirFoulds LLP	101	101
Total ⁽²⁾	3,715	3,715

⁽¹⁾ These firms have International Policies which cover lawyers in the U.S. and/or in other international locations who practise foreign law. The lawyers in question are not covered on the CLLAS Primary Policy but are covered on the CLLAS Optional Excess and Blanket Excess Policies.

⁽²⁾ There are instances where CLLAS determines the charges to be applied for various lawyers who receive coverage under the CLLAS policies. These lawyers may be covered elsewhere for activities not covered by CLLAS and therefore are not charged at the full per-lawyer rate. One member firm retains a number of lawyers on a contract basis to perform litigation support work under direct supervision of other firm lawyers and reinsurers have agreed a specific full time equivalent charge in this instance.

3.3 Patent & Trademark Agents

CLLAS tracks non-lawyer patent and trademark agents ("P&Ts") and they are currently charged at 25% of the standard ROC lawyer rate for each respective layer of coverage, except the First and Second Excess layers, for which premium is waived. As with lawyer counts, the figures on the following page will be adjusted as updated information is received.

Member Firm	No. of P&Ts June 15, 2017	Estimated No. of P&Ts June 15, 2018
Borden Ladner Gervais LLP	16	16
Cassels Brock & Blackwell LLP	0	0
Davies Ward Phillips & Vineberg LLP	0	0
Fasken Martineau DuMoulin LLP	7	7
Goodmans LLP	1	1
McCarthy Tétrault LLP	1	1
McMillan LLP	3	3
Osler, Hoskin & Harcourt LLP	6	6
Torys LLP	1	1
WeirFoulds LLP	0	0
Total	35	35

3.4 Non-Lawyer Consultants

As a result of enquiries from CLLAS members about coverage for employees and non-lawyer consultants/professionals who may not be covered by any specific underlying insurance, CLLAS refined its policy in 2002 to ensure that “Consultant”, “Employee” and “Non-Lawyer Consultant” were specifically defined in, and insured under, the policy.

CLLAS asks member firms to list those non-lawyer consultants/professionals who are deemed to be employees when completing their renewal application and an applicable premium is charged in respect of certain individuals. Most of these individuals have no client contact and provide no advice to clients. Since their role is related to the operation of the firm, no additional premium is charged in those cases. On the other hand, if non-lawyer consultants/professionals do advise clients and act on their own without the supervision of a lawyer, then a full lawyer rate would apply. In between, there may be some non-lawyer consultants/professionals who do advise clients but who act under the supervision of a lawyer. These individuals are currently charged at 25% of the standard ROC lawyer rate for each respective layer of coverage, except the First and Second Excess layers, in which premium is waived.

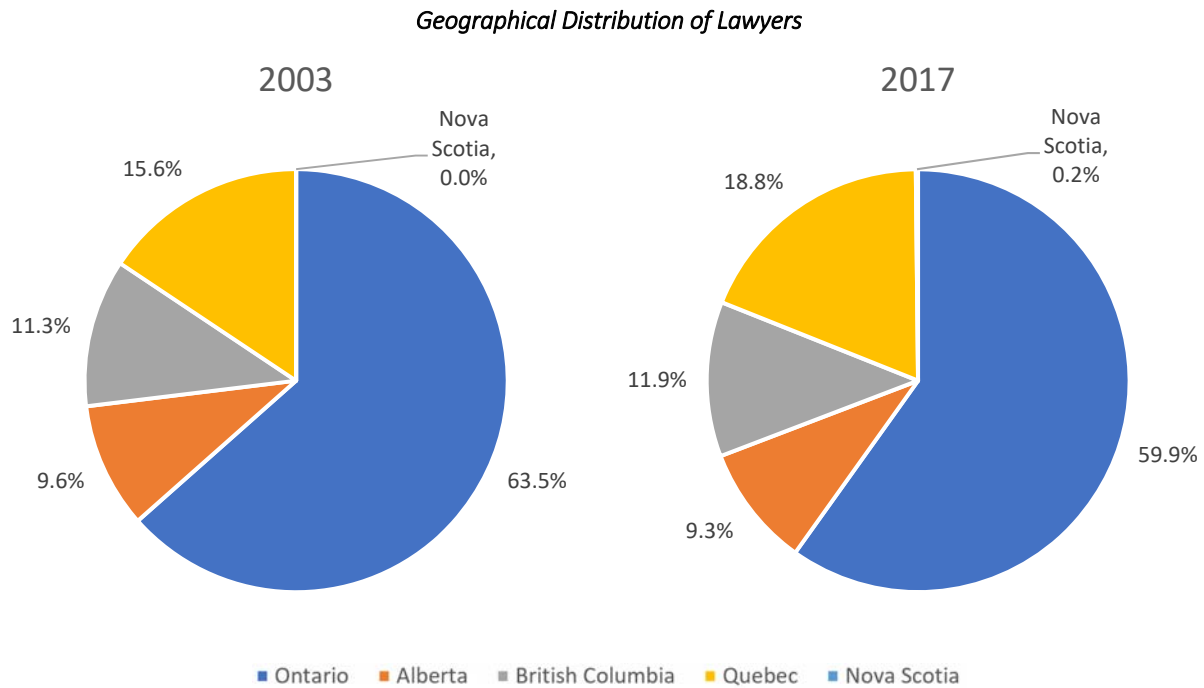
Like other Insureds, any new individuals added mid-term would automatically be covered. Although notification of such individuals will not be a pre-requisite to coverage, CLLAS has requested member firms to report any new non-lawyer consultants/professionals on an ongoing basis to the extent practicable.

As with lawyer and P&T counts, the figures below will be adjusted as updated information is received.

Member Firm	No. of NLC June 15, 2017	Estimated No. of NLC June 15, 2018
Borden Ladner Gervais LLP	6	6
Cassels Brock & Blackwell LLP	1	1
Davies Ward Phillips & Vineberg LLP	0	0
Fasken Martineau DuMoulin LLP	13	13
Goodmans LLP	0	0
McCarthy Tétrault LLP	2	2
McMillan LLP	0	0
Osler, Hoskin & Harcourt LLP	1	1
Torys LLP	0	0
WeirFoulds LLP	2	2
Total	25	25

3.5 Membership Profile

The rise in the number of lawyers outside of Ontario beginning in 1999 has resulted in a decrease in the concentration of Ontario lawyers from 80% to 58% of the CLLAS group. The CLLAS risk profile has improved materially over that period. A contributing factor is assumed to be the change in CLLAS' geographic profile in combination with heightened awareness of, and improvements in, risk management. The profile continues to change even in the last three Underwriting Periods, as can be seen below.



CLLAS firms engage in a wide variety of areas of law, providing for a mix of business activities which, like territorial spread of risk, provides additional stability by not overly concentrating CLLAS in any one particular area. See Exhibits C(9) and C(10).

4.0 Loss Experience

4.1 General

This section provides details of the CLLAS loss experience to-date since inception on July 1, 1987.

In reviewing the loss experience summarized herein, the following should be noted:

1. Unless specifically noted, incurred liabilities, including reserve positions, include those held by Ontario, Alberta, British Columbia, Nova Scotia and Quebec (the “Law Societies”) to the extent available and to the extent reserves were posted at the time data was collected from the Law Societies’ claims systems.
2. All incurred liabilities, including reserve positions, are expressed on a ground up basis unless otherwise specifically noted.
3. Reserve positions are inclusive of defense costs.
4. Reported claims include incidents reported out of an abundance of caution.
5. The reserve positions of CLLAS claims are updated quarterly and, if warranted on a particular claim, more frequently.
6. CLLAS’ loss experience includes the claims experience of former member firms Goodman and Carr LLP which dissolved on July 1, 2007, Blake, Cassels & Graydon LLP which left CLLAS on June 30, 2012 and Dentons Canada LLP which left CLLAS on June 30, 2017.
7. CLLAS’ loss experience has not been restated to include the historical loss experience of firms which have subsequently merged with existing CLLAS member firms.

4.2 Loss Experience Exhibits

Detailed exhibits illustrating CLLAS’ loss experience for the 1987 to 2017 underwriting years of account inclusive are attached hereto as Appendix C 1-12. The following is a brief description of the exhibits:

- (1) Annual Net Incurred Claims Reserved and Paid as of December 31, 2017
- (2) Summary of CLLAS Claims Experience by Year (Ground-up) as of December 31, 2017
- (3) Summary of CLLAS Claims Experience by Year (Excess of \$1MM) as of December 31, 2017
- (4) CLLAS Incurred Claims (Excess of \$1MM) as of December 31, 2017
- (5) Size of Loss Distribution of CLLAS Claims (Ground-up and excess of \$1MM) as of December 31, 2017
- (6) CLLAS Run off & Ground-up Development Triangles as of December 31, 2017
- (7) Claims Experience by Firm (Ground-up) as of December 31, 2017
- (8) Claims Experience by Firm (Excess of \$1MM) as of December 31, 2017
- (9) Claims Experience by Area of Law (Ground-up) as of December 31, 2017
- (10) Claims Experience by Area of Law (Excess of \$1MM) as of December 31, 2017
- (11) Summary of Adjustments
- (12) CLLAS Open and Closed Claims Bordereaux as of December 31, 2017

4.3 Overview of CLLAS’ Loss Experience

CLLAS monitors claim files in the underlying layers which have the potential to penetrate the CLLAS layer. CLLAS has also reviewed the prior claims experience (i.e. prior to joining CLLAS) of the predecessor law firms/lawyers that merged with CLLAS member firms from Quebec, Alberta, and British Columbia and the claims experience for Lang Michener LLP (which became a member on July 1, 2003). In all cases, the claims experience has been exemplary, and no claims would have been incurred in the CLLAS layers had they been part of CLLAS at the time. Claims and lawyer counts for these predecessor firms are not included in the claims statistics provided by CLLAS. On the other hand,

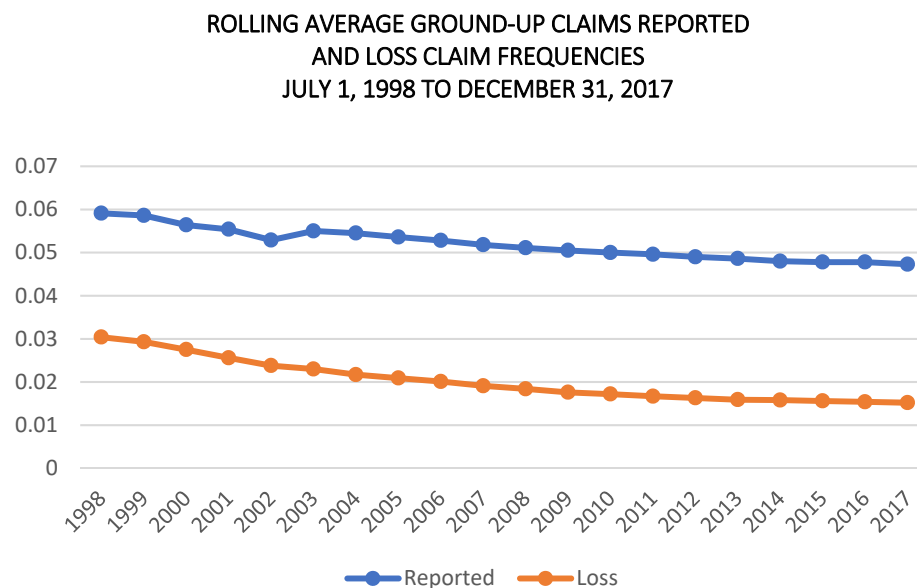
claims experience of former member firms Goodman and Carr LLP, Blake Cassels & Graydon LLP and Dentons Canada LLP is included.

Lang Michener LLP and McMillan LLP merged as of January 1, 2011. Both firms' claims statistics have been consolidated under McMillan LLP.

4.4 Claim Frequency

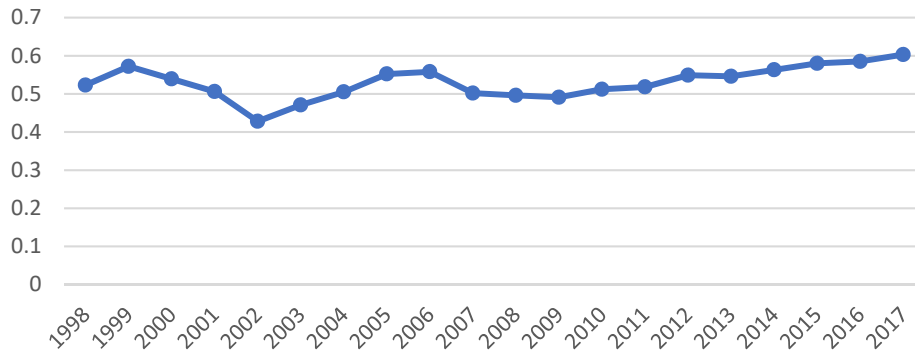
Appendices C(2) and C(3) provide summaries of the CLLAS claims experience by policy year. Since 1987, there have been 5,185 claims reported on a ground-up basis which results in a Reported Claim Frequency of 0.0473 reported claims per lawyer over the entire period. This translates to an average of one claim per lawyer every 21 years. The Loss Claim Frequency (claims with indemnity payments or a reserve ground-up) is much lower at 0.0152 or one claim per lawyer every 66 years meaning that less than one in three claims reported produces a loss. The Loss Claim Frequency of claims in the CLLAS layers (claims excess of \$1,000,000 or \$10,000,000 in Quebec) is 0.603 per 1,000 lawyers. Based on the current lawyer count excluding Dentons, this translates to 2.16 loss claims per year excess of \$1,000,000.

On a ground-up basis, claim frequency has been on a steady decline. The following chart illustrates how the Reported and Loss Claim Frequencies on a ground-up basis, both of which are rolling averages since inception of the CLLAS Program, have been trending downward since 1998.



An analysis of claim frequency for claims excess of \$1,000,000 reveals a slightly different picture. The claim frequency for claims excess of \$1,000,000, based on rolling averages since inception of the CLLAS Program, has been relatively flat since 1998. The chart below shows the rolling average claim frequency per 1,000 lawyers for claims excess of \$1,000,000.

ROLLING AVERAGE CLAIMS EXCESS OF \$1,000,000
LOSS CLAIM FREQUENCY PER 1,000 LAWYERS
JULY 1, 1998 TO DECEMBER 31, 2017



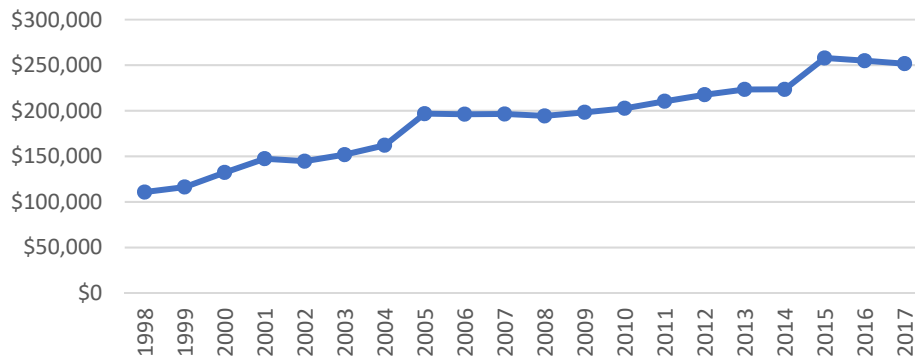
CLLAS has experienced only 66 loss claims (2.2 claims per year) in its layers of coverage since the inception of the Program in 1987.

4.5 Loss Severity

Appendices C(2) and C(3) also outline the ground-up and excess of \$1,000,000 loss severities by policy year. The two charts below suggest that claim severity, based on a rolling average from 1998 to 2017, was increasing steadily on a ground-up basis before 2005 then leveled-off from 2005 to 2011, after which point the trends for ground up losses and those excess of \$1,000,000 diverge.

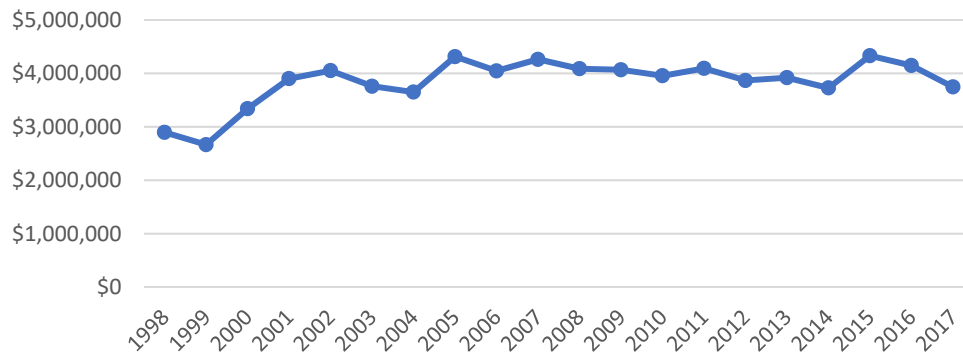
For ground up losses, a positive trend is observed from 2011 to present, with a sharp increase in 2015 due to one large claim which developed during that year.

ROLLING AVERAGE SEVERITY GROUND-UP
JULY 1, 1998 TO DECEMBER 31, 2017



On an excess of \$1,000,000 basis, we observed a decreasing severity trend from 2005 to 2014 but the recent large loss which developed during 2015 created a sharp upward movement in that year. Again, a drop in severity is observed for 2017. It should be noted that year-over-year changes reflect both claims trend and claims development.

ROLLING AVERAGE SEVERITY EXCESS OF \$1,000,000 JULY 1, 1998 TO DECEMBER 31, 2017



4.6 Size of Loss Distribution

The Size of Loss Distribution exhibits, Appendices C(5A) and C(5B), indicate that 98.9% of claims reported by CLLAS members are under \$1,000,000. Only 66 out of 5,185 claims are excess of \$1,000,000. Of those, a significant majority, 86.4%, have been less than or equal to \$5,000,000. Seven claims are between \$5,000,000 and \$20,000,000 and only two claims in the history of CLLAS have been excess of \$20,000,000.

4.7 Loss Development

The loss development triangles (by year and by individual claim) are located in Appendix C(6). Reserving can be very challenging on large loss claims because there are no clear patterns. Two claims that were settled a few years ago demonstrate the extremes of loss development. At one end of the scale, Claim No. 94-001 developed very slowly at first until liability and quantum could be assessed (particularly while we awaited a Supreme Court of Canada decision in an underlying matter that was ultimately unfavourable to us). This assessment took place in Year 7 and the reserve was set at approximately \$17,000,000. It stayed that way for another 7 years until a settlement was reached just under the reserved amount (including expenses). In sharp contrast, Claim No. 2004-194 grew from nothing to \$24,000,000 within 2 years. It can be challenging to initially predict the ultimate outcome of some of the more complicated lawyers' professional liability claims because of the initial sparseness of claims information that CLLAS receives, the complex nature of the services provided by the lawyers themselves, and external factors (such as alternative dispute resolution and insurance issues which arise when other professionals are included) influencing the handling of these claims. Claim No. 2010-059 (Trillium Motor World) is another example where a reserve had to be increased by a sizeable amount suddenly due to a unexpected judgement. The amount of the judgment was subsequently reduced on appeal although the precise amount is still to be determined. While the revised damages are unlikely to reduce CLLAS' historical share of the loss at the time (CLLAS' primary layer coverage was \$34,000,000 excess of \$1,000,000), it does result in favourable development on the basis of the current limit structure.

4.8 Claims Experience by Firm and Area of Law

Appendices C(7) and C(8) provide summaries of the claims experience by firm on a ground-up basis and excess of \$1,000,000 respectively. 11 out of the 13 historical CLLAS member firms have had at least one claim paid or reserved by CLLAS since 1987.

Appendices C(9) and C(10) provide summaries by area of law, again on a ground-up basis and excess of \$1,000,000 respectively. On a ground-up basis, the claim frequency (not counting the "Other" category) is greatest in Litigation (21.33% of claims), followed by Commercial Law (14.85%) and Real Estate and Mortgage Transactions (12.96%). The

loss severity on a per-claim basis is greatest in Corporate Law (\$890,223), followed by Tax Matters (\$468,340) and Intellectual Property (\$402,270). These exhibits also show the areas of practice of the member firms on a combined basis.

4.9 Claims Bordereaux

For year-to-year comparison purposes, the claims exhibits in Appendices C(1) to C(11) are as of December 31, 2017. The most recent open and closed claims bordereaux as of December 31, 2017 can be found in Appendix C(12).

The table below highlights all CLLAS claims that were open with a total ground-up reserve greater than or equal to \$500,000 at some point between December 31, 2015 and December 31, 2017 and the corresponding changes in incurred claims/development during that period.

OPEN CLLAS CLAIMS WITH GROUND-UP INCURRED VALUE OVER \$500,000 DECEMBER 31, 2015 - DECEMBER 31, 2017

Claim No.	Ground-up Incurred (Dec. 31, 2015)	Ground-up Incurred (Dec. 31, 2016)	Ground-up Incurred (Dec. 31, 2017)	12-Month Change in Incurred
2002-007 (O)	\$1,000,000	\$1,000,000	\$1,000,000	\$0
2003-206 (C)	\$1,796,270	\$1,796,270	\$1,083,262	\$0
2005-014 (C)	\$612,891	\$612,891	\$760,990	\$148,099
2005-177 (O)	\$0	\$500,000	\$5,500,000	\$5,000,000
2008-001 (O)	\$2,946,896	\$2,716,226	\$2,485,556	(\$230,670)
2008-113 (O)	\$4,500,000	\$4,500,000	\$4,500,000	\$0
2009-012 (C)	\$2,700,000	\$2,546,740	\$2,546,740	\$0
2010-059 (O)	\$51,528,773	\$51,528,773	\$35,000,000	(\$16,528,773)
2010-065 (O)	\$270,721	\$1,500,000	\$4,300,000	\$2,800,000
2010-070 (C)	\$2,500,000	\$2,500,000	\$1,638,777	(\$861,223)
2010-165 (O)	\$3,000,000	\$3,000,000	\$3,000,000	\$0
2011-008 (C)	\$550,000	\$550,000	\$550,000	\$0
2011-034 (O)	\$900,000	\$650,000	\$650,000	\$0
2011-145 (O)	\$14,050,000	\$14,050,000	\$14,050,000	\$0
2011-193 (O)	\$565,591	\$1,000,000	\$2,000,000	\$1,000,000
2012-002 (O)	\$626,049	\$721,953	\$731,348	\$9,395
2012-057 (C)	\$3,328,754	\$3,356,504	\$3,356,504	\$0
2012-075 (O)	\$1,839,746	\$1,839,746	\$1,839,746	\$0
2012-090 (O)	\$757,867	\$669,426	\$644,426	(\$25,000)
2012-124 (O)	\$207,272	\$207,272	\$921,000	\$713,728
2012-189 (C)	\$543,074	\$618,074	\$312,385	(\$305,689)
2013-020 (C)	\$600,000	\$7,887	\$7,887	\$0
2013-036 (C)	\$1,000,000	\$175,923	\$170,923	(\$5,000)
2013-099 (C)	\$822,231	\$508,953	\$508,953	\$0
2013-112 (C)	\$731,064	\$543,234	\$543,234	\$0
2013-122 (O)	\$759,885	\$1,500,000	\$1,500,000	\$0
2013-147 (C)	\$678,164	\$678,164	\$678,164	\$0
2014-026 (C)	\$400,000	\$657,605	\$657,605	\$0
2014-079 (O)	\$200,980	\$1,000,000	\$2,284,332	\$1,284,332
2014-131 (O)	\$2,000,000	\$2,000,000	\$2,000,000	\$0
2014-134 (O)	\$98,688	\$2,000,000	\$3,500,000	\$1,500,000
2015-011 (O)	\$132,629	\$1,000,000	\$1,000,000	\$0

**OPEN CLLAS CLAIMS WITH GROUND-UP INCURRED VALUE OVER \$500,000
DECEMBER 31, 2015 - DECEMBER 31, 2017**

Claim No.	Ground-up Incurred (Dec. 31, 2015)	Ground-up Incurred (Dec. 31, 2016)	Ground-up Incurred (Dec. 31, 2017)	12-Month Change in Incurred
2015-054 (O)	\$350,000	\$550,000	\$550,000	\$0
2015-059 (O)	\$600,000	\$600,000	\$600,000	\$0
2015-064 (O)	\$1,000,000	\$1,000,000	\$1,000,000	\$0
2015-069 (O)	\$135,000	\$552,121	\$552,121	\$0
2016-014 (O)	\$80,000	\$80,000	\$1,000,000	\$920,000
2016-017 (O)	\$950,000	\$950,000	\$1,000,000	\$50,000
2016-018 (C)	\$700,000	\$0	\$0	\$0
2016-030 (O)	\$95,000	\$171,030	\$1,000,000	\$828,970
2016-039 (O)	\$1,000,000	\$1,000,000	\$1,000,000	\$0
2016-050 (C)	\$750,000	\$0	\$0	\$0
2016-129 (O)	\$0	\$0	\$1,000,000	\$1,000,000
2017-068 (O)	\$0	\$0	\$1,000,000	\$1,000,000
2017-091 (O)	\$0	\$0	\$2,020,000	\$2,020,000
2017-157 (O)	\$0	\$0	\$525,000	\$525,000
Total	\$107,307,545	\$110,838,792	\$111,681,961	\$843,169

To provide a sense of the nature of the CLLAS member firms' claims exposure, attached as Appendix D, is a brief, anonymized overview of each of these claims.

5.0 Proposed Renewal Terms

5.1 Coverage Features

The CLLAS “stand-alone” policy wording ensures that CLLAS members, some of whom operate out of several provincial jurisdictions, enjoy consistency and somewhat broader coverage throughout the jurisdictions in which they operate. CLLAS member firms have offices in the following Canadian jurisdictions: Alberta, British Columbia, Quebec, Ontario, and Nova Scotia. All jurisdictions have a compulsory limit of \$1,000,000 per claim/\$2,000,000 annual aggregate per lawyer except for Quebec where the compulsory limit is \$10,000,000 per claim. Quebec restricts coverage for work done outside Quebec to \$1,000,000 per claim.

The current CLLAS structure includes a Primary Policy of \$50,000,000 per claim/per year/per firm inclusive of underlying coverage from the law societies or other applicable professional liability policies. Below are examples of how the CLLAS Primary Policy would respond:

- If a claim is made that would trigger the mandatory policies in Ontario, British Columbia, Alberta, or Nova Scotia, the CLLAS Primary Policy would effectively respond as a \$49,000,000 limit excess of a \$1,000,000 compulsory limit provided by the respective law societies in these jurisdictions;
- If a claim is made that would trigger the Quebec mandatory coverage relating strictly to acts of Quebec lawyers, the CLLAS Primary Policy would effectively respond as a \$40,000,000 limit excess of a \$10,000,000 compulsory limit provided by Barreau du Quebec;
- In the event of a claim triggering a sub-limit in, say, Ontario (e.g. \$250,000 sub-limit for retired lawyer coverage), the CLLAS Primary Policy would effectively respond as a \$49,750,000 limit excess of the \$250,000 sub-limit;
- In the event of no underlying coverage or exhaustion of the underlying coverage, the CLLAS Primary Policy will provide coverage of up to \$49,975,000 excess of a deductible of \$25,000;
- Only that portion of the claim attributable to CLLAS will contribute to the \$50,000,000 annual aggregate per firm including that portion of any claim under \$1,000,000 which is paid, and fully retained, by CLLAS.

At present, the First Excess Policy (stand-alone) provides a minimum of \$15,000,000 excess of the \$50,000,000 CLLAS Primary Policy. The policy also provides drop-down coverage to \$500,000 for claims not covered by the CLLAS Primary Policy. For example, foreign law and U.S. offices are not excluded in this policy while the CLLAS Primary Policy does have exclusions pertaining to these exposures. All CLLAS member firms are required to subscribe to the First Excess Policy in addition to the CLLAS Primary Policy.

Beginning last year CLLAS participated in all layers excess of \$50,000,000, including the First Excess and Optional Second Excess Policies. On top of the CLLAS Primary Policy and the \$110,000,000 excess of \$50,000,000 layers, CLLAS continues to provide the Optional Third Excess and the Blanket Excess Policies. In summary, CLLAS expects to issue or participate on the following policies effective July 1, 2018 to July 1, 2019:

- A. CLLAS Primary Policy of \$50,000,000 – A Primary Policy of \$50,000,000 per claim/per year/per firm inclusive of underlying coverage from the law societies or other applicable professional liability policies. CLLAS is requesting underwriters to reinsure CLLAS for \$49,000,000 excess of \$1,000,000 at the as-expiring net per lawyer rates of \$1,592 for lawyers in provinces other than Quebec, and \$710 for Quebec lawyers. The net rate for lawyers in Quebec is lower due to the \$10,000,000 underlying limit provided by Barreau du Quebec.
- B. First Excess Policy of Up to \$50,000,000 Excess of \$50,000,000 – CLLAS expects to participate on the First Excess Policy of up to \$50,000,000 excess of \$50,000,000. CLLAS is requesting underwriters to reinsure CLLAS on this layer at an as-expiring net rate of \$307 per lawyer. There is currently one firm that purchases less than \$50,000,000 excess of \$50,000,000 and this firm’s rate is scaled down accordingly.

- C. Optional Second Excess Policy of \$60,000,000 Excess of \$100,000,000 – CLLAS expects to participate on the Optional Second Excess Policy of \$60,000,000 excess of \$100,000,000. CLLAS is requesting Colchester and other underwriters to reinsure CLLAS on this layer at a net rate of \$273 per lawyer.
- D. CLLAS Optional Third Excess Policy of Up to \$60,000,000 excess of \$160,000,000. CLLAS is requesting underwriters to reinsure CLLAS at an as-expiring net rate of \$143 per lawyer. There is currently one firm that purchases less than \$60,000,000 excess of \$160,000,000 and this firm's rate would be scaled down accordingly.
- E. CLLAS Blanket Excess Policy of \$30,000,000 per claim/\$60,000,000 aggregate – This layer is shared by all CLLAS member firms. This policy also follows the First Excess Policy and is excess of the Second and Third Excess policies and/or excess of specific underlying insurance arranged by certain CLLAS member firms for their offices in the U.S. and/or other international locations. An as-expiring rate per lawyer of \$71 is being sought.

It should be noted that for the Optional Third Excess and Blanket Excess Policies, the “designated underlying policy” is the First Excess Policy wording which attaches at \$50,000,000. The First Excess Policy has a drop-down feature in the event that it is broader than the underlying CLLAS Primary Policy and/or the mandatory law society program policies. The principal differences between the CLLAS Primary Policy and the First Excess Policy are:

- a) the First Excess Policy does not exclude coverage with respect to the practice of foreign law;
- b) the First Excess Policy does not exclude coverage for U.S. offices;
- c) the First Excess Policy may be broader in scope with respect to non-lawyer consultants; and
- d) the First Excess Policy contains a “Liberalization Clause” which ensures that it is at least as broad as the underlying CLLAS Primary Policy.

The CLLAS Primary Policy will not respond to claims brought against lawyers from an office in the U.S., whether relating to the practice of Canadian law or foreign law. Except to the extent that the CLLAS International Policy would provide coverage, the First Excess Policy would drop down to provide this coverage, both for claims relating to the practice of Canadian and foreign law, subject to a \$500,000 deductible. The CLLAS Second Excess, Optional Excess, and Blanket Excess Policies will follow form and provide the same scope of coverage as the First Excess Policy.

While the CLLAS Primary Policy would not respond to claims relating to the practice of foreign law, it will respond to claims that are “incidental” to the practice of Canadian law, within the meaning attributed to that term by CLLAS. See Appendix G for more detail regarding the meaning of “Incidental” to the Practice of Canadian Law.

5.2 Proposed Coverage and Policy Wording Changes at Renewal

CLLAS does not expect to amend any of the policy wordings for this coming year.

5.3 Headcount for Premium Calculation

CLLAS uses the member firms' headcount as of June 15 (versus July 1) to calculate its premium as well as to determine the premium payable to its reinsurers without further adjustment. This allows CLLAS sufficient time to get its invoices out to the firms and to report the numbers to reinsurers before July 1.

As previously mentioned, our present estimate of the number of lawyers for rating purposes is based on the lawyer count on June 15, 2017. Typically, unless there is a merger or acquisition, the lawyer count does not change from year to year by more than 1% or 2%.

Reins. Layer	Limit	Lawyer Count*			Comments
		Quebec	Rest of Canada	Total	
1	\$49M xs \$1M	669	2,892	3,561	
2	\$50M xs \$50M	669	3,046	3,715	One firm currently purchases less than \$50M and would be adjusted accordingly, if required
3	\$60M xs \$100M	669	2,945	3,614	
4	\$60M xs \$160M	669	2,945	3,614	One firm currently purchases less than \$60M and would be adjusted accordingly, if required
5	Blanket Excess \$30M/\$60M xs min \$65M	669	3,046	3,715	

* Excluding P&T Agents and Non-Lawyer Consultants

5.4 Rate Structure and CLLAS Retention

CLLAS has continued to retain 100% of the \$975,000 drop down exposure since July 1, 2012. 20% of Reinsurance Layer 1 is currently reinsured with Colchester. It is not anticipated that CLLAS or Colchester will vary their retentions for the upcoming term.

The table below sets forth the net reinsurance premiums and incurred losses since July 1, 2011, the date that the current reinsurance structure (\$50,000,000 Primary Policy) was first put in place. On an incurred basis, underwriters have experienced six, going on seven, good years and are well positioned in the event a significant loss occurs in the future.

Policy Year	Reinsurance Premiums	Incurred Losses	Incurred Loss Ratio
2011/12	\$9,530,084	\$3,302,756	34.7%
2012/13	\$9,406,090	\$755,847	8.0%
2013/14	\$9,411,065	\$4,784,332	50.8%
2014/15	\$9,094,677	\$72,383	0.8%
2015/16	\$8,738,580	\$0	0.0%
2016/17	\$7,358,424	\$1,670,000	22.7%
2017/18*	\$5,974,138	\$0	0.0%
Total	\$59,513,058	\$10,585,318	17.8%

* Remaining 95% of First Excess and Optional Second Excess layer premiums equate to \$1,975,840 in addition. Colchester provided premium credits funded from historical surplus which were excluded here for comparison purposes.

The following table sets forth the expiring reinsurance rates and the proposed rates. As per last year, CLLAS will continue to provide overall rate reductions from CLLAS and or Colchester surplus. All rates are on a net basis as CLLAS does not expect any ceding commission.

Layer	Expiring Rate Per Lawyer	Proposed Rate Per Lawyer	Estimated Premium*
1. \$49M xs \$1M (Rest of Canada)**	\$1,592	\$1,592	\$4,604,064
2. \$40M xs \$10M (Quebec)**	\$710	\$710	\$474,990
3. \$50M xs \$50M	\$307	\$307	\$1,140,505
4. \$60M xs \$100M	\$273	\$273	\$986,622
5. \$60M xs \$160M	\$143	\$143	\$516,802
6. Blanket Excess \$30M/\$60M xs min \$65M	\$71	\$71	\$263,765

* Excluding P&T Agents and Non-Lawyer Consultants

** Colchester provides reinsurance at a rate of \$142 and \$63 for Rest of Canada and Quebec Lawyers, respectively, as a result of the application of premium credits funded from historical surplus – not reflected here.

6.0 Renewal Applications

Renewal applications are in the process of being completed and will be made available upon completion.

7.0 Concluding Remarks

With the latest Underwriting Period renewal now complete, CLLAS is looking to confirm to its member firms that their support by remaining in CLLAS was the right choice. Faced with competitive offers from brokers, who promised even larger discounts than CLLAS was willing to match, the firms saw value in CLLAS' proposition and re-committed for a further five years. We believe that a principled renewal, as outlined in this report to reinsurers, will be supported by the CLLAS member firms.

The reduction provided by reinsurers last year, along with a surplus contribution by CLLAS and Colchester, was a significant factor in CLLAS securing another five-year commitment from all of its member firms. In return, CLLAS is able to provide a stable portfolio of business for underwriters which is insulated from aggressive market competition.

CLLAS looks forward to working with underwriters to maintain a stable program, which over the long-term continues to provide a mutually beneficial outcome for all parties.