

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY  
("CLLAS")**

**Minutes of the Annual Meeting of Subscribers**

8:30 a.m.

Davies Ward Phillips & Vineberg LLP  
40<sup>th</sup> Floor, RBC Centre  
155 Wellington Street West  
Toronto, Ontario

**Wednesday, June 25, 2014**

**Present:**

Nicholas Leblovic (Chair)  
Barry Bresner  
Gordon Goodman  
Donald Milner  
Bill Scott  
Dan McDonald (via phone)  
Julia Holland

Davies Ward Phillips & Vineberg LLP  
Borden Ladner Gervais LLP  
Cassels Brock & Blackwell LLP  
Fasken Martineau DuMoulin LLP  
McCarthy Tétrault LLP  
McMillan LLP  
Torys LLP

Patrick Mahoney  
Norma Ibbetson

Office of the General Manager, CLLAS  
Office of the General Manager, CLLAS

**Absent:**

David Morritt (submitted proxy)  
John Esvelt (submitted proxy)  
Ken Crofoot  
Mike Swartz

Osler, Hoskin & Harcourt LLP  
Dentons LLP  
Goodmans LLP  
WeirFoulds LLP

**1. Constitution of Meeting**

The Chairman reported that notice of the Annual Meeting of Subscribers had been duly given to CLLAS' subscribers, auditor and actuary and that a quorum was present. He brought the meeting to order.

**2. Appointment of Secretary**

Norma Ibbetson acted as Secretary.

**3. Annual Report of Management**

Mr. Mahoney advised that the audited financial statements had been reviewed with the Board at its February 26, 2014 meeting. CLLAS finished 2013 with a surplus position of \$13.2 million versus \$11.8 million at the end of 2012. The overall gain of \$1.4 million leaves CLLAS with a strong

surplus position. Mr. Mahoney highlighted the current reinsurance arrangements and the Loss Portfolio transfer mean that the volatility that is inherent in the claims portfolio is no longer directly reflected in CLLAS' financial statements.

**4. Annual Financial Report**

Gord Goodman as Chair of the Audit Committee reported that the Audit Committee met with CLLAS' auditor and actuary on February 19, 2014 and that an unqualified audit opinion was issued.

**It was moved by Donald Milner, seconded by Gord Goodman, that the Audited Financial Statements at December 31, 2013 be received. The motion was carried unanimously.**

**5. Appointment of Auditors**

**It was moved by Barry Bresner, and seconded by Gord Goodman, that Deloitte LLP be appointed auditors for CLLAS until the next annual meeting of subscribers. The motion was carried unanimously.**

**6. Appointment of Actuary**

**It was moved by Gord Goodman, and seconded by Donald Milner, that the appointment of Julie-Linda Laforce of Axxima Inc. as the Actuary for 2014 be confirmed. The motion was carried unanimously.**

**7. Other Business**

There was no additional business for discussion.

**8. Meeting Terminated**

**It was moved by Gord Goodman, and seconded by Julia Holland, that there being no other business the meeting was terminated. The motion was carried unanimously**

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Chairman

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Secretary

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY  
("CLLAS")**

**Minutes of a Meeting of the Advisory Board**

9:00 a.m.

Davies Ward Phillips & Vineberg LLP  
40<sup>th</sup> Floor, RBC Centre  
155 Wellington Street West  
Toronto, Ontario

**Wednesday, June 25, 2014**

**Present:**

Nicholas Leblovic (Chair)	Davies Ward Phillips & Vineberg LLP
Barry Bresner	Borden Ladner Gervais LLP
Gordon Goodman	Cassels Brock & Blackwell LLP
John Esvelt	Dentons LLP
Donald Milner	Fasken Martineau DuMoulin LLP
Ken Crofoot	Goodmans LLP
Bill Scott	McCarthy Tétrault LLP
Dan MacDonald (via phone)	McMillan LLP
Julia Holland	Torys LLP
Mike Swartz	Weirfoulds LLP
Patrick Mahoney	Office of the General Manager, CLLAS
Norma Ibbetson	Office of the General Manager, CLLAS
Joe Tontini	Axxima
Ryan Durrell	Axxima

**Absent:**

David Morritt	Osler, Hoskin & Harcourt LLP
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**1. Constitution of Meeting**

The Chair brought the meeting to order.

**2. Appointment of Secretary**

Norma Ibbetson acted as Secretary.

**3. Approval of Minutes of the February 26, 2014 Meeting of the Advisory Board**

It was moved by Donald Milner and seconded by Gordon Goodman that the minutes of the February 26, 2014 meeting of the Advisory Board be approved. The motion was carried unanimously.

**4. Business Arising Out of the Minutes**

The only item arising out of the minutes that will not be addressed through the meeting agenda is the discussion with respect to firms being asked to sign “indemnification agreements” in client engagement contracts. It was the general consensus among the board members that these clauses should not be agreed to the extent that they expand the liability of the firm, and that firm management should actively discourage agreement to this type of clause. The Risk Management Committee will review this issue and prepare a draft notice on this issue which can ultimately be circulated within each firm.

## **5. Comments of the Chair**

Nick Leblovic spoke to the Board about his and Barry Bresner’s attendance in London to meet with underwriters to discuss the July 1, 2014 renewal terms.

The Chair highlighted in particular that the Reinsurance submission, and some of the questions raised by underwriters, focused on the class action claims involving tax planning. Underwriters were provided with some additional background on current practices within the firms.

The Chair advised the Board that he recommends continuing the practice of bringing an additional Board member to the renewal discussions in London in May/June.

## **6. Pro-Form Insurance Services**

### *Excess Insurance Renewal*

Bob Wilson joined the meeting and reported that the renewal of the commercial excess layers has gone well and there will be an overall rate reduction of 5% for the coming year. The two-year rate guarantee will be in effect again, so firms may benefit from it if market conditions harden. Having said that, the market remains soft.

Mr. Wilson advised that he had obtained agreement from the excess carriers to the addition of prior acts coverage for Heenan Blaikie lawyers; coverage will follow the CLLAS endorsement to the policy for no additional premium. The coverage is subject to an overall aggregate for all firms, and if a firm hires more than 10 Heenan Blaikie lawyers, the coverage is subject to an additional premium.

Mr. Wilson advised that there were no changes to the policy wording.

### *International Program*

The Board was reminded that the CLLAS International policy no longer operates with the two-year renewal feature due to negative tax implications of multi-year commitments. Mr. Wilson advised that the insurers on this program are experiencing a deterioration in claims experience. The International program is marketed as a group but each firm is rated separately based on claims experience. Rates were negotiated on an as expiring basis, with only one firm being charged additional premium in one sector of their business.

A schedule summarizing the ratings of all the insurers on the excess and international programs was included in the hand-out materials.

Mr. Wilson advised that firms will be renewed based on expiring limits, unless Pro-form is advised otherwise. He then left the meeting.

## **7. Reinsurance Renewal**

Joe Tontini and Ryan Durrell reported on the reinsurance renewal. The renewal objectives included:

- Maintain and enhance existing reinsurers relationships
- Attract new markets
- Maintain or reduce Colchester's participation
- Reduce overall reinsurance costs and possible rate reductions
- Continue to evaluate ability to distribute surplus to members through premium credits

The Board continues to support striking a balance between buying coverage at market rates and maintaining relationships with long-term partners. Mr. Tontini advised that the response from the market was such that it appeared to be possible to reduce Colchester's participation from the current 30% to 20% and that he is recommended that if this (referred to in the materials as the "Preferred" scenario) is possible, it be done.

### *Reinsurance Costs*

A rate reduction of 5% was proposed for the upcoming renewal. The lead reinsurers on the various layers have agreed to the reduction but confirmation from the following markets has not yet been obtained so it is not yet certain whether the reduction will be achieved.

### *Return of Surplus/Premium Credit*

Any return of surplus has traditionally been arrived at from two sources: (1) the application of investment income earned on surplus, and (2) a board directed surplus disbursement. The Board did not direct any surplus disbursement (item (2) above) 2012/2013 and 2013/14.

CLLAS' surplus position at the end of December 2013 was \$13,200,000. Mr. Tontini advised that in considering CLLAS' surplus position it would be prudent to take into account that surplus attributable to Blakes and Dentons (should Dentons follow through with their planned exit from CLLAS at the end of the current underwriting period) would create a strain on CLLAS' surplus position. CLLAS must maintain surplus to stabilize year-over-year costs and to meet regulatory requirements. Of the \$13,200,000 surplus, taking the various points into consideration, the available surplus for distribution is \$1.3 million. CLLAS' actuary recommends a distribution of no more than \$500,000 for 2014/2015.

**It was moved by Gordon Goodman and seconded by Donald Milner that surplus in the amount of \$500,000 be distributed by way of premium credits as of July 1, 2014. The motion was carried unanimously.**

**It was moved by Donald Milner and seconded by Mike Swartz to instruct Axxima and Miller to bind reinsurance with current and new reinsurers on the basis of the "Preferred" scenario, subject to final reinsurance terms and conditions that are not significantly different from those presented in the report to the Board and failing this to instruct Axxima and Miller to bind reinsurance with current and new reinsurers on the basis of the "[Status Quo]" scenario subject**

**to final reinsurance terms and conditions that are not significantly different from those outlined in the Board meeting material. The motion was carried unanimously.**

#### *Policy Wording*

Last year, “foreign claims” wording was added to the CLLAS policy to allow CLLAS to pay foreign claims in Canada if the foreign jurisdiction restricts CLLAS from paying directly in the foreign jurisdiction.

This year, an endorsement with respect to the tail coverage for certain Heenan Blaikie lawyers will be added to the CLLAS policy. The coverage will apply from April 30, 2014 to July 1, 2017. The policy will be also be amended to add statutory language to comply with provincial regulations and to make a minor change to the definition that refers to fines and penalties.

A memo summarizing the final renewal terms will be provided for the September Board meeting.

#### *Cyber Coverage*

Mr. Tontini advised that CLLAS may have an opportunity to purchase a group cyber-coverage policy which would be at a favorable rate. Discussion of this item was deferred to the September meeting but in the interim Mr. Tontini was asked to explore the opportunity and communicate details as appropriate to the member firms.

### **8. Report of the General Manager’s Office**

#### *Financial Statements Quarter Ending March 31, 2014*

Mr. Mahoney reported. He advised that the management statements has been restructured to reflect the input of the regulator during the examination process. He drew the Board’s attention specifically to new Exhibit VI, which contains the Alberta Minimum Reserve and Guarantee Fund test.

#### *Subscriber Accounts at December 31, 2013*

Mr. Mahoney briefly reviewed the draft Subscriber Accounts. It was agreed that at a convenient point in the future, the General Manager’s office will arrange a WebEx with Board members and/or firm CFO’s to discuss the Subscribers Account methodology and exhibits.

#### *Business Plan for Regulator – FY14*

Mr. Mahoney reviewed the 2014 Business Plan, which has been expanded to reflect input from the Alberta regulator. The Business Plan has been filed with the regulator.

#### *Rate Setting Policy*

The Board reviewed the draft rate setting policy included in the Board materials.

**It was moved by Gordon Goodman and seconded by Donald Milner that the Rate Setting Policy dated July 1, 2014 provided with the Board meeting material be adopted as of July 1, 2014. The motion was carried unanimously.**

*Risk Appetite Discussion*

Mr. Mahoney provided background on this item and advised that defining CLLAS' "risk appetite was the critical first step in creating both CLLAS' Enterprise Risk Management (ERM) plan, and CLLAS' Own Risk and Solvency Assessment (ORSA). The Board concluded that the length of discussions on the renewal and other agenda items meant that there was insufficient time to fully discuss this matter and deferred it to the September meeting.

*Actuarial peer Review Requirement*

The Board should consider implementing a process to undertake an independent actuarial peer review on an appropriate (e.g. three-year cycle). The matter should be considered first by the Audit Committee, which will make a recommendation to the Board.

**9. Report of the Audit Committee**

Gordon Goodman reported. The Committee will meet in the Fall to, among other things, review in detail the reinsurance security report.

**10. Report of the Claims Committee**

Barry Bresner reported. The Committee continues to meet quarterly in person, and as needed by phone and email.

**11. Report of the Risk Management Committee**

Julia Holland reported. The risk management audits of the firms have begun.

**12. Report of the Policy Committee**

Donald Milner reported. The Policy Committee has been asked to review the Subscribers' Agreement to ensure it is in compliance with new regulatory requirements and to update it to make it current with current practices.

**13. Report of the Investment Manager at March 31, 2014**

Information item only.

**14. Other Business**

There was no other business.

**15.    Next Meeting**

The next regularly scheduled meeting of the Board will be on September 10, 2014.

There being no further business, the meeting was terminated.

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Chairman

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Secretary





# CLLAS Board Presentation

## Network Security and Privacy Breach Exposures for Law Firms and Risk Transfer Solutions

Presented by

Matthew Davies  
Director – Professional, Media & Cyber Liability  
Chubb Insurance Company of Canada  
[mdavies@chubb.com](mailto:mdavies@chubb.com)

September 2014



# A Hypothetical Event

- On Monday, a partner in your firm reports that their car was stolen in the early hours of the prior Saturday morning from a downtown parking lot. The partner's briefcase was in the trunk of the car.
- The briefcase contained:
  1. a memory stick with Personally Identifiable Information and Personal Healthcare Information obtained in Discovery about several hundred plaintiffs in a class action products liability lawsuit for which the firm is acting as defence counsel;
  2. Confidential plans (on paper) from a corporate client about a new product they are working on for which your firm is providing intellectual property advice; and
  3. a number of personnel files that were under review in advance of the annual employee performance appraisal process for members of that partner's practice team.
- **Now what?**
- That Thursday afternoon, the partner gets a phone call from an anonymous party claiming to have "*found your briefcase in a garbage can*". That person wants a "*reward*" of several thousand dollars before he will return the briefcase.
- **Now what?**



# Investment Industry Regulatory Organization of Canada (IIROC)

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IN THE NEWS

- Federal spending
- Quebec Votes
- Flight MH370 search
- Tax Season

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**Business** Tax Season

## Canada's investment regulator misplaces client info

IIROC says it lost 'portable device' containing personal information of 52,000 clients

The Canadian Press Posted: Apr 12, 2013 12:21 PM ET | Last Updated: Apr 12, 2013 5:54 PM ET

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STRATEGY

Data breaches: It's more expensive to react than prevent

**JONATHAN STOLLER**

Special to The Globe and Mail  
Published Thursday, May. 23 2013, 6:21 AM EDT  
Last updated Thursday, May. 23 2013, 2:50 PM EDT

**FP STREET** *Follow the Money*

**TRENDING**

Housing Market | Bitcoin | Samsung Galaxy S5 | Loonie | Keystone XL Pipeline

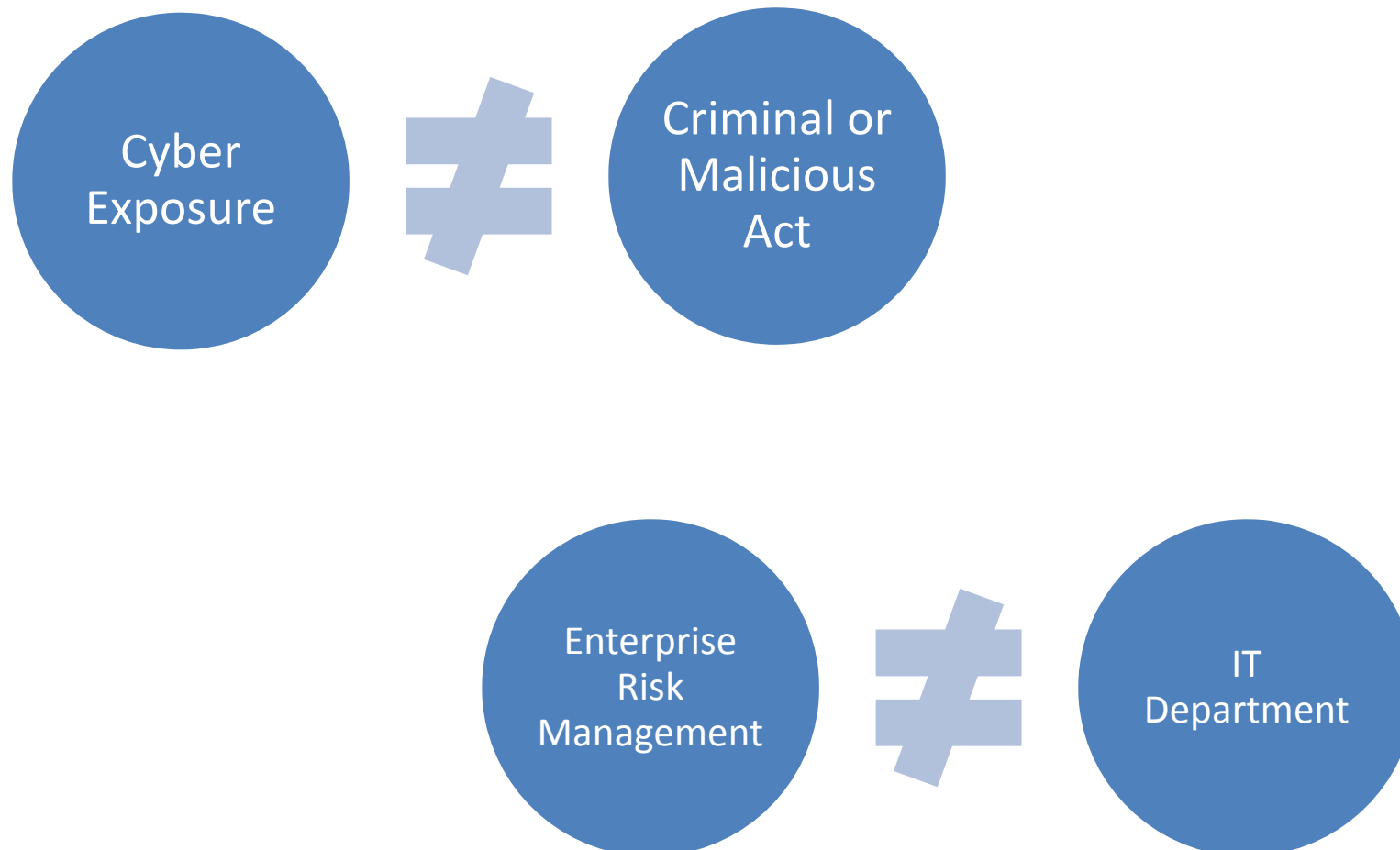
## IIROC broke own rules by losing private data — can we believe its explanation?



**THERESA TEDESCO** | April 29, 2013 | Last Updated: Apr 30 8:21 AM ET  
More from Theresa Tedesco | @tedescott

This smacks of a cover up

# Asymmetric Threat



# Emerging Exposures

## Systems Evolutions

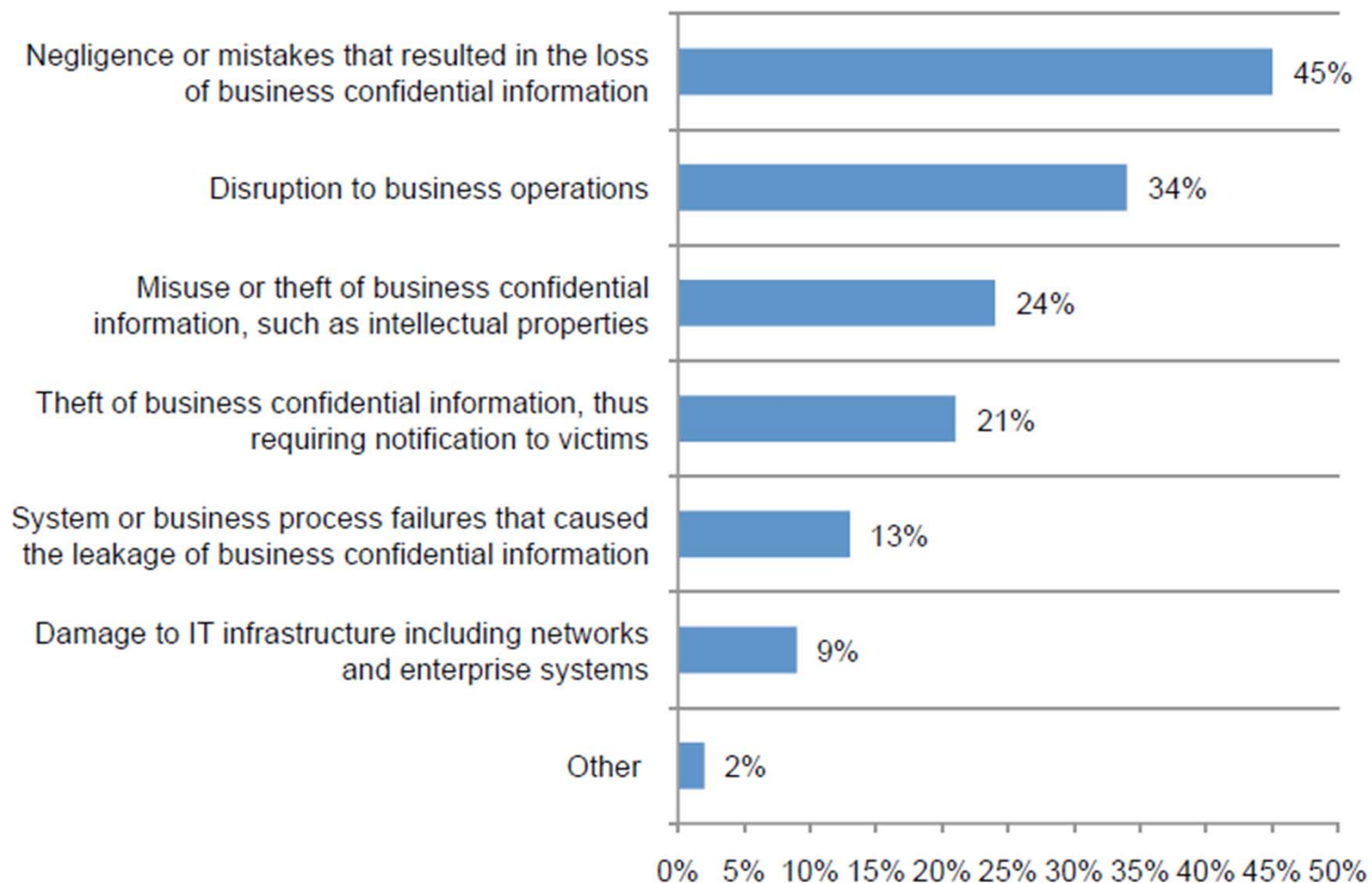
- Social Media and Big Data
- Cloud Computing
- Bring Your Own Device
- On-line publications
- Hyper targeting
- Mobile Payment Solutions

## Regulatory Activism

- Privacy Commissioner of Canada and Provincial Counterparts
- Other Regulators (ex. OSFI)
- US States Attorneys General



## Security exploits in the last 24 months<sup>(1)</sup>





## Communicating the Issues<sup>(2)</sup>

33%

C-Suite Executives expect that their organization will be subjected to a Cyber Attack

63%

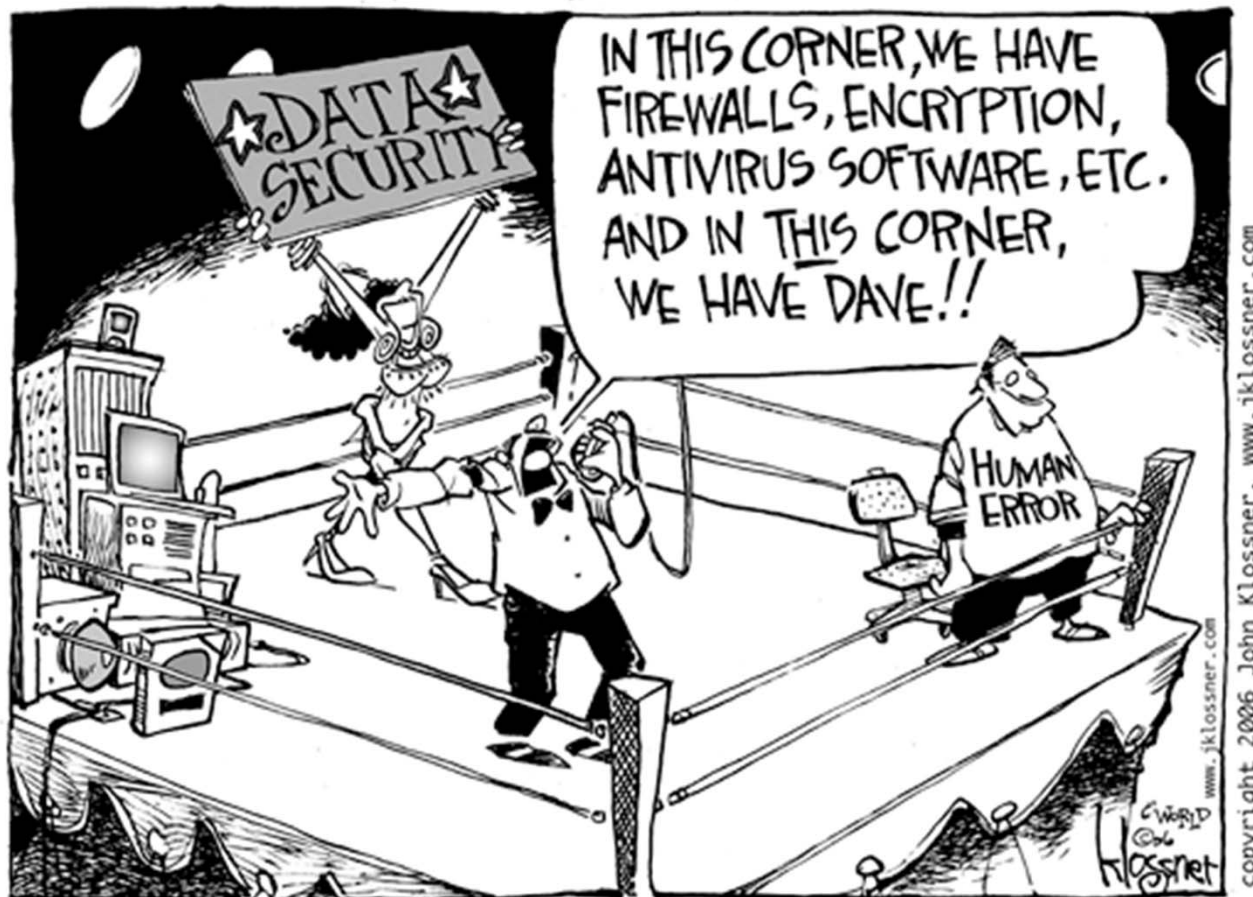
Senior Management expect such Cyber Attack in the next 6 months

64%

Senior Management have not communicated their concerns to the C-Suite level executives



# No matter how good your IT department is...



Who's your Dave?





# Trends Influencing Buying Decisions

- Clients, especially institutional clients, are adding contractual requirements for coverage to be carried by their service providers and professional advisors
- Heightened awareness of breaches, both negligent and accidental; and cyber crime
- Emerging risks associated with social media, smartphone applications and the internet
- Multiple jurisdictions are evolving their privacy legislation and regulations; case law is fluid and new torts are emerging
- Overcoming the objection of “do you have any idea how much I spend a year on IT Security – why should I spend money on insurance too?”



# Evaluating Your Risk: Key Things To Consider

- Nature and extent of third party private / proprietary information held by the Firm and the Firm's content related activities
- Employee data
- Network security and privacy:
  - Governance and accountability
  - Privacy policies and procedures
  - IT Security policies and procedures, including mobile devices
  - Employee training program
  - Incident Response, Disaster Recovery, Business Continuity Plans - are they regularly evaluated and improved?
  - Due diligence surrounding vendor controls and indemnification
- For content:
  - Vetting, Contracts, Use of Outside Counsel
- For both:
  - Commitment to loss control
  - Recognizing both hard and soft costs of a loss



# Preparedness amongst the CLLAS Firms

- Five firms report they have an Incident Response Plan
- Eight firms report they have a formal Information Security Policy
- Some firms have a Mobile Device, Social Media and other components of a comprehensive Information Security Policy
- Some firms may have a Business Continuity and Disaster Recover Plan
- Six firms have offices outside of Canada and may be exposed to local regulatory requirements that are more assertive than Canadian privacy regulations



# Commitment to Risk Management

- Management Committee governance and oversight
- Due diligence in sub-contractor and/or vendor selection and indemnification (when achievable)
- Regular education on network security, privacy and confidentiality exposures for all employees (not just new hires)
- Creation (and ideally annual testing) of an Incident Response Plan
- Business Continuity and Disaster Recovery Plans that contemplate network failure due to unauthorized access



# Traditional Products Versus Cyber Insurance

# Gaps and/or Overlaps in Traditional Coverage



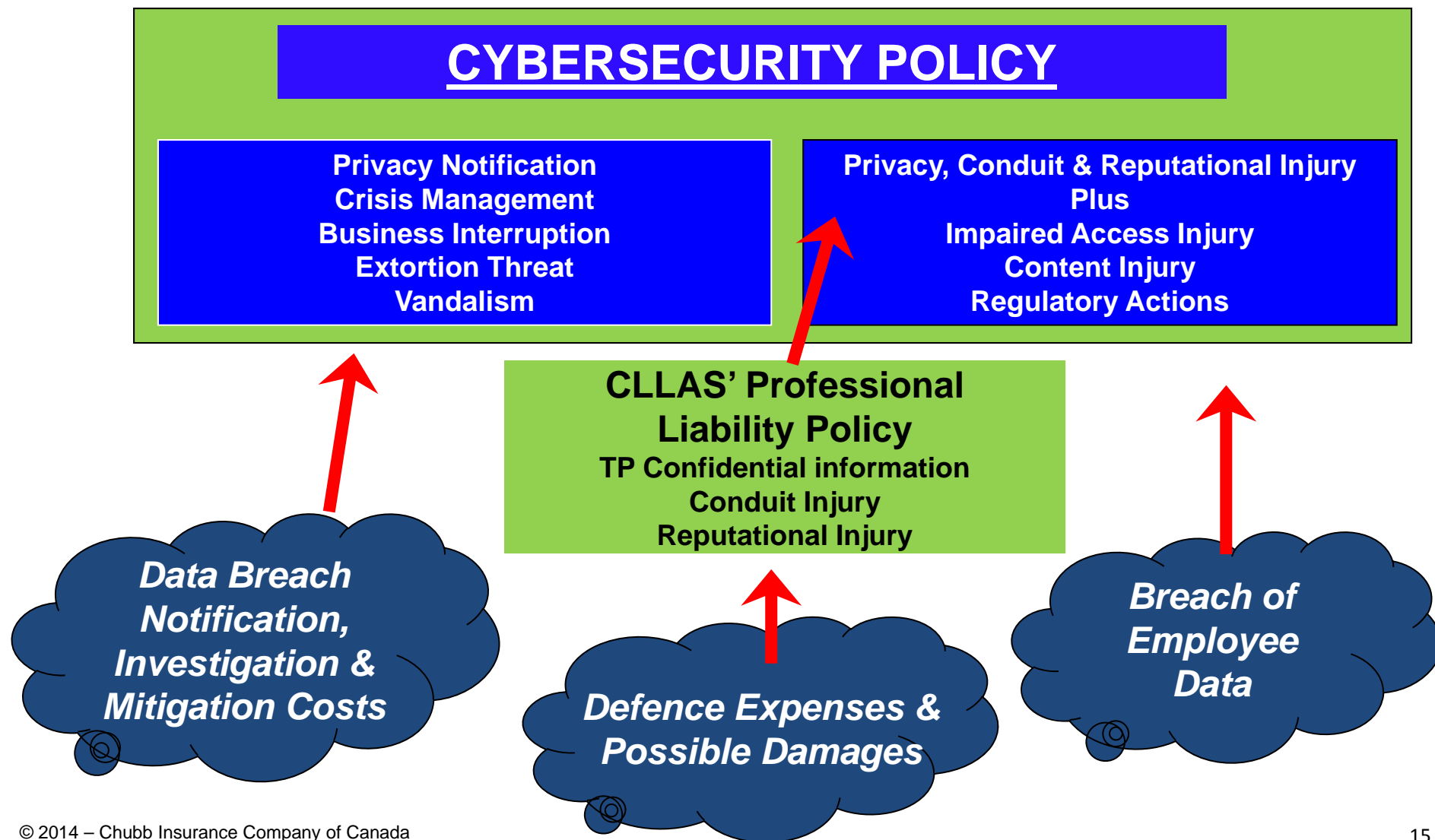
## Gaps

- General Liability
- Business Interruption
- Commercial Crime
- D&O Liability
- Employment Practices Liability
- Fiduciary Liability

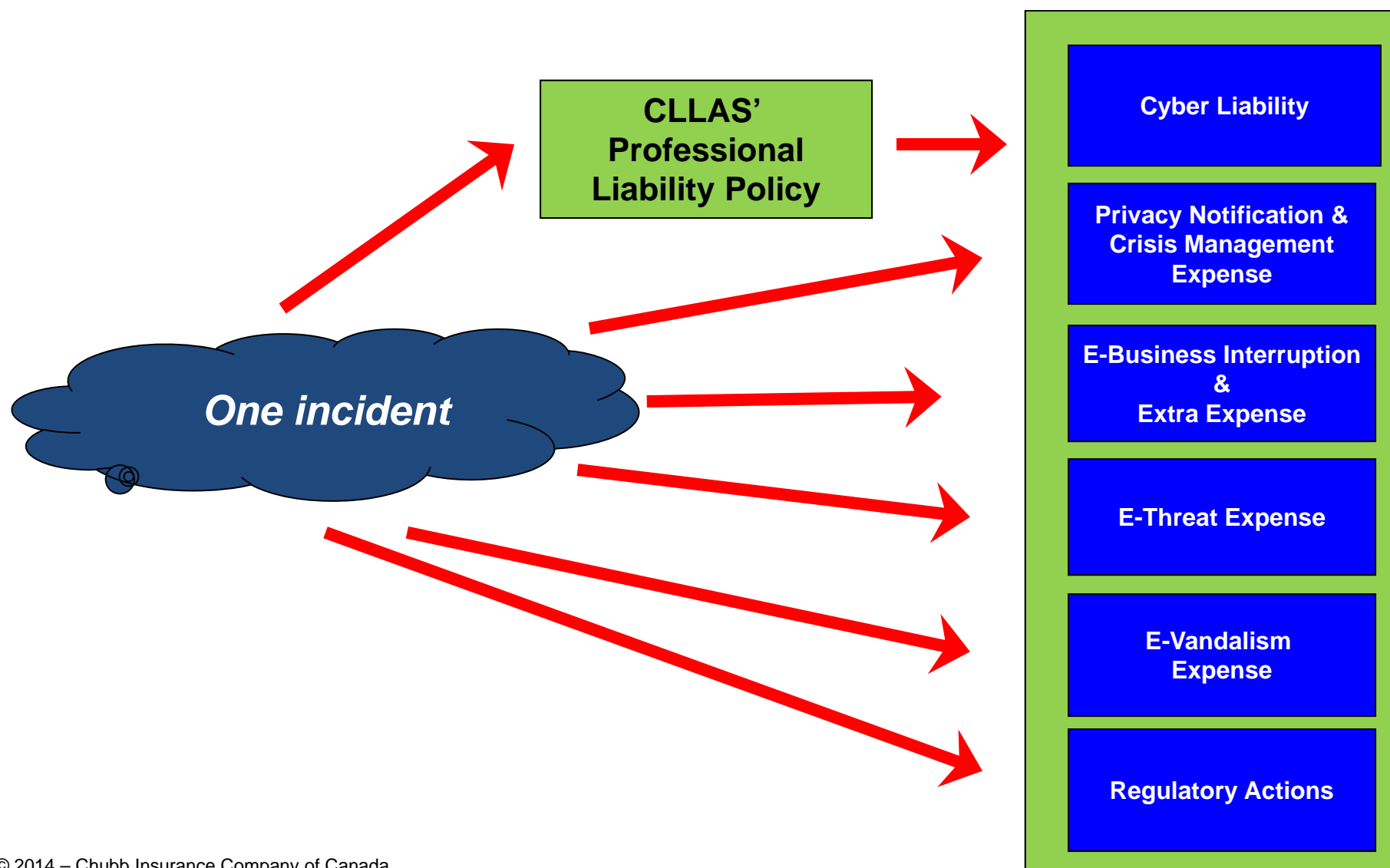
## Gaps and/or Overlaps

- CLLAS' Professional Liability
- Kidnap, Ransom & Extortion Insurance

# Where Your Program May Have Gaps and Overlaps



# CyberSecurity for Law Firms







## Access to Resources – the Chubb Difference

- Chubb e-Risk Hub
- Pre-breach Loss Prevention Consultant Services
- Chubb Vendors at Chubb Rates
- Osgoode Professional Development Webinar Program
- Speaker Panels



# CyberSecurity by Chubb®

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

**QUARTERLY FINANCIAL MANAGEMENT REPORT**

# **CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

## **QUARTERLY FINANCIAL MANAGEMENT REPORT**

**June 30, 2014**

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Exhibit II	Statement of Comprehensive Income
Exhibit III	Statement of Changes in Equity
Exhibit IV	Financial Analysis of Comprehensive Income
Exhibit V	Operating Budget Variance Analysis
Exhibit VI	Alberta Maintenance of Reserve and Guarantee Funds

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2014**

	<b>As at June 30, 2014</b>	<b>As at June 30, 2013</b>
<b>ASSETS</b>		
Cash	1,517,458	4,811,833
Short term investments	9,138,243	13,289,468
Bonds	3,336,211	-
Interest income due and accrued	15,128	-
Premium receivable	19,768	-
Other receivable	-	-
Prepaid expenses	170,430	203,115
Deferred policy acquisition costs	-	-
Unearned reinsurance premium ceded	-	-
Reinsurance recoverable	5,636,003	501,646
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	69,590,000	74,375,000
	<u>89,423,242</u>	<u>93,181,063</u>
<b>LIABILITIES</b>		
Accounts payable & accrued charges	135,342	354,324
Premium taxes payable	-	-
Unearned premium	-	-
Due to reinsurers	-	-
Provision for unpaid claims and adjustment expenses	75,962,000	81,067,000
Premium deficiency liability	-	-
	<u>76,097,342</u>	<u>81,421,324</u>
<b>SUBSCRIBERS' EQUITY</b>		
Surplus	13,291,947	11,772,753
Accumulated Other Comprehensive Income (Loss)	33,953	(13,014)
	<u>13,325,900</u>	<u>11,759,738</u>
	<u>89,423,242</u>	<u>93,181,063</u>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**For the Period Ending June 30, 2014**

	<b>Current Year</b>		<b>Prior Year</b>	
	<b>Quarter June 30, 2014</b>	<b>Year to Date June 30, 2014</b>	<b>Quarter June 30, 2013</b>	<b>Year to Date June 30, 2013</b>
Written Premium	184,471	184,471	-	-
Gross Written Premiums	184,471	184,471	-	-
Less: Reinsurance Ceded	138,932	138,932	-	-
Net Written Premiums	45,539	45,539	-	-
Change in Unearned Premiums	775,197	1,541,876	833,270	1,657,382
Earned Premiums	820,737	1,587,415	833,270	1,657,382
Claims Paid	-	-	-	-
Change in IBNR	(264,000)	383,000	144,000	511,000
Change in Case Reserve	-	-	-	-
Premium Deficiency Expense	-	-	-	-
Incurred Claims	(264,000)	383,000	144,000	511,000
Management and operating expenses	501,705	876,459	507,935	959,369
Reinsurance fees	69,750	139,500	74,250	142,500
Premium taxes	100,898	197,383	73,879	147,759
Total Operating Expenses	672,354	1,213,341	656,065	1,249,628
<b>Underwriting Gain (Loss)</b>	412,383	(8,926)	33,205	(103,246)
Investment Income	46,047	89,188	35,398	66,252
Income on Claim Related Matters	-	-	-	-
Interest Income on Premium Tax	-	-	-	-
<b>NET GAIN/(LOSS)</b>	<b>458,430</b>	<b>80,262</b>	<b>68,603</b>	<b>(36,994)</b>
<b>Other comprehensive income (loss)</b>				
Unrealized gains (losses) on available for sale financial assets arising during the year	19,344	60,180	(5,393)	(3,002)
Recognition of realized (gain) loss included in income	-	-	-	-
Other comprehensive income (loss) for the year	19,344	60,180	(5,393)	(3,002)
<b>Total comprehensive income (loss)</b>	<b>477,774</b>	<b>140,442</b>	<b>63,210</b>	<b>(39,996)</b>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF CHANGES IN EQUITY**  
**June 30, 2014**

	<b>Minimum Surplus</b>	<b>Additional Surplus</b>	<b>Unrealized gains and losses on AFS financial assets</b>	<b>Total Equity</b>
<b>Balance, beginning of year</b>	<b>50,000</b>	<b>13,161,685</b>	<b>(26,227)</b>	<b>13,185,458</b>
Prior year adjustment		-		-
<b>Comprehensive income (loss) for the year</b>				
Net gain (loss) for the year		80,262		80,262
<b>Other comprehensive income (loss)</b>				
Change in unrealized gain on available-for-sale assets			60,180	60,180
Recognition of realized (gain) loss on available-for-sale assets			-	-
<b>Total comprehensive income (loss) for the year</b>		<b>80,262</b>	<b>60,180</b>	<b>140,442</b>
<b>Balance at June 30, 2014</b>	<b>50,000</b>	<b>13,241,947</b>	<b>33,953</b>	<b>13,325,900</b>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS**  
**FOR THE PERIOD ENDED June 30, 2014**

	Annual Budget	Year to Date Budget % Accrued to Date	Year to Date Budget \$	Year to Date Actual \$	Fav/(Unfav) Variance \$
<b>MANAGEMENT SERVICES</b>	624,000	50%	312,000	331,421	(19,421)
<b>PROFESSIONAL SERVICES</b>					
Actuarial Services	100,000	71%	71,000	41,341	29,659
Reinsurance Matters	350,000	71%	248,500	174,653	73,847
Strategic Matters	120,000	71%	85,200	59,767	25,433
Sub-Total Professional Services	570,000		404,700	275,761	128,939
GST/HST on Consulting Fees	155,220		93,171	78,934	14,237
<b>Total Management &amp; Professional Services *</b> (See Note 1)	<b>1,349,220</b>		<b>809,871</b>	<b>686,116</b>	<b>123,755</b>
<b>OTHER EXPENSES</b>					
Audit Expenses	95,000	50%	47,500	43,019	4,481
Annual Dinner	7,000	100%	7,000	6,443	557
Premium Taxes	363,000	50%	181,500	197,383	(15,883)
Chairman's Expenses	2,000	50%	1,000	-	1,000
Chairman's Honourarium	75,000	100%	75,000	75,000	-
Reinsurance Expense	11,000	50%	5,500	10,540	(5,040)
D&O Insurance	13,500	50%	6,750	-	6,750
Office Expenses	27,500	50%	13,750	11,313	2,437
Office Expenses - Website management software license	3,000	50%	1,500	1,745	(245)
Claims: Borderaux (LSUC)	16,000	83%	13,333	13,350	(17)
Special Services	50,000	50%	25,000	-	25,000
Miller Insurance Fees (Reins. Comm.) (See Note 2)	282,000	50%	141,000	139,500	1,500
I.B.C Statistical Plan Fees	10,000	50%	5,000	2,201	2,799
FSCO Assessment Fees	5,000	50%	2,500	-	2,500
Investment counsel fees	34,000	50%	17,000	10,662	6,338
Investment - Custodial	18,000	50%	9,000	8,865	135
Risk Management/Loss Prevention	50,000	50%	25,000	3,704	21,296
License Fee	5,000	70%	3,500	3,500	-
Insurance: Sundry	-		-	-	-
<b>Sub-total</b>	<b>1,067,000</b>		<b>580,833</b>	<b>527,225</b>	<b>53,608</b>
<b>TOTAL</b>	<b>2,416,220</b>		<b>1,390,704</b>	<b>1,213,341</b>	<b>177,363</b>

**\* NOTE 1: PROFESSIONAL SERVICES - SEASONALLY WEIGHTED BUDGET**

This is based upon an analysis of the current budget and previous years' experience, the anticipated pattern of seasonal workflow is as follows:

First Quarter, ending March 31st	25%
Second Quarter, ending June 30th	46%
Third Quarter, ending September 30th	14%
Fourth Quarter, ending December 31st	15%
	<u>100%</u>

**\* NOTE 2: MILLER INSURANCE FEES (Reins. Comm.)**

The annual budget is based upon the annual fee estimated for the policy period 2013/2014.



**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**FINANCIAL ANALYSIS OF COMPREHENSIVE INCOME**  
**For the Period Ending June 30, 2014**

	<b>Year to Date June 30, 2014</b>			<b>Annual 2014</b>
	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>	<b>Budget</b>
Written Premium	184,471	-	(184,471)	14,660,000
Gross Written Premiums	184,471	-	(184,471)	14,660,000
Less: Reinsurance Ceded	138,932	-	(138,932)	11,350,000
Net Written Premiums	45,539	-	(45,539)	3,310,000
Change in Unearned Premiums	-	-	-	(108,000)
Earned Premiums	1,587,415	1,600,999	13,584	3,202,000
Claims Paid	-	35,000	35,000	70,000
Change in IBNR	383,000	345,500	(37,500)	691,000
Change in Case Reserve	-	-	-	-
Premium Deficiency Expense	-	-	-	-
Incurred Claims	383,000	380,500	(2,500)	761,000
Management and operating expenses	876,459	932,943	56,485	1,771,220
Reinsurance fees	139,500	141,000	1,500	282,000
Premium taxes	197,383	181,500	(15,883)	363,000
Total Operating Expenses	1,213,341	1,255,443	42,102	2,416,220
<b>Underwriting Gain (Loss)</b>	(8,926)	(34,944)	(26,018)	24,780
Investment Income	89,188	273,500	184,312	547,000
Income on Claim Related Matters	-	-	-	-
Interest Income on Premium Tax	-	-	-	-
<b>NET GAIN/(LOSS)</b>	<u>80,262</u>	<u>238,556</u>	<u>158,294</u>	<u>571,780</u>
<b>Other comprehensive income (loss)</b>				
Unrealized gains (losses) on available for sale financial assets arising during the year	60,180	-	-	-
Recognition of realized (gain) loss included in income	-	-	-	-
Other comprehensive income (loss) for the year	60,180	-	-	-
<b>Total comprehensive income (loss)</b>	<u>140,442</u>	<u>238,556</u>	<u>158,294</u>	<u>571,780</u>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**For the Period Ending June 30, 2014**

**ALBERTA MAINTENANCE OF RESERVE AND GUARANTEE FUNDS**  
 (Section 99 and 100)

	Current Year to Date 6/30/2014 (in \$000's)	Prior Year End 12/31/2013 (in \$000's)
<b><u>Reserve Fund</u></b>		
Premiums collected or credited having one year or less to run	(1) 184	13,770
Less: Amount paid to licensed reinsurers	(2) 139	10,548
Premiums collected with more than one year to run, less expired portion	(3) 0	0
Less: Amount paid to reinsurers on premiums on line 3, less expired portion.	(4) 0	0
Subtotal (lines 1, minus line 2, plus line 3, minus line 4)	(5) 45	3,222
Reserve Fund Required (50% of Line 5)	(6) 23	1,611
<b><u>Guarantee Fund</u></b>		
Total Liabilities	(7) 76,097	81,852
Less: Unearned Premiums	(8) -	6,834
Less: Recoverable from licensed reinsurers	(9) 68,814	66,613
Plus: Statutory Margin	(10) 50	50
Guarantee Fund Required (Line 7 minus Lines 8 and 9 plus line 10)	(11) 7,333	8,455
<b>TOTAL RESERVE &amp; GUARANTEE FUND REQUIRED (Line 6+11)</b>	(12) 7,356	10,066
Cash & Approved Securities	(13) 13,991	17,663
Excess of Cash & Securities over Reserve & Guarantee Fund (line 13 minus line 12)	(14) 6,636	7,597



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**P R I V A T E   &   C O N F I D E N T I A L**  
**M E M O R A N D U M**

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**Date:** September 2, 2014

**To:** David Morritt  
William Scott  
Donald Milner  
Gordon Goodman  
Ken Crofoot  
Nicholas Leblovic

Barry Bresner  
Daniel MacDonald  
John Esvelt  
Julia Holland  
Michael Swartz

**Copy:** Patrick Mahoney

**From:** Joe Tontini and Ryan Durrell

**Re:** **Final Report on the CLLAS Renewal – July 1, 2014/2015**

The purpose of this report is to provide the CLLAS Board with a final summary of the renewal highlights, including the rating and reinsurance placement for July 1, 2014/2015. For ease of reference, we have attached the following exhibits:

- A. CLLAS Limit Structure
- B. Reinsurance and Colchester Retrocession Structure Overview
- C. Current Rate Structure and Participation by Reinsurer – Proportional and Aggregate Stop-Loss Reinsurance
- D. Current Rate Structure and Participation by Retrocessionaire – Proportional and Aggregate Stop-Loss Retrocession
- E. Aggregate Stop-loss Reinsurance Structure (Historical)

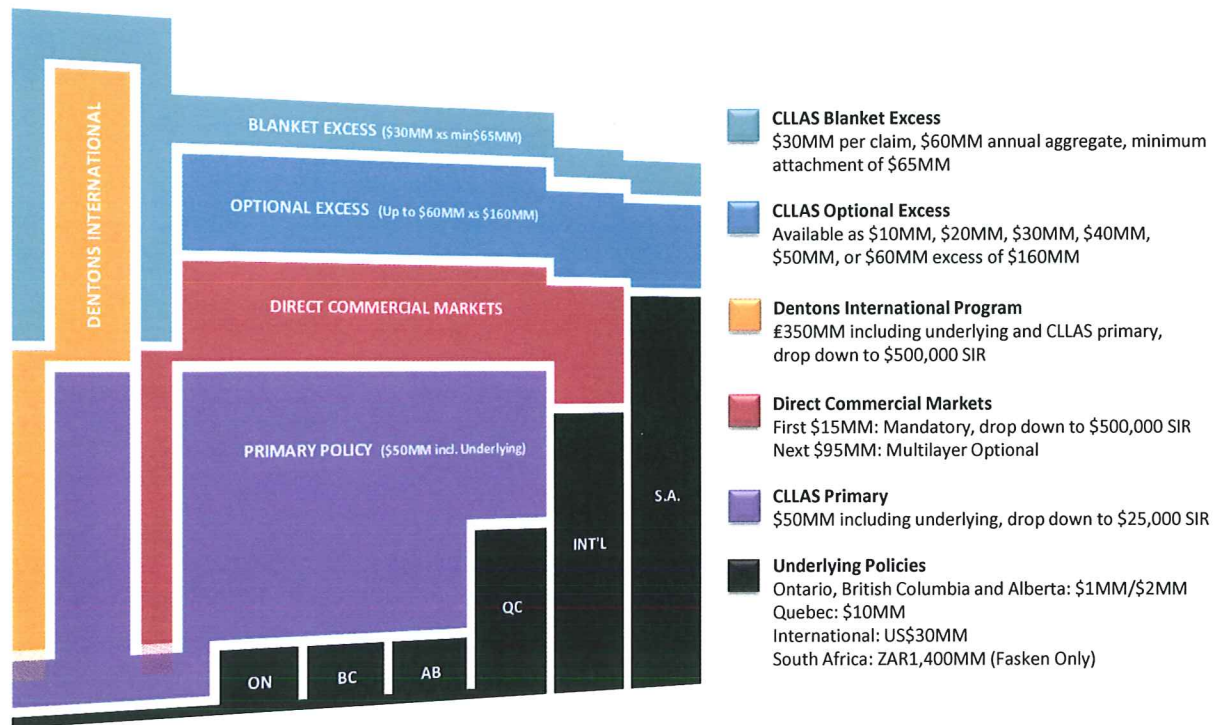
**Highlights**

The following are highlights of the renewal:

- As indicated in our report to the Board in June, the main objectives for the July 1, 2014/2015 renewal were to:
  - ✓ Maintain and enhance existing reinsurer relationships;
  - ✓ Attract new markets;
  - ✓ Reduce Colchester's participation;
  - ✓ Reduce overall reinsurance costs along with possible reduction in insurance rates for CLLAS members;
  - ✓ Continue to evaluate ability to distribute surplus to members through premium credits.

We are very pleased to say that we were able to meet all the objectives.

- The CLLAS insurance structure as of July 1, 2014 remains unchanged and is depicted below. Please also see Exhibit A.



- The rates that CLLAS charged its members were lowered by 9.8%, 5.5% and 5.5% on the Primary, Optional Excess and Umbrella Policies, respectively.
- CLLAS members have realized overall savings of approximately \$1,290,000, or roughly \$305 per lawyer, over the previous year's rates. Savings were primarily the result of a reduction in reinsurance costs (5% across all placements) and a return of surplus from CLLAS of \$500,000. However, a combination of a reduction in administrative costs and the improved spread of costs due to the increased overall lawyer count, also contributed to the overall savings.
- Tail coverage is provided to former Heenan Blaikie LLP ("HB") lawyers on all CLLAS policies. Coverage is added by endorsement with premium charged only on the Primary Policy.
- There are minor changes to the policy wordings at renewal. Please see the "Policy Wording Changes" section below.
- The CLLAS reinsurance structure and retentions at renewal were mostly unchanged from last year and are described below:

- a) Primary Policy Reinsurance (Layer 1): \$49,000,000 excess of \$1,000,000 (\$40,000,000 excess of \$10,000,000 for Quebec lawyers) – 100% reinsured.
- 80% of this layer is proportionally reinsured with Lloyd's and other reinsurers (an increase of 10%).
  - 20% is reinsured with Colchester (a decrease of 10%). Colchester's involvement is then layered and retroceded to various markets. A portion of Colchester's participation which is not transferred to other markets is retained by Colchester – see Exhibit B.
  - CLLAS retains the entire drop down exposure below \$1,000,000.

Due to Colchester's reduced participation this year, the combined CLLAS/Colchester maximum single loss retention is reduced to \$1,775,000 (down from \$2,675,000 last year).

- b) Optional Excess Policy Reinsurance (Layer 2): Between \$10,000,000 and \$60,000,000 excess of \$160,000,000 – 100% reinsured.
- c) Umbrella Policy Reinsurance (Layer 3): \$30,000,000/\$60,000,000 excess of \$65,000,000 (minimum) – 100% reinsured.
- d) Aggregate Stop Loss Reinsurance: \$10,000,000 aggregate excess of \$5,000,000 aggregate – 100% reinsured by Colchester.
- e) Loss Portfolio Transfer Reinsurance: \$39,420,000 claims reserves and IBNR as at June 30, 2012 – 100% reinsured by Colchester.
- The reinsurance rates were reduced by 5% across the board.
- On the London market front, all the Lloyd's syndicates have renewed. Domestically, we have added Catlin Canada Inc. to the Program. More details can be found in the "Reinsurance Overview" section below.
- The lead underwriter's (Argo) participation was reduced slightly to 29.01% down from 30%.
- Reinsurers' security ratings remain strong. Nevertheless, CLLAS maintains a rigorous security monitoring process which the Audit Committee continues to oversee.

**CLLAS Primary Policy (Reinsurance Layer 1)**  
**\$50MM per Claim and in the Annual Aggregate**

The Primary Policy provides coverage per firm of \$50MM per claim and in the annual aggregate, including any underlying coverage provided by the respective law society and/or other mandatory insurance and/or any other insurance arranged on behalf of the firm. In Quebec, the Primary Policy is excess of the Quebec mandatory limit of \$10MM. If there is no underlying insurance, then CLLAS would provide \$49.975MM of coverage excess of \$25,000 deductible. CLLAS retains 100% of the drop down exposure of up to \$975,000.

CLLAS members were charged \$3,045 per lawyer (\$1,425 per Quebec lawyer) and \$761 per patent & trademark agent to cover the expected loss costs, administration costs and premium taxes related to the CLLAS drop down retention. Compared to last year, the rates were reduced by 9.8%.

Reinsurance Limit: \$49MM aggregate per firm excess of \$1MM aggregate per lawyer

CLLAS Retention: Nil other than 100% of the drop down exposure of up to \$975,000

Reinsurance Rates: \$2,400 per lawyer (\$1,150 per Quebec lawyer)/\$600 per P&T agent  
The reinsurance rates were reduced by 5%.

\$850 per former HB lawyer (\$408 per lawyer in Quebec) for tail coverage

**CLLAS Optional Excess Policy (Reinsurance Layer 2)**  
**Between \$10MM and \$60MM Aggregate xs \$160MM Aggregate**

Firms have the option of purchasing limits between \$10MM and \$60MM in increments of \$10MM. One firm purchased the limit of \$40MM while eight others purchased the maximum limit of \$60MM. Two firms did not purchase this policy.

CLLAS charged its members \$176 per lawyer and \$44 per patent & trademark agent for policies with limit of \$40MM. For policies with limit of \$60MM, CLLAS charged \$240 per lawyer and \$60 per patent & trademark agent. The rates were reduced by 5.5%.

Reinsurance Limit: Between \$10MM and \$60MM (in increments of \$10MM) aggregate per firm excess of \$110MM aggregate per firm excess of the CLLAS Primary Policy

CLLAS Retention: Nil

Reinsurance Rates: \$58 per lawyer/\$15 per P&T agent for limit of \$10MM  
\$102 per lawyer/\$26 per P&T agent for limit of \$20MM  
\$131 per lawyer/\$33 per P&T agent for limit of \$30MM  
\$160 per lawyer/\$40 per P&T agent for limit of \$40MM  
\$189 per lawyer/\$47 per P&T agent for limit of \$50MM  
\$219 per lawyer/\$55 per P&T agent for limit of \$60MM  
The above reinsurance rates were reduced by 5%.

**CLLAS Umbrella Policy (Reinsurance Layer 3)**  
**\$30MM per Claim/\$60MM Aggregate All Firms Combined xs Minimum of \$65MM per Firm**

This policy is shared by all CLLAS firms.

CLLAS charged its members \$120 per lawyer and \$30 per patent & trademark agent. The rates were reduced by 5.5%.

Reinsurance Limit: \$30MM per claim/\$60MM aggregate all firms combined excess of a minimum of \$65MM per firm

CLLAS Retention: Nil

Reinsurance Rates: \$109 per lawyer/\$27 per P&T agent  
The rates were reduced by 5%.

*Note: For all CLLAS policies, certain non-lawyer consultants, depending on risk, are charged the lawyer rate or the patent & trademark agent rate, as appropriate.*

### **Reinsurance Overview**

The following table compares the 2014/2015 reinsurance allocation to those of 2013/2014:

	<b>London</b>		<b>Domestic</b>		<b>Colchester</b>	
	<b>2014/2015</b>	<b>2013/2014</b>	<b>2014/2015</b>	<b>2013/2014</b>	<b>2014/2015</b>	<b>2013/2014</b>
Reinsurance Layer 1	76%	67%	4%	3%	20%	30%
Reinsurance Layer 2	30%	33%	70%	67%	Nil	Nil
Reinsurance Layer 3	44%	49%	56%	51%	Nil	Nil

*Note: One Bermuda reinsurer is included under "Domestic".*

We were able to introduce Catlin Canada Inc. to the domestic market which provides extra security in the event other markets non-renew in the future. All the incumbent Lloyd's syndicates renewed – some with increased participations while the Argo Syndicate's participation as Lead on Layer 1 has been reduced from 30% to 29.01%.

Upon our suggestion, Allied World, who had previously provided non-renewal notice when they were a major reinsurer on Layer 2 (Optional Excess), have reduced their participation in Layer 2 and assumed a portion of Reinsurance Layer 3 (Umbrella) since last year. They seem to be quite content with this arrangement and have renewed this year with the same participation.

We worked with Partner Re this year to bring them onto the program, but they were unable to support our terms. They felt that the loss costs were significantly higher than what the premium could support. We also approached SCOR Re to see if they were interested in returning to the Program. Unfortunately, they were not prepared to consider rejoining at this time.

Please refer to Exhibits C and D for more details on the participating reinsurers and their percentages.

### **Reinsurance Security**

CLLAS has a number of reinsurers participating in the various layers of reinsurance and on the aggregate stop-loss and loss portfolio transfer protections. CLLAS is notably reliant on the following reinsurers:

- **Lloyd's** has a significant participation in all layers of coverage and also participates in Colchester's retrocession protection. The Argo Syndicate at Lloyd's leads Reinsurance Layer 1 and is the most exposed among the Lloyd's syndicates with 29.01% of Reinsurance Layer 1. Lloyd's is A rated by Best and A+ rated by S&P.
- **Swiss Re/Westport** has a significant participation in Reinsurance Layers 2 and 3 and also participates in the Colchester retrocession protection. Swiss Re is A+ rated by Best and AA- rated by S&P.
- **Colchester** has a significant participation in Reinsurance Layer 1 and also provides CLLAS with aggregate stop-loss and loss portfolio transfer protections. Colchester is not registered in Canada and is not rated by the rating agencies, however CLLAS is protected through a Reinsurance Security Agreement with Colchester.

Catlin Canada Inc., who is new to the Program, is rated A by both Best and S&P.

A full reinsurance security review is due to be completed by the audit committee on September 26, 2014.

### **Aggregate Stop-Loss Protection and Retrocession Protection**

Colchester provides the following aggregate stop-loss protection in 2014/15 (see Exhibits C and E):

Limit: \$10,000,000 in the annual aggregate excess of \$5,000,000 in the annual aggregate in respect of CLLAS' retained losses in the drop down below \$1,000,000

Rate: \$22.8 per lawyer/\$5.70 per P&T agent

In turn, Colchester purchases aggregate retrocession coverage as follows:

Limit: \$15,000,000 excess of \$2,500,000 for losses in respect of proportional and aggregate reinsurances provided to CLLAS net of other proportional retrocession protection purchased

### **Changes to Reinsurance Contracts**

There are no changes to the reinsurance contracts. An endorsement is attached to each contract to provide tail coverage to former HB lawyers.

### **Reinsurance Guidelines**

Since CLLAS is regulated by the Alberta Superintendent of Insurance ("SOI"), it is no longer bound by the FSCO guidelines of maximum 75% total reinsurance and maximum 25% unregistered reinsurance. The Alberta SOI instead takes a risk-based approach to reinsurance and recognizes CLLAS' annual reinsurance security review, the implementation of the CLLAS-Colchester Reinsurance Security Agreement, and CLLAS' reinsurance reserving margin on ceded liabilities.

### **Policy Wording Changes**

The following changes have been made at renewal:

#### *Primary Policy*

- a. Deletion of the word "personal" from the terms "personal fines and penalties" and "personal fines or penalties" under the definitions of "Costs, Charges and Expenses" and "Damage(s)" respectively.
- b. The Foreign Claims Endorsement has been incorporated into the "General Provisions" section of the policy wording.

#### *Optional Excess & Umbrella Policies*

An endorsement has been added to recognize the possibility of drop down resulting from the exhaustion of the underlying limits due to claims relating to former HB lawyers.

#### *All Policies*

We have incorporated the changes recommended by the Alberta regulator as far as possible. None of them modify coverage in any way. They merely ensure that the policies are in compliance with the most recent amendments to the Insurance Act(s).

The policies are currently being prepared and will be distributed shortly.



### **Group Cyber Coverage Program**

Axxima has negotiated a group purchasing program with Chubb which not only ensures that the existing cyber liability coverage relating to professional risks provided by the CLLAS policy is recognized through a sizable discount but also provides CLLAS members with a significant discount on the remainder of the cyber risks that the firms may face.

A detailed proposal has been sent to each firm. The Chubb underwriter, Matthew Davies, will meet with the CLLAS Board at the September Board meeting to answer any specific questions that Board members might have.

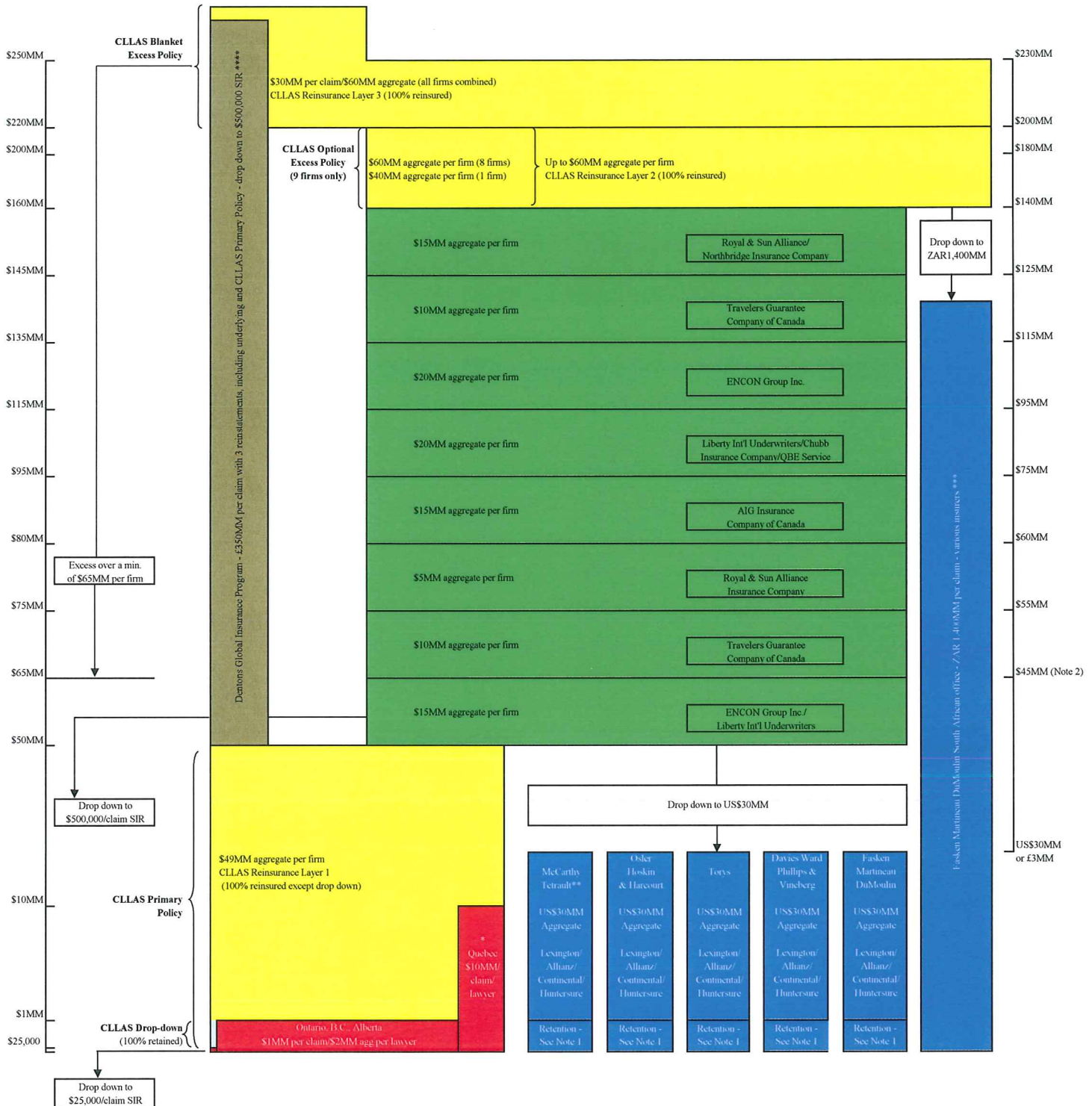
### **Concluding Remarks**

The above summarizes the insurance and reinsurance programs that have been put in place for the July 1, 2014/2015 policy year. The reduced premiums per lawyer is a reflection of the excellent reputation that CLLAS has in the marketplace. CLLAS continues to take advantage of a relatively soft insurance market by retaining less risk and transferring more risk. It does so in a responsible manner through appropriate spread of risk and being mindful of the key underwriters and their respective participations on the various placements and by making sure that the long-standing and reliable underwriters continue to participate in some meaningful way.

# CLLAS LIMIT STRUCTURE JULY 1, 2014 - JULY 1, 2015

## Canadian Exposures

## Foreign Exposures



Note: All limits are expressed in Canadian currency unless otherwise specified.

\* The CLLAS Primary Policy is excess of \$10MM/claim/lawyer in Quebec.

\*\* The policy runs from September 30 to September 30.

\*\*\* The policies run from February 1 to February 1.

\*\*\*\* The policies run from May 1 to May 1.

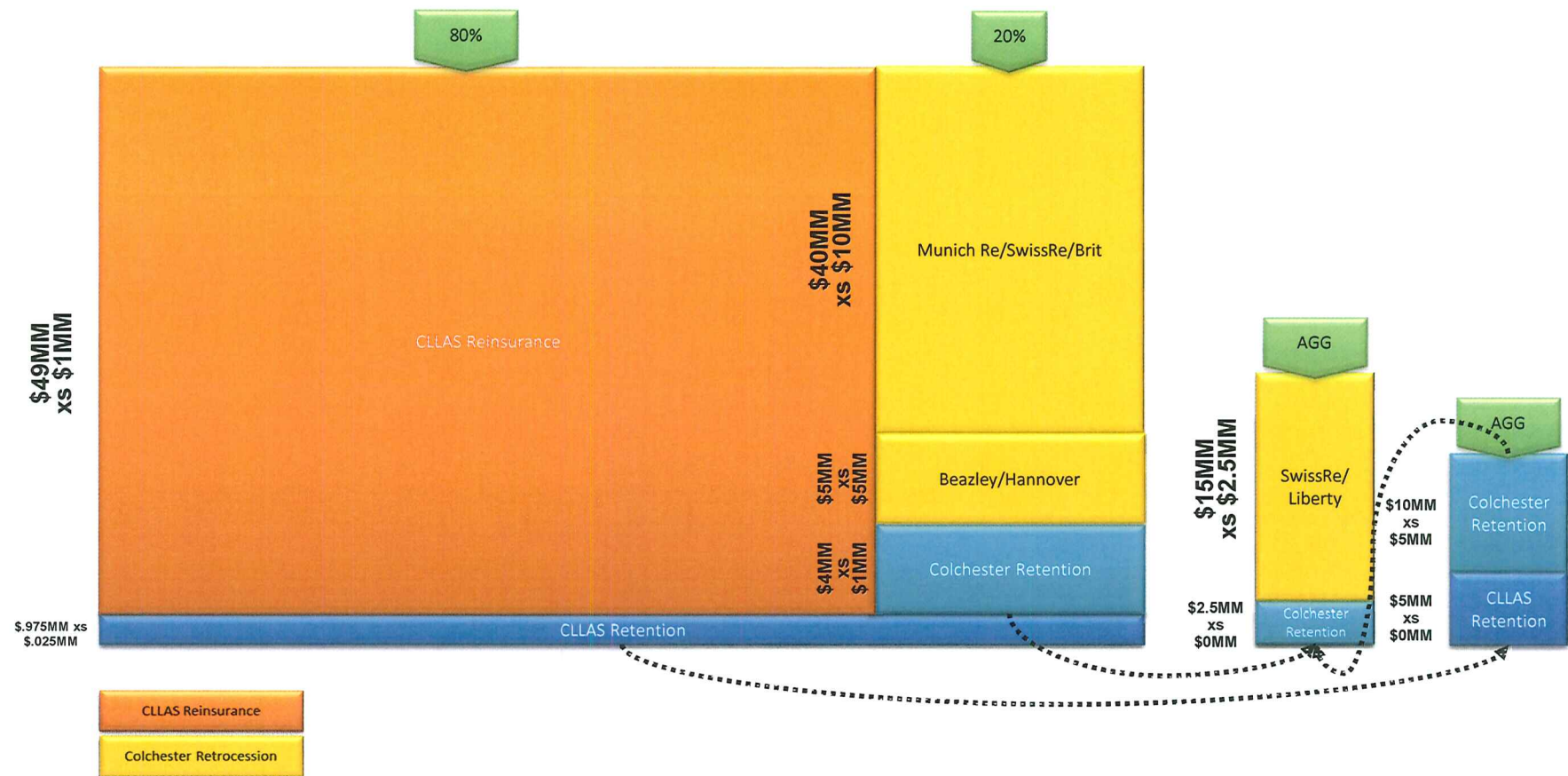
Note 1: Retentions based on locations of the risk as follows:

U.S. - US\$100,000 (US\$50,000 for McCarthy Tetrault); U.K. - US\$75,000 for McCarthy Tetrault, US\$350,000 for Fasken; elsewhere in the world - US\$50,000

Patent & Trademark work for McCarthy Tetrault only - US\$50,000 worldwide.

Note 2: Assume underlying limit of US\$30MM equivalent to \$30MM.

### Reinsurance and Retrocession Structure Overview (2014-2015)

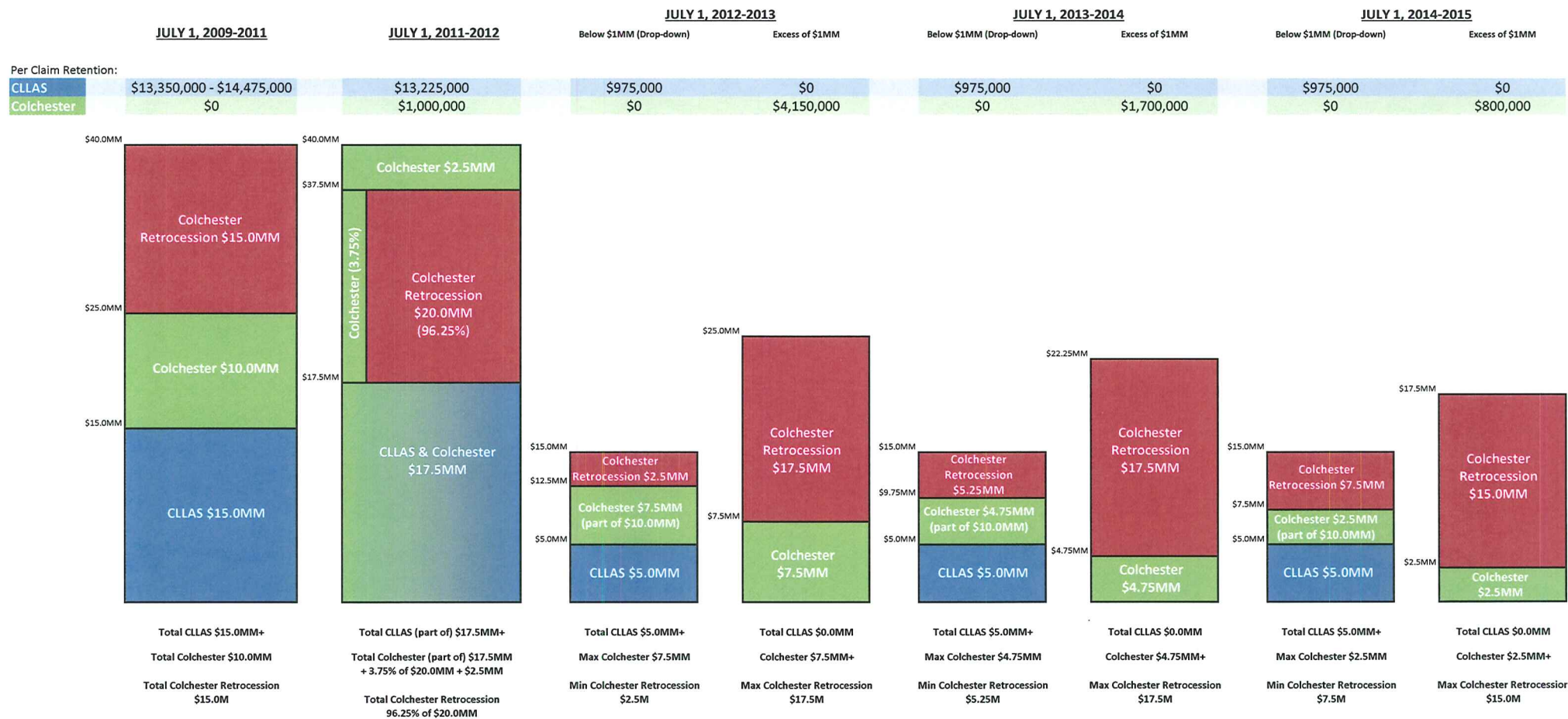
EXHIBIT B

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY (CLLAS)				2014-2015 REINSURANCE CASH FLOW/PAYMENT SCHEDULE - INFORMATION AS AT JULY 1, 2014 \1																						Exhibit C	
		LAYER 1 \$49MM XS \$1MM		LAYER 2 UP TO \$60MM XS \$160MM												LAYER 3 \$30/60MM XS MIN \$65MM		HEENAN BLAIKIE RUN-OFF COVER									
REINSURERS		SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	DUE JUL.15, 2014 \2	DUE SEP. 1, 2014 \3	DUE OCT. 1, 2014 \3	DUE JAN.1, 2015 \4	DUE APR. 1, 2015 \3	GRAND TOTAL		
TOTAL PROPORTIONAL		100.00%	\$9,002,175	100.00%	\$0	100.00%	\$0	100.00%	\$0	100.00%	\$116,840	100.00%	\$0	100.00%	\$660,620	100.00%	\$477,542	100.00%	\$96,103						\$10,353,279.72		
CLLAS PROPORTIONAL RETENTION		0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0						\$0		
PROPORTIONAL REINSURERS																											
Woyd's		69.00%	\$6,211,501	30.00%	\$0	30.00%	\$0	30.00%	\$0	30.00%	\$35,051	30.00%	\$0	30.00%	\$198,187	44.00%	\$210,119	69.00%	\$66,311		\$1,680,292	\$1,680,292	\$1,680,292	\$1,680,292	\$6,721,169		
A.G. Dore & Others - AGD 2526		11.20%	\$1,008,244	1.41%	\$0	1.41%	\$0	1.41%	\$0	1.41%	\$1,647	1.41%	\$0	1.41%	\$9,315			11.20%	\$10,764								
Amlin - AML 2001		9.25%	\$832,701															9.25%	\$8,890								
Antares - AUL 1274		6.51%	\$586,042															6.51%	\$6,256								
Argo - AMA 1200		29.01%	\$2,611,531															29.01%	\$27,879								
Barbican - BAR 1955				1.76%	\$0	1.76%	\$0	1.76%	\$0	1.76%	\$2,056	1.76%	\$0	1.76%	\$11,627	1.34%	\$6,399										
Beazley - AFB 2623																1.75%	\$8,357										
Brit - BRT 2987				10.10%	\$0	10.10%	\$0	10.10%	\$0	10.10%	\$11,801	10.10%	\$0	10.10%	\$66,723	23.00%	\$109,835										
Catlin - SJC 2003																2.29%	\$10,936										
Faraday - FDY 435				1.76%	\$0	1.76%	\$0	1.76%	\$0	1.76%	\$2,056	1.76%	\$0	1.76%	\$11,627	3.01%	\$14,374										
Markel - MKL 3000				6.69%	\$0	6.69%	\$0	6.69%	\$0	6.69%	\$7,817	6.69%	\$0	6.69%	\$44,195	5.83%	\$27,841										
Pembroke - PEM 4000				3.03%	\$0	3.03%	\$0	3.03%	\$0	3.03%	\$3,540	3.03%	\$0	3.03%	\$20,017	2.26%	\$10,792										
Pioneer - PPI 9969		13.03%	\$1,172,983															13.03%	\$12,522								
Saglor - SAL 1206				5.25%	\$0	5.25%	\$0	5.25%	\$0	5.25%	\$6,134	5.25%	\$0	5.25%	\$34,683	4.52%	\$21,585										
London Companies		7.00%	\$630,152	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	7.00%	\$6,727	\$318,440			\$318,440		\$636,879		
Allianz Global Risks		7.00%	\$630,152															7.00%	\$6,727	\$318,440			\$318,440		\$636,879		
Total London Market		76.00%	\$6,841,653	30.00%	\$0	30.00%	\$0	30.00%	\$0	30.00%	\$35,051	30.00%	\$0	30.00%	\$198,187	44.00%	\$210,119	76.00%	\$73,038	\$318,440	\$1,680,292	\$1,680,292	\$1,998,732	\$1,680,292	\$7,358,048		
Payable to Miller																				\$0	\$1,680,292	\$1,680,292	\$1,680,292	\$1,680,292	\$6,721,169		
Canadian Companies		24.00%	\$2,160,522	70.00%	\$0	70.00%	\$0	70.00%	\$0	70.00%	\$81,788	70.00%	\$0	70.00%	\$462,434	56.00%	\$267,424	24.00%	\$23,065	\$1,497,617			\$1,497,617		\$2,995,233		
Arch Insurance Canada Ltd.				5.00%	\$0	5.00%	\$0	5.00%	\$0	5.00%	\$5,842	5.00%	\$0	5.00%	\$33,031					\$19,437			\$19,437		\$38,873		
Allied World (not Can. Lic.)				7.00%	\$0	7.00%	\$0	7.00%	\$0	7.00%	\$8,179	7.00%	\$0	7.00%	\$46,243	12.00%	\$57,305			\$55,864			\$55,864		\$111,727		
AXIS Re		4.00%	\$360,087	5.00%	\$0	5.00%	\$0	5.00%	\$0	5.00%	\$5,842	5.00%	\$0	5.00%	\$33,031			4.00%	\$3,844	\$201,402			\$201,402		\$402,804		
Catlin Canada Inc.				5.00%	\$0	5.00%	\$0	5.00%	\$0	5.00%	\$5,842	5.00%	\$0	5.00%	\$33,031	5.00%	\$23,877			\$31,375			\$31,375		\$62,750		
Calchester (not Can. Lic.)		20.00%	\$1,800,435															20.00%	\$19,221	\$909,828			\$909,828		\$1,819,656		
HDI-Gerling Industrial Insurance Company				10.00%	\$0	10.00%	\$0	10.00%	\$0	10.00%	\$11,684	10.00%	\$0	10.00%	\$66,062	4.00%	\$19,102			\$48,424			\$48,424		\$96,848		
Royal & Sun Alliance Insurance Co. of Canada				8.00%	\$0	8.00%	\$0	8.00%	\$0	8.00%	\$9,347	8.00%	\$0	8.00%	\$52,850					\$31,099			\$31,099		\$62,197		
Westport Insurance Corporation				30.00%	\$0	30.00%	\$0	30.00%	\$0	30.00%	\$35,052	30.00%	\$0	30.00%	\$198,186	35.00%	\$167,140			\$200,189			\$200,189		\$400,378		
TOTAL PROPORTIONAL REINSURERS		100.00%	\$9,002,175	100.00%	\$0	100.00%	\$0	100.00%	\$0	100.00%	\$116,839	100.00%	\$0	100.00%	\$660,621	100.00%	\$477,543	100.00%	\$96,103	\$1,816,056	\$1,680,292	\$1,680,292	\$3,496,348	\$1,680,292	\$10,353,281		
AGGREGATE STOP-LOSS REINSURERS																											
Calchester																				\$47,347			\$47,347		\$94,694		
TOTAL REINSURANCE COST																				\$1,863,403	\$1,680,292	\$1,680,292	\$3,543,695	\$1,680,292	\$10,447,975		
PROPORTIONAL REINSURANCE																											
Rate per Lawyer		\$2,400.00		\$58.00		\$102.00		\$131.00		\$160.00		\$189.00		\$219.00		\$109.00		\$850.08							AGGREGATE		
Rate per Quebec Lawyer		\$1,150.00		n/a		n/a		n/a		n/a		n/a		n/a		n/a		\$408.24							\$22.80		
Total # Lawyers other than Quebec at 6/15/14		3354.5		0		0		0		0		0		0		3007		4355		90					n/a		
Total # Quebec Lawyers at 6/15/14		772.5		0		0		0		0		0		0		0		0		48					3,354.5		
Total # Lawyers practising foreign law at 6/15/14		0		0		0		0		0		0		0		0		0		0					773		
Total # NLC at Lawyer Rate at 6/15/14 \5		12		0		0		0		0		0		0		3		12		0					0		
Rate per P&T Agent \6		\$600.00		\$15.00		\$26.00		\$33.00		\$40.00		\$47.00		\$55.00		\$27.00		N/A							12		
Total # P&T Agents at 6/15/14		42		0		0		0		0		0		0		0		0		0					\$5.70		
Total # NLC at P&T Rate at 6/15/14		15		0		0		0		0		0		0		5		0		0					15		
NLC = Non-lawyer Consultant																											
NOTES: \1 This is an information document, not an accounting ledger.																											
\2 Semi-annual instalment for Canadian Companies.																											
\3 Quarterly instalment for Miller. Fund should be sent to Miller, through ARS as Miller's broker, with about 2 weeks lead time.																											
\4 Semi-annual instalment for Canadian Companies and quarterly instalment for Miller. Fund should be sent to Miller, through ARS as Miller's broker, with about 2 weeks lead time.																											
\5 The rate for NLC in all provinces is the same as the rate for lawyers in provinces other than Quebec.																											
\6 Applicable in all provinces.																											





## Aggregate Stop-loss Reinsurance Structure (Historical)





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P R I V A T E   &   C O N F I D E N T I A L  
M E M O R A N D U M

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**To:**      CLLAS Advisory Board

**From:**   Patrick Mahoney

**Re:**      CLLAS Risk Appetite Framework

**Date:**    June 16, 2014

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**Background**

In March 2013, the Alberta Superintendent of Insurance (“Superintendent”) adopted the Office of the Superintendent of Financial Institutions’ (“OSFI”) guidelines. These are solvency, governance and other supervisory guidelines which were historically only applicable to federally-regulated insurance companies. The Superintendent has advised that it has flexibility and discretion in the application of these guidelines for reciprocals.

The adoption of these guidelines will involve the review or development and implementation of several governance policies, including Enterprise Risk Management, Equity Management, Investment, Outsourcing and Reinsurance Risk Management policies. In addition, CLLAS will need to develop an Own Risk and Solvency Assessment (“ORSA”), which is a qualitative and quantitative assessment of material risks and capital adequacy to support those risks under normal and stressed conditions. One important element of ORSA is developing an internal capital target based on its own risk appetite and risk profile, instead of through standard formulas such as the Minimum Capital Test (“MCT”).

The foundation for the ORSA and most governance policies is the definition of the entity’s risk appetite. Defining the risk appetite involves developing a high level direction for the amounts and types of risk that CLLAS is willing to accept in the context of its vision and overall business strategy.

The purpose of this memo is to provide the Advisory Board with guidance to define CLLAS’ risk appetite.



## Definition of Key Terms<sup>1</sup>

Enterprise risk management:	The discipline by which an organization in any industry assesses, controls, exploits, finances and monitors risks from all sources for the purpose of increasing the organization's short- and long-term value to its stakeholders.
Risk:	Potential of future losses or shortfalls from expectations due to deviation of actual results from expected results.
Risk appetite:	The level of aggregate risk that an organization chooses to take in pursuit of its objectives.
Risk limit:	A threshold used to monitor the actual risk exposure of a specific unit or units of the organization to ensure that the level of aggregate risk remains within the risk tolerance.
Risk metric:	A measure of risk.
Risk mitigation:	Action that reduces the frequency or severity of a risk.
Risk profile:	The nature and magnitude of risks to which an organization is exposed over a specified period of time.
Risk tolerance or risk capacity:	The risk-taking capacity of an organization.

## Risk Appetite and Enterprise Risk Management Cycle

Risk management has multiple objectives, including the following:

- Avoid or mitigate risks that could materially impair the financial position;
- Accept risks that contribute to the business strategy;
- Manage risks in accordance with best practices and enhance strategic decision-making; and
- Promote a better understanding of the interrelationships between the risk profile and capital needs.

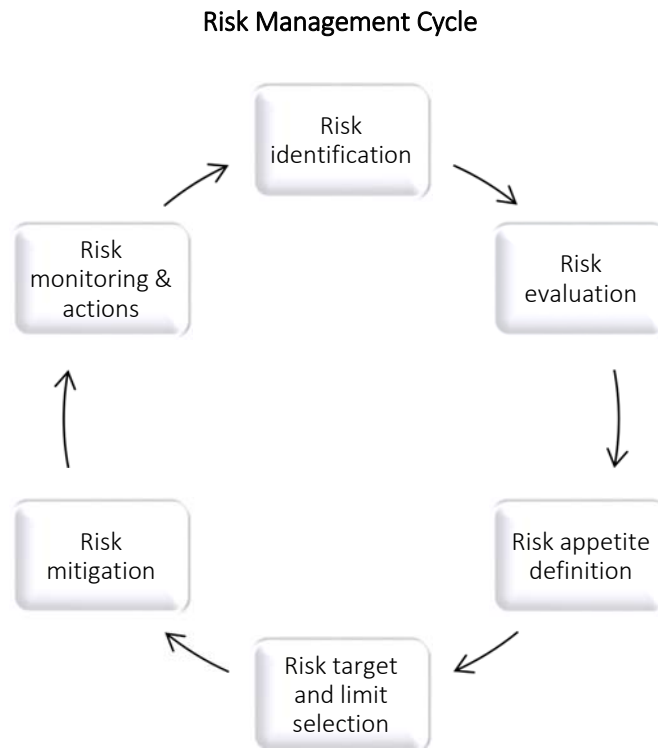
It must be recognized that enterprise risk management is a cycle, and that risk appetite is to be regularly reassessed as a step of the enterprise risk management cycle. Risk appetite is fluid and should reflect any improvement or deterioration in risk tolerance, changes in the business strategy and changes in economic conditions.

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<sup>1</sup> Acknowledgement: most definitions are taken from Actuarial Standards Board, Actuarial Standard of Practice No. 46: Risk Evaluation in Enterprise Risk Management.



The enterprise risk management cycle is as follows:



The enterprise risk management cycle involves identifying all material risks, and then evaluating their potential impact to determine the entity's risk profile. Based on the entity's risk profile and strategic vision, the risk appetite is defined as a high-level direction for the amounts and types of risks the entity wants to pursue. Based on the overall risk appetite, risk targets and limits are assigned to the various risks previously identified. Risk mitigation measures may be implemented by the Advisory Board and senior management in order to reduce the frequency or severity of risks. Risks are monitored and compared against targets and limits; the Advisory Board and senior management would consider implementing appropriate actions when a risk exceeds the established limit.

### CLLAS Strategic Goals

Risk appetite should be intrinsically linked to the strategic vision and goals. CLLAS is a reciprocal insurance exchange formed to provide professional liability insurance to legal professionals from select Canadian law firms. The principal objectives of CLLAS are:

- to provide insurance at cost;
- to provide the highest limits that can be obtained at reasonable rates;
- to provide stability in rates;



- to maintain a greater degree of control over its rates by being in a position to retain a significant portion of the risks it underwrites (subject to appropriate aggregate protection) when insurance market conditions dictate;
- to provide a community of interest and support among its members with respect to professional liability matters in general and loss prevention in particular;
- to maintain long-term relationships with its reinsurers and other service providers; and
- to maintain its excellent reputation with insured members and business partners.

In addition, CLLAS is considering inviting one or two firms to join its subscriber base in the short- to medium-term.

Risk appetite statements and limits should be reflective of performance measures important to CLLAS and be mindful of regulatory requirements or constraints.

Important performance measures include the following:

- Cost effectiveness as measured relative to commercial market;
- Cost stability as measured by year-over-year change in premiums; and
- Satisfaction of subscribers as measured ultimately by subscriber retention/growth.

Regulatory requirements or constraints include the following:

- Alberta Maintenance of Reserve and Guarantee Fund (“AMRGF”) requirement;
- Minimum Capital Test (“MCT”): 210% starting in 2015;
- Limits on investments: 10% limit on real property and 25% limit on equities;
- Limitation on ownership of an unincorporated entity: 10% ownership;
- Substantial investment definition: 10% of voting rights or 25% of equity.

## Material Risks

CLLAS is subject to multiple sources of risk, including the following:

- **Insurance risk:** CLLAS provides Canadian law firms with \$139,975,000 of professional liability insurance coverage per occurrence. Although coverage is provided on a claims-made basis, coverage is provided in excess of \$1,000,000 (or \$25,000 in the case of drop-down coverage) and therefore there can be a delay in the reporting of losses to CLLAS. There is significant uncertainty around the timing, frequency and severity of these insurance losses.

Further, CLLAS is a monoline insurer and has no line of business diversification to mitigate insurance risk. However, CLLAS has a geographical diversification benefit as it insures lawyers in multiple Canadian provinces.



- **Credit risk:**

Reinsurance default risk: Given the loss portfolio transfer at June 30, 2012 and the low net claim retention since July 1, 2012, CLLAS retains only a small proportion of its insurance exposure and cedes the remaining exposure to reinsurers. A reinsurer default or dispute on claims presents a material risk as CLLAS has the ultimate responsibility for the payment of claims.

CLLAS places reinsurance with multiple reinsurers, the largest placement being with Colchester Reinsurance Ltd. due to the loss portfolio transfer. Colchester also has an important participation on the proportional treaty since July 1, 2012.

Deposits held in Canada for unregistered reinsurance amounts recoverable from Colchester Reinsurance Ltd. do not present a material off-balance sheet risk exposure for CLLAS given that amounts are held in cash or government bonds in Canadian denomination.

Fixed income default risk: CLLAS is exposed to asset default risk as it has investments in fixed income instruments. CLLAS' investment policy allows for long-term investments in federal and provincial government bonds as well as corporate bonds rated A or better. The riskiest class of fixed income in CLLAS' portfolio is corporate bonds. Although provincial and federal government bonds present some default risk, it is not considered material at this moment.

Other asset default risk: CLLAS has minimal exposure to default risk on other assets, for example receivables or cash held in bank accounts.
- **Inflation Risk:**

General inflation risk: Sudden and sustained increases in the inflation rate would most likely lead to higher-than-anticipated claim payments and general expenses as well as disruptions in fixed income and capital markets.

Social inflation risk: This is the risk of unfavorable changes in claim behavior driven by new legal precedents as well as changes in social attitudes and expectations. Social inflation could be exacerbated by the fact that information is readily available through global news, social media and the internet.
- **Liquidity risk:**

Liquidity risk is the potential for losses due to holding insufficient funds in liquid assets such as cash. An example of a situation leading to liquidity risk is needing to realize a loss on the sale of invested assets when insufficient liquid assets are available to pay for losses.



- **Market risk:**

Interest rate risk: CLLAS' fixed income investments are classified as available-for-sale and are therefore reported at fair market value in the financial statements. Claim liabilities are also reported on a fair value basis (i.e. liabilities are discounted using market rates).

Interest rate risk exists when there is a mismatch between expected payments from assets and expected payments from liabilities. For example, when interest rates increase, both fixed income assets and claim liabilities would decrease. If they were perfectly matched, the impact on surplus would be nil. If not, one would decrease more than the other, creating a non-zero impact on surplus. The converse would also be true when interest rates decrease.

Equity risk: Investments in equities are subject to significant volatility in fair value. In addition, there is typically uncertainty around dividend payments and investments in equities can present significant exposure to default risk.

Foreign exchange risk: Investments in denominations other than Canadian dollars can present foreign exchange risk, as ultimately these investments would have to be converted to Canadian dollars in order to pay for losses. This risk category is not material for CLLAS as the investment policy does not allow for foreign investments.
- **Strategic risk:** Strategic risk arises from the potential inability to implement appropriate business plans and strategies, make decisions, allocate resources, or adapt to changes in the business environment<sup>2</sup>. CLLAS operates on the basis of five year underwriting periods, and can expect significant competitive pressure from insurance brokers during the lead up to a new underwriting period.
- **Operational risk:** Operational risk arises from inadequate or failed internal processes, people and systems, or from external events. It includes selling practices, claims processes, physical security, people, product, project, internal fraud, external fraud, model, legal, privacy and information security, technology and infrastructure, business continuity, third party, financial reporting, and money laundering / terrorist financing risks<sup>3</sup>.
- **Regulatory compliance risk:** Regulatory compliance risk arises from losses due to failure to comply with regulatory requirements. Examples include costs associated with the need to restate financial statements if they are not in compliance with professional standards, or fines and penalties if legislative requirements are not fulfilled.

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<sup>2</sup> OSFI Own Risk and Solvency Assessment Draft Guideline, January 2014.

<sup>3</sup> OSFI Own Risk and Solvency Assessment Draft Guideline, January 2014.



- **Reputation risk:** Reputation risk arises when the confidence of insured members, creditors, reinsurers and other business partners leads to a negative impact on earnings, liquidity or capital position.
- **Concentration risk:** Concentration risk arises from failure to diversify risk. It is a risk category that is closely tied with other risk categories, most notably with risks involving insurance, reinsurance and invested assets.

It is also important to keep in mind that risk mitigation measures – such as the use of reinsurance to reduce the net insurance exposure or the use of collateral or letters of credit to secure reinsurance recoverables – may not be functioning as usual under stressed market conditions. For example, if there were a property catastrophe and multiple insurers were seeking recoveries from reinsurers, CLLAS' communications and recoveries on professional liability losses with these same reinsurers may be delayed or compromised.

### **Risk Appetite Framework**

The Risk Appetite Framework includes risk appetite statements and risk limits. Risk appetite statements would reflect the aggregate level and type of risk that CLLAS is willing to accept. They should:

- Be linked to the vision and overall strategy;
- Consider all risks material to CLLAS;
- State the risks CLLAS wants to take or avoid, and why;
- Describe measures of loss CLLAS is willing to accept;
- Consider normal and stressed scenarios; and
- Be within risk capacity and regulatory constraints.

Risk limits are the allocation of the risk appetite statement to specific risk categories or business units. They are often expressed as a deviation or a threshold above/below a specific measurable target.

We have prepared below some risk appetite statements and risk limits for the Advisory Board's consideration:

- CLLAS has an overall low to medium risk appetite;
- CLLAS wants balance the probability of retroassessment with the efficiency of operating with as little capital as is prudent and appropriate;
- CLLAS does not want to engage in risk-taking activities that could be detrimental to its reputation;
- CLLAS wants protection against extreme events that could compromise its solvency;
- CLLAS strives to maintain excellent long-term relationships with its reinsurance partners in order to continue accessing reinsurance markets at a reasonable cost;
- CLLAS strives to protect itself from strategic risk by having knowledgeable and stable Advisory Board and senior management;



- CLLAS reduces its operational risk by outsourcing operational functions to experts (accounting, claims management, actuarial, investments, etc.).

The following table shows the risk categories that can be monitored quantitatively. As these risks may challenge the ability to meet strategic objectives, risk targets and limits have been determined, above which management action could be taken:

Risk Category	Risk Metric	Risk Target	Risk Limit
Insurance	Prior year development	0%	5%
	3-year combined ratio before surplus adjustments	100%	125%
	Provincial distribution *		67%
Credit – Fixed Income	Credit rating Percentage per security *	AA to AAA	A 5%
Liquidity	Cash and short-term investments to gross liabilities	15%	10%
Market – Interest Rates	Interest rate risk per MCT formula at 1.25%	\$250,000	\$600,000
Market – Equity	Proportion of equities in investment portfolio	0%	0%
Market – Foreign Exchange	Percentage investments in foreign currency	0%	0%
Strategic	Annual Advisory Board turnover	2	4

\* To assess concentration risk.

Reinsurance is a critical element of CLLAS' risk management framework. Reinsurer credit risk is managed by means of CLLAS' reinsurance security policy, pursuant to which CLLAS monitors its reinsurers' financial strength ratings and assesses its reinsurance concentration risk according to various metrics such as the actual claim liabilities by reinsurer and claim liability limit by reinsurer.

Other risk categories, such as strategic, operational, regulatory compliance, social inflation and reputation risks, are difficult to monitor quantitatively. Senior management would qualitatively monitor any trends or risk sources for these risk categories and report on them to the Board along with the above risk metrics.

### Responsibility for Enterprise Risk Management

The Advisory Board is ultimately responsible for overseeing risk management and risk-taking activities. The Risk Management committee of the Board would annually review risk appetite and risk management activities.

The Board is responsible for the Risk Appetite Framework, including the review of risk appetite statements and the approval of risk limits. The Board is also responsible for overseeing and approving the ORSA and establishing internal targets.



Senior management is responsible for the implementation of the Board-approved strategy and overall business performance. They monitor risks and assess the effectiveness of operations against risk appetite statements and risk limits. When risk limits are exceeded, senior management would consider developing appropriate action plans and ensure appropriate communication with the Board. They report to the Board on the risk profile and capital needs, including the ORSA.

### **Next Steps**

The Risk Appetite Framework will guide strategic decision-making as well as the development of multiple governance policies. It will be an integral part of CLLAS' Enterprise Risk Management policy and ORSA.

Taking into account the Advisory Board discussions at the June meeting, the Office of the General Manager will develop a draft Enterprise Risk Management policy and a draft plan for the implementation of the ORSA for the Advisory Board's review at the September meeting. These draft documents will be amended with the Advisory Board's comments with the aim of adopting the final versions at the December meeting.

CLLAS Risk Appetite Memo - June 2014 Advisory Board.docx



## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Five-Year Strategic Plan  
2014-2018

Draft Report  
August 19, 2014





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## 1. Introduction

This report summarizes the strategic plan for the Canadian Lawyers Liability Assurance Society (“CLLAS”) for fiscal years 2014 to 2018. A copy of this report was submitted to the Alberta Superintendent of Insurance (“Superintendent”), the regulatory authority responsible for the supervision of CLLAS under the Alberta Insurance Act.

This report was prepared by Axxima Insurance Services and has been approved by CLLAS’ Advisory Board. Axxima Insurance Services is a division of 3303128 Canada Inc., a non-affiliated company of CLLAS providing actuarial and general management services to CLLAS.

This strategic plan report is organized as follows:

- Section 2 – Overview of CLLAS Operations
- Section 3 – CLLAS Structure
- Section 4 – Current and Anticipated Operating Environment
- Section 5 – Strengths, Weaknesses, Opportunities and Threats
- Section 6 – Strategic Direction: Priorities and Initiatives

Any questions regarding this report should be addressed to Mr. Patrick Mahoney:

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Canadian Lawyers Liability Assurance Society  
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## 2. Overview of CLLAS Operations

CLLAS’ core business objective is to meet the professional liability insurance needs of legal and other professionals from select Canadian law firms.

### Insurance Operations

CLLAS was formed on December 22, 1986 under the Reciprocal Insurance Exchange Agreement for Select Canadian Law Firms. CLLAS started its insurance underwriting operations in June 1987 and was regulated by the Financial Services Commission of Ontario. Effective July 1, 2012, CLLAS’ lead regulator was changed from Ontario to Alberta. CLLAS is licensed in Alberta, British Columbia and Ontario.

The insurance provided by CLLAS to each of the firms is on a claims-made basis, meaning that a claim first made during the policy period is covered provided that the act, error or omission resulting in a



claim happened during the policy period or prior to the policy period (as long as the insured had not given notice to any prior insurer or under any prior insurance, had no prior insurance for the liability arising from such claim and had no reasonable expectation that such act, error or omission was a breach of professional duty or might be the basis for a claim.)

In the policy period incepting July 1, 2014, CLLAS issued 21 insurance policies to 11 Canadian law firms providing a combined maximum limit of liability insurance per occurrence of \$139,975,000 to cover the cost of damages that an insured is legally obligated to pay as a result of single or related act, error, omission or negligent act in the performance of or failure to perform professional services by the insured or by any person for whose acts, errors, or omissions the insured is legally responsible. The maximum limit provided by CLLAS on a per-claim basis is provided as follows:

- A \$50,000,000 limit inclusive of a minimum \$25,000 retention over the basic liability coverage available to each practicing lawyer of the firm under the basic professional liability coverage provided by the law society governing the professional activities of such lawyers;
- A limit of \$10,000,000 to \$60,000,000 in excess of \$160,000,000 of the professional liability limit purchased by any firm; and
- A \$30,000,000 umbrella limit provided on the overall exposure of all subscribers.

### **Reinsurance**

To provide such coverage limits to any insured, CLLAS purchases proportional reinsurance coverage from registered and unregistered insurance companies to reduce its net maximum loss exposure for any one loss occurrence to \$975,000. The reinsurance purchased for the maximum occurrence limit provided by CLLAS is purchased on a proportional basis. CLLAS retains no exposure on the layers above \$1,000,000.

In addition, for its treaty underwriting year incepting July 1, CLLAS purchased an annual stop-loss coverage that provides \$10,000,000 of coverage in excess of \$5,000,000. Annual stop-loss coverage limiting CLLAS' overall annual net retained losses in any one treaty year was also purchased in prior treaty years.

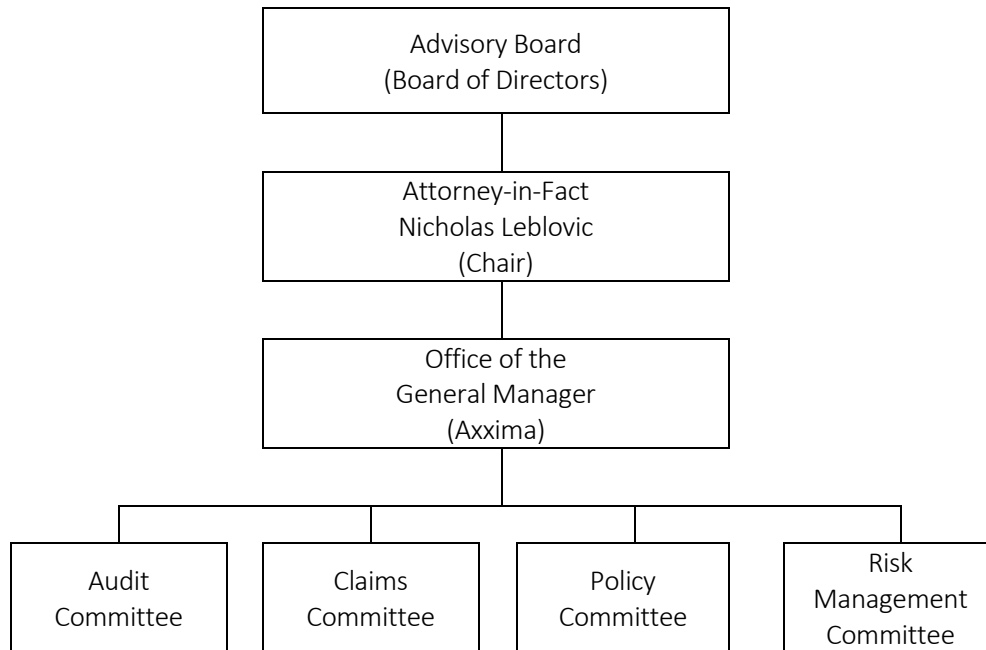
On June 30, 2012, Colchester Reinsurance Ltd. ("Colchester") purchased CLLAS' loss portfolio of net outstanding claims obligations on policies written between July 1, 1987 and June 30, 2012. CLLAS' remaining net claim liabilities attributable to the business written prior to June 30, 2012 are provisions for unallocated loss adjustment expenses.

CLLAS and Colchester have a Reinsurance Security Agreement whereby all the assets supporting Colchester's claim liabilities are held in trust in a custodial account in favor of CLLAS.



### 3. CLLAS Structure

A schematic of CLLAS' management structure is presented below:



CLLAS is governed by its Advisory Board which consists of one representative from each of the member firms. The Chair of the Advisory Board also acts as the Attorney-in-Fact.

CLLAS' Advisory Board, supported by the standing committees, is responsible for the overall business strategy. The Office of the General Manager is responsible for the implementation of Board-approved strategies and overall business performance.



## **4. Current and Anticipated Operating Environment**

### **Insurance Losses**

Professional liability losses are subject to significant volatility surrounding the timing, frequency and severity of claims, especially in higher insured layers such as the layer in excess of \$1,000,000. In addition, claim frequency is expected to remain stable but individual claims are expected to trend up faster than inflation at a rate of approximately 6.5% per year.

CLLAS is not aware of any legal or regulatory changes or any precedents set in case law that would impact existing or future claims.

### **Reinsurance**

Reinsurance costs tend to be cyclical, with high prices and tighter underwriting restrictions following years with poor underwriting results. CLLAS has developed strong relationships with its reinsurers and reinsurance rates have been stable in recent years. CLLAS expects to maintain these relationships in the future.

### **Regulatory Environment**

In March 2013, the Superintendent adopted the Office of the Superintendent of Financial Institutions' ("OSFI") guidelines. These are solvency, governance and other supervisory guidelines which were historically only applicable to federally-regulated insurance companies. The Superintendent has flexibility and discretion in the application of these guidelines for reciprocals.

The key impacts of the adoption of OSFI guidelines on CLLAS are the following:

- Adoption of the Minimum Capital Test ("MCT") as a regulatory solvency requirement;
- Need for a formal enterprise risk management policy;
- Need for a formal equity management policy;
- Need for a formal outsourcing policy;
- Need for a formal reinsurance risk management policy;
- Need for regular stress testing;
- Additional miscellaneous documentation requirements.

In addition, starting on January 1, 2015, the MCT calculation will change. The final guidelines for the MCT calculation are expected to be released in the fall of 2014. Starting on January 1, 2015, the target MCT ratio for reciprocals and other insurance entities regulated in Alberta is expected to increase from 150% to 210%.



## 5. Strengths, Weaknesses, Opportunities and Threats (“SWOT”)

A SWOT analysis is an assessment of an organization’s internal strengths and weaknesses in the context of external opportunities and threats. It is a common strategic planning tool that provides a snapshot of the organization’s operations and environment. The table below summarizes CLLAS’ SWOT matrix:

<p style="text-align: center;"><b><u>Strengths</u></b></p> <ul style="list-style-type: none"> <li>• Low risk profile for surplus position</li> <li>• Pooling of risks amongst subscribers</li> <li>• Some geographical diversification of operations</li> <li>• Strong reputation and positioning with Canadian lawyers – high retention due to history of stable premiums and high quality of service provided to subscribers</li> <li>• Strong relationships with high-quality reinsurers and other service providers</li> <li>• Strong, experienced and knowledgeable Advisory Board and senior management</li> <li>• Strong risk management culture</li> </ul>	<p style="text-align: center;"><b><u>Weaknesses</u></b></p> <ul style="list-style-type: none"> <li>• Concentration of operations in one single line of business</li> <li>• Current subscriber base reduced in recent years below historical high</li> </ul>
<p style="text-align: center;"><b><u>Opportunities</u></b></p> <ul style="list-style-type: none"> <li>• CLLAS’ comfortable surplus position gives it a competitive advantage in premium rate setting and flexibility in determining the reinsurance structure</li> <li>• CLLAS has approved proactively inviting additional firms to join its subscriber base – this would further spread risk among subscribers and would reduce operational expenses and premiums per member</li> <li>• CLLAS can rely on stable reinsurance rates and availability due to its strong relationships with its reinsurers</li> </ul>	<p style="text-align: center;"><b><u>Threats</u></b></p> <ul style="list-style-type: none"> <li>• The nature of CLLAS’ operations means that it is exposed to multiple sources of risk, including: <ul style="list-style-type: none"> <li>– Insurance risk: actual losses may deviate materially from estimates;</li> <li>– Reinsurance risk: although the majority of insurance risk is ceded to reinsurers, CLLAS retains the ultimate responsibility in the event of a reinsurer’s default;</li> <li>– Investment risk: the market value of investments is subject to volatility</li> <li>– General/social inflation risk: inflation could lead to higher claim settlements and general expenses.</li> </ul> </li> <li>• At June 30, 2017, a payment which may be material may be due to a departed subscriber</li> <li>• Higher solvency requirements starting January 1, 2015</li> </ul>



## 6. Strategic Direction: Priorities and Initiatives

The principal objectives of CLLAS are the following:

- To provide insurance at cost;
- To provide the highest limits that can be obtained at reasonable rates;
- To provide stability in rates;
- To maintain a greater degree of control over its rates by being in a position to retain a significant portion of the risks it underwrites (subject to appropriate aggregate protection) when insurance market conditions dictate;
- To provide a community of interest and support among its members with respect to professional liability matters in general and loss prevention in particular;
- To maintain long-term relationships with its reinsurers and other service providers; and
- To maintain its excellent reputation with insured members and business partners.

Important performance measures include the following:

- Cost effectiveness as measured relative to the commercial market;
- Cost stability as measured by year-over-year changes in premiums; and
- Satisfaction of subscribers as measured ultimately by subscriber retention/growth.

As a reciprocal insurance exchanged licensed in Alberta, CLLAS is subject to regulatory solvency requirements. In particular, CLLAS must meet the Alberta Maintenance of Reserve and Guarantee Fund requirement. In addition, starting January 1, 2015, the Alberta regulator will expect Alberta-based reciprocals to monitor the Minimum Capital Test with a regulatory target ratio of 210%.

In the next five years, CLLAS will focus on the following initiatives:

Strategic Initiative	2014	2015	2016	2017	2018
Develop program for inviting new firms to join CLLAS	✓	✓	✓		
Develop of an enterprise risk management policy	✓	✓			
Develop of an equity management policy	✓	✓			
Develop an own risk and solvency assessment	✓	✓			
Annual review of the own risk and solvency assessment			✓	✓	✓
Develop an outsourcing policy			✓		
Review the investment policy			✓		
Develop a reinsurance risk management policy			✓		
Establish a business continuity plan			✓		
Stress testing analysis			✓	✓	✓

In addition, CLLAS' usual insurance operations include the following:



- Development of an annual budget and business plan;
- Annual premium rate setting;
- Annual negotiation of reinsurance arrangements;
- Periodic review of reinsurance concentration and risk;
- Quarterly valuation of policy liabilities;
- Claims management;
- Underwriting of policies;
- Interactions with the regulator.

Details on short-term priorities and initiatives are documented in the 2014 business plan.



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July 18, 2014

Mr. Patrick Mahoney,  
Axxima,  
36 Toronto Street, Suite 510  
Toronto ON M5C 2C5

Dear Patrick:

**Re: Canadian Lawyers Liability Assurance Society**

Please find enclosed our quarterly investment report on the Short and Long Term Fund for CLLAS, together with a copy of our accounts, the originals of which have been sent to RBC Dexia Investor Services for payment.

The yield curve continued to flatten during the second quarter and the Long Term Fund recorded a capital gain of \$18,243, due to a shift to lower yields.

Activity during the quarter in the Short Term Fund involved roll-over of money market issues and providing for the \$4.5 million withdrawal. In the Long Term Fund, additions were made to the Canada and corporate sections.

Turning to regulatory matters, as a registered advisor with the Ontario Securities Commission, we are required to notify our clients when there are significant changes to our relationship disclosure information. In this regard, we would like to advise you of recent amendments to securities legislation. These relate to the provision of independent dispute resolution services and our obligation to resolve eligible client complaints through the Ombudsman for Banking Services and Investments (OBSI).

In order to meet our client disclosure obligations, we have updated our Managed Account Relationship Disclosure Document with the addition of the enclosed Appendix A, which sets out what to do if you have a complaint.

*(Please turn over) ...*

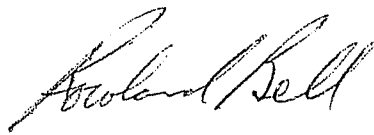
The Canadian Securities Administrators' purpose in requiring the use of OBSI as the dispute resolution service is to provide investors with the following benefits:

- access to a free, independent, consistent dispute resolution service,
- uniform handling of investor complaints, and
- clarity on who investors should contact if complaints are not resolved.

Please do not hesitate to let us know if you have any questions or comments on the enclosed.

With best regards,

Yours sincerely,

A handwritten signature in cursive script, appearing to read "Roland Bell".

RWB/mab  
Enclosures

**CLLAS**  
***CANADIAN LAWYERS LIABILITY***  
***ASSURANCE SOCIETY***

INVESTMENT REPORT  
JUNE 30, 2014

**MARTIN, LUCAS & SEAGRAM LTD.**  
INDEPENDENT INVESTMENT COUNSEL

Suite 620, 48 Yonge Street  
Toronto, Ontario  
M5E 1G9

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**CLLAS**  
**CANADIAN LAWYERS LIABILITY**  
**ASSURANCE SOCIETY**

**COMMENTARY FOR THE QUARTER ENDING JUNE 30, 2014**

**Review of Market Yields**

After briefly shifting higher early in the second quarter, yields on 5 to 10 year issues drifted lower within a fairly tight trading range over the balance of the period. At the end of June the yield on 5-year Canadas was down 18 basis points and the yield on 10-year issues fell 22 basis points. Meanwhile, yields on Treasury Bills edged higher over the quarter.

As a result of these shifts, the yield curve continued to flatten as the yield advantage of 10-year issues over Treasury Bills decreased to 130 basis points at June 30 versus 156 basis points three months earlier.

	Jan. 1/95	Dec. 31/13	Mar. 31/14	Jun. 30/14
3-Month Treasury Bills	6.80%	0.91%	0.90%	0.94%
5-year Canadas	8.99%	1.95%	1.71%	1.53%
10-year Canadas	9.09%	2.77%	2.46%	2.24%

During the quarter, in the Short Term Investment Fund, activity involved the roll-over of money market securities. Further activity involved the withdrawal of \$4.5 million towards the end of the period.

In the Long Term Investment Fund, money market issues were also rolled over, and a portion of these funds was used to introduce a new Canada guaranteed issue to the list, as well as two new medium term corporate bonds.

During the second quarter, the market value of the Long Term Investment Fund holdings increased \$18,243, or 0.9% on a capital basis.

At June 30, 2014, the average term to maturity of the Long Term Investment Fund stood at 4.6 years.

The table below shows the distribution of the assets held in both the Short and Long Term Investment Funds at June 30.

<b><i>Distribution at June 30, 2014</i></b>	<b><i>Valuation</i></b>	<b><i>%</i></b>
Short Term Investment Fund	\$9,151,332	70.7%
Long Term Investment Fund	3,793,865	29.3%
<b>TOTAL COMBINED VALUATION</b>	<b>\$12,945,197</b>	<b>100.0%</b>

## *CLLAS*

### *CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY*

*The following pages set out tables, commentary and schedules on the items listed below:*

- Total Returns vs. Benchmarks - Gross and Net of Fees
- Distribution of Securities in the Long Term Investment Fund by Credit Risk and by Maturity
- Compliance Statement
- Quarterly Performance Report - Gross of Fees: Long Term Investment Fund
- Bond Market Commentary and Future Policy
- Security Holdings in the Short and Long Term Investment Funds Listed and Valued Separately as at June 30, 2014
- Security Purchases and Sales
- Cash Reconciliations
- External Individual Credit Rating Report

# CLLAS

## LONG TERM INVESTMENT FUND

### TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIOD ENDING JUNE 30, 2014

	Since Inception Dec. 17/13	Last 3 months
<b><i>Long Term Investment Fund</i></b> <b><i>– Gross of Fees</i></b>	<b><i>1.92%</i></b>	<b><i>0.99%</i></b>
<b><i>Long Term Investment Fund</i></b> <b><i>– Net of Fees</i></b>	<b><i>1.75%</i></b>	<b><i>0.91%</i></b>
<b>Benchmark Portfolio **</b>	<b>2.98%</b>	<b>1.26%</b>

\*\* The Benchmark Portfolio is based on the sum of the following total return indices:

60% DEX Short Bond Index  
40% DEX Mid Bond Index

## SHORT TERM INVESTMENT FUND

### TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIOD ENDING JUNE 30, 2014

	Since Inception Oct. 1/08 *	Three Years*	Two Years *	One Year	Last 3 Months
<b><i>Short Term Investment Fund</i></b> <b><i>– Gross of Fees</i></b>	<b><i>0.83%</i></b>	<b><i>0.91%</i></b>	<b><i>0.91%</i></b>	<b><i>0.92%</i></b>	<b><i>0.23%</i></b>
<b><i>Short Term Investment Fund</i></b> <b><i>– Net of Fees</i></b>	<b><i>0.70%</i></b>	<b><i>0.80%</i></b>	<b><i>0.80%</i></b>	<b><i>0.81%</i></b>	<b><i>0.21%</i></b>
<b>Benchmark Portfolio **</b>	<b>0.79%</b>	<b>0.91%</b>	<b>0.93%</b>	<b>0.94%</b>	<b>0.23%</b>

\* Annualized

\*\* The Benchmark Portfolio, adopted from October 1, 2008, is based 100 %  
on the total return index of the 30-day Treasury Bill Index

**CLLAS**  
**LONG TERM INVESTMENT FUND**

**DISTRIBUTION OF SECURITIES BY CREDIT RISK**  
 (Based on Market Values)

	Dec. 17/13	Dec. 31/13	Mar. 31/14	Jun. 30/14
<b>Bonds, Treasury Bills &amp; Cash</b> Less than 1 year term	100.0%	26.5%	19.5%	0.0%
<b>Canadas</b> Greater than 1 year term		8.0%	14.5%	21.2%
<b>Provincials</b> Greater than 1 year term		39.1%	39.4%	39.9%
<b>Corporates</b> Greater than 1 year term		26.4%	26.6%	38.9%
<b>TOTAL PORTFOLIO</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**LONG TERM INVESTMENT FUND**

**DISTRIBUTION OF SECURITIES BY MATURITY**  
 (Based on Market Values)

	Dec. 31/13	Mar. 31/14	Jun. 30/14
Under 1 year	26.5%	19.5%	0.0%
1 - 3 years	21.4%	21.2%	21.3%
3 - 5 years	28.4%	35.1%	42.0%
5 - 7 years	5.3%	5.4%	18.9%
7 - 10 years	18.5%	18.8%	17.8%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Average Maturity (yrs)</b>	<b>3.54</b>	<b>3.65</b>	<b>4.64</b>
<b>Average Duration</b>	<b>3.24</b>	<b>3.37</b>	<b>4.28</b>

**SHORT TERM INVESTMENT FUND**

	Mar. 31/13	Dec. 31/13	Mar. 31/14	Jun. 30/14
<b>Short Term</b> <b>Average Duration</b>	<b>0.11</b>	<b>0.08</b>	<b>0.13</b>	<b>0.11</b>

# CLLAS

## COMPLIANCE WITH INVESTMENT POLICY STATEMENT

AT JUNE 30, 2014

	Investment Limits	Investment Funds	Compliance
<b><i>Short Term Investment Fund</i></b>			
Maximum Term of Any Issue	1 year	0.2 years	Yes
Minimum Percentage of Total Fund (Short & Long)	40% of Total	70.7%	Yes
Minimum Canada & Provincial Percentage	50%	52.9%	Yes
Minimum Provincial Quality	A	N/A	Yes
Minimum Bank CD & BA Quality	R1	R1	Yes
<b><i>Long Term Investment Fund</i></b>			
Maximum Term of Any Issue	10 years	8.6 years	Yes
Maximum Percentage of Total Fund (Short & Long)	60% of Total	29.3%	Yes
Minimum Canada Percentage	20%	21.2%	Yes
Maximum Provincial Percentage	40%	39.9%	Yes
Minimum Canada & Provincial Percentage	60%	61.1%	Yes
Minimum Provincial Quality *	A	AA (low)	Yes
Maximum Corporate Percentage	40%	38.9%	Yes
Minimum Corporate Quality *	A	AA	Yes

*\* At time of purchase*

This will confirm that during the second quarter the Long Term Investment Fund was managed in compliance with the Investment Policy limits provided on December 3, 2013.

Similarly, during the same period the Short Term Fund remained in compliance with the Investment Policy Statement that became effective on May 5, 2012.



# ***CLLAS***

Martin, Lucas & Seagram Ltd.  
**PERFORMANCE REPORT**  
**GROSS OF FEES**  
***CLLAS - LONG TERM INVESTMENT FUND***  
*From 03-31-14 to 06-30-14*

Portfolio Value on 03-31-14	3,811,345
Accrued Interest	15,535
Contributions	458,849
Withdrawals	-514,015
Realized Gains	0
Unrealized Gains	18,242
Interest	19,444
Dividends	0
Change in Accrued Interest	-407
Portfolio Value on 06-30-14	3,793,865
Accrued Interest	15,128
Average Capital	3,698,537
Total Gain before Fees	37,280
IRR for 0.25 Years	1.01%

## *CLLAS*

### **BOND MARKET COMMENTARY AND FUTURE POLICY**

Following a mostly weather induced slowdown during the first quarter, economic activity in North America has reaccelerated over the past few months. The U.S. experienced the most significant downturn in the first quarter, as GDP contracted at a 2.9% annual rate. However, aggregate growth in the second quarter is projected to advance around 3%, due to the recovery in hiring, retail sales, manufacturing and new home construction. Meanwhile, Canada's economy held up somewhat better during the first quarter, although the rebound since then has been more muted. While GDP growth remained positive at 1.2% during the first three months, this was due mostly to trade, which offset the first quarterly drop in domestic demand since the recession. Indicators since then have been mixed, with slightly better than expected results being reported from the housing manufacturing and retail sectors, while data from the labour market has been disappointing.

On the international front, the results have also been mixed so far this year. China experienced a modest slowdown in growth early in the year. However, the most recent data confirms that its economic performance improved in the second quarter. Manufacturing activity has shifted from contraction to expansion and moderate export gains suggests that government efforts to spur the economy through looser credit conditions have helped return growth to their 7.5% target. Japan, on the other hand, experienced a growth spurt in the first quarter. This helped fuel optimism that the combination of massive monetary stimulus and budget spending was pulling the economy out of its prolonged slump. However, following the April 1 sales tax hike, the broadly anticipated dip in consumer spending has not been offset by an expected pick-up in corporate investment, which has fallen instead.

As has been the case for some time, the euro zone has continued to lag the major world economies. While the contraction ended last year, the rate of improvement has been minimal thus far in 2014 and ultra-low inflation and record high unemployment continue to weigh on the recovery. The European Central Bank has responded with new programs designed to spur growth and subdue deflationary pressures. These measures include an unprecedented negative interest rate on central bank deposits, an extension of unlimited short term liquidity until at least 2016 and new incentives to spur bank lending. Policy makers have also raised the possibility of adopting more radical measures, such as broad-based asset purchases, if necessary.

Turning to the bond market, prices remained in a fairly tight trading range during the past three months and yields ended the quarter down modestly for issues in the 2 to 10 year maturity range. The choppy economic backdrop, recent flare-up of banking strains in Europe and a series of troubling offshore geopolitical developments have been supportive of bonds, which continue to be viewed as a safe haven asset. For the most part, investors seem confident that the recent uptick in inflation will prove transitory and that the major central banks will maintain, and in some cases, possibly expand their expansionary policies. As a result of the decline in yields since the beginning of the year, bond valuations are now at the high end of their historical levels, both in absolute terms and relative to underlying rates of inflation and unemployment.

## CLLAS

At this juncture, the markets seem to be discounting a so-called goldilocks scenario, where global economic growth remains strong enough to dissipate deflationary pressures without stoking inflation, in order for monetary policy to remain stimulative. We believe these expectations, along with stretched valuations and elevated investor complacency, leave the market vulnerable to pullbacks. Recently, the U.S. monetary officials also expressed concern that market participants were not factoring in sufficient uncertainty about the future path of the economy and monetary policies. While we do not expect the Fed will be raising administered rates anytime soon, if the economy continues to gain traction, investors may have to start dealing with new uncertainties surrounding how and when the authorities will begin to normalize monetary policy.

Looking near-term, we believe the economic, political and monetary backdrop will remain supportive of bond prices. Offshore macroeconomic challenges suggest that global growth will remain sluggish and the increasingly tenuous global geopolitical environment provides additional support. Recent commentary from both the Fed and Bank of Canada, citing the need to keep rates low given the slack in the economy and downside risks to inflation, suggest that monetary policy is also going to remain bond friendly for some time yet. Furthermore, demand from foreign investors is expected to remain strong given the yield advantage of North American issues over prevailing yields across Northern Europe and Japan.

As a result, we think short term yields will remain anchored around current levels and believe longer term yields will be range bound with a moderate downward bias over the near term. However, looking further ahead, we still expect the yield curve will gradually normalize by shifting higher. In the current cycle, the lows for inflation have been seen, and slow but incremental improvements in global growth, led by an increasingly durable U.S. recovery, will gradually reduce excess capacity in the labour and product markets. Considering the outlook, we believe the Long Term Fund's laddered maturity structure and defensive duration of 4.3 years is appropriate. With prevailing bond yields at the low end of this year's range, we expect there will be more favourable opportunities to increase investments in the Long Term Fund later this year.

RWB/mab  
July 18, 2014

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*As stipulated in our Investment Management Agreement, please let ML&S know if there are major changes in your financial circumstances, income needs or risk tolerance in order for us to review the suitability of your investment objectives.*

**CLLAS - SHORT TERM INVESTMENT FUND**

**Portfolio Holdings at June 30, 2014**

<b>Quantity</b>	<b>Security</b>	<b>Unit Cost</b>	<b>Price</b>	<b>Market Value</b>	<b>Annual Income</b>
<b>CASH</b>					
	Cash Account			11,984	0
<b>MONEY MARKET ISSUES</b>					
1,010,000	Toronto Dominion Bank BA 1.00% due July 8, 2014	99.74	99.98	1,009,748	10,074
1,500,000	Canada Treasury Bill .82% due July 17, 2014	99.81	99.96	1,499,361	12,277
1,735,000	Canada Treasury Bill .80% due July 31, 2014	99.82	99.92	1,733,652	13,854
1,525,000	FirstBank BA 1.001% due August 5, 2014	99.75	99.89	1,523,287	15,228
1,615,000	Canada Treasury Bill .80% due August 14, 2014	99.82	99.89	1,613,159	12,896
220,000	CIBC BA 1.027% due August 25, 2014	99.81	99.83	219,616	2,255
1,545,000	CIBC BA 1.019% due September 25, 2014	99.75	99.71	1,540,526	15,704
				<u>9,139,348</u>	<u>82,288</u>
<b>TOTAL PORTFOLIO</b>				<b>9,151,332</b>	<b>82,288</b>

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
*From 04-01-14 To 06-30-14*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
<b>PURCHASES</b>					
04-03-14	04-04-14	1,010,000	Toronto Dominion Bank BA 1.00% due July 8, 2014	99.74	1,007,378.04
04-16-14	04-17-14	1,500,000	Bank of Nova Scotia BA 1.00% due June 2, 2014	99.87	1,498,111.50
04-23-14	04-24-14	1,500,000	Canada Treasury Bill .82% due July 17, 2014	99.81	1,497,174.00
05-05-14	05-06-14	1,525,000	FirstBank BA 1.001% due August 5, 2014	99.75	1,521,202.75
05-07-14	05-08-14	1,735,000	Canada Treasury Bill .80% due July 31, 2014	99.82	1,731,811.07
05-21-14	05-22-14	1,615,000	Canada Treasury Bill .80% due August 14, 2014	99.82	1,612,031.63
05-30-14	06-02-14	1,500,000	CIBC BA 1.00% due June 12, 2014	99.97	1,499,589.00
06-04-14	06-05-14	2,000,000	CIBC BA 1.001% due June 12, 2014	99.98	1,999,616.00
06-17-14	06-18-14	220,000	CIBC BA 1.027% due August 25, 2014	99.81	219,579.80
06-26-14	06-27-14	1,545,000	CIBC BA 1.019% due September 25, 2014	99.75	1,541,125.14
					<b>14,127,618.93</b>
<b>SALES</b>					
04-04-14	04-04-14	1,010,000	Bank of Nova Scotia BA 1.01% due April 4, 2014	100.00	1,010,000.00
04-17-14	04-17-14	1,500,000	Bank of Nova Scotia BA 1.009% due April 17, 2014	100.00	1,500,000.00
04-24-14	04-24-14	1,500,000	Canada Treasury Bill .77% due April 24, 2014	100.00	1,500,000.00
05-06-14	05-06-14	1,520,000	Royal Bank BA .976% due May 6, 2014	100.00	1,520,000.00
05-08-14	05-08-14	1,735,000	Canada Treasury Bill .749% due May 8, 2014	100.00	1,735,000.00
05-22-14	05-22-14	1,615,000	Canada Treasury Bill .76% due May 22, 2014	100.00	1,615,000.00
06-02-14	06-02-14	1,500,000	Bank of Nova Scotia BA 1.00% due June 2, 2014	100.00	1,500,000.00
06-05-14	06-05-14	2,000,000	Canada Treasury Bill .76% due June 5, 2014	100.00	2,000,000.00
06-11-14	06-12-14	230,000	CIBC BA 1.01% due June 17, 2014	99.98	229,962.28
06-12-14	06-12-14	1,500,000	CIBC BA 1.00% due June 12, 2014	100.00	1,500,000.00

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
*From 04-01-14 To 06-30-14*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
06-12-14	06-12-14	2,000,000	CIBC BA 1.001% due June 12, 2014	100.00	2,000,000.00
06-17-14	06-17-14	470,000	CIBC BA 1.01% due June 17, 2014	100.00	470,000.00
06-27-14	06-27-14	1,000,000	CIBC BA 1.01% due June 27, 2014	100.00	1,000,000.00
06-27-14	06-27-14	1,000,000	TD Bank BA 1.01% due June 27, 2014	100.00	1,000,000.00
					<b>18,579,962.28</b>

Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
*From 04-01-14 to 06-30-14*

Cash Balance at April 1, 2014			14,385.26
ADD:	Proceeds from Sales	18,579,962.28	
	Transfer from Long Term Investment Fund	36,732.28	
	Bond Interest Credited (from Long Term Investment Fund)	18,434.55	
	Interest on Balance	<u>204.21</u>	<u>18,635,333.32</u>
			18,649,718.58
LESS:	Cost of Purchases	14,127,618.93	
	Capital Withdrawn	4,500,000.00	
	Investment Counsel Fees - Short Term Investment Fund	2,705.37	
	Investment Counsel Fees - Long Term Investment Fund	2,691.76	
	Trust Company Charges	<u>4,718.53</u>	<u>18,637,734.59</u>
Cash Balance at June 30, 2014			<b>11,983.99</b>

Martin, Lucas & Seagram Ltd.										
EXTERNAL INDIVIDUAL CREDIT RATING REPORT - JUNE 30, 2014										
CLLAS - SHORT TERM INVESTMENT FUND										
				Unit	Total			Price	Market	Pct.
Quantity	Security		Rating	Cost	Cost				Value	Assets
CASH										
					11,984				11,984	0.1
	Cash Account									
MONEY MARKET ISSUES										
1,010,000	Toronto Dominion Bank BA 1.00%									
		due July 8, 2014	R-1 (high)	99.74	1,007,378			99.98	1,009,748	11
1,500,000	Canada Treasury Bill .82%									
		due July 17, 2014	R-1 (high)	99.81	1,497,174			99.96	1,499,361	16.4
1,735,000	Canada Treasury Bill .80%									
		due July 31, 2014	R-1 (high)	99.82	1,731,811			99.92	1,733,652	18.9
1,525,000	FirstBank BA 1.001%									
		due August 5, 2014	R-1 (high)	99.75	1,521,203			99.89	1,523,287	16.6
1,615,000	Canada Treasury Bill .80%									
		due August 14, 2014	R-1 (high)	99.82	1,612,032			99.89	1,613,159	17.6
220,000	CIBC BA 1.027%									
		due August 25, 2014	R-1 (high)	99.81	219,580			99.83	219,616	2.4
1,545,000	CIBC BA 1.019%									
		due September 25, 2014	R-1 (high)	99.75	1,541,125			99.71	1,540,526	16.8
					9,130,302				9,139,348	99.9
TOTAL PORTFOLIO										
					9,142,286				9,151,332	100



**CLLAS - LONG TERM INVESTMENT FUND****Portfolio Holdings at June 30, 2014**

<b>Quantity</b>	<b>Security</b>	<b>Unit Cost</b>	<b>Price</b>	<b>Market Value</b>	<b>Annual Income</b>
<b>GOVERNMENT BONDS</b>					
300,000	Canada Housing Trust 1.85% Series 43 due December 15, 2016	101.30	101.27	303,813	5,550
250,000	Canada Housing Trust 1.75% due June 15, 2018	100.11	100.36	250,890	4,375
250,000	Canada Housing Trust 1.95% due June 15, 2019	100.10	100.45	251,135	4,875
				<hr/> 805,838	<hr/> 14,800
<b>PROVINCIAL BONDS</b>					
300,000	Alberta 1.85% due September 1, 2016	101.35	101.30	303,912	5,550
330,000	Ontario 1.90% due September 8, 2017	100.18	101.02	333,350	6,270
350,000	Ontario 2.1% due September 8, 2018	99.57	101.08	353,791	7,350
250,000	British Columbia 3.25% due December 18, 2021	102.30	105.33	263,318	8,125
250,000	Ontario 3.15% due June 2, 2022	99.04	102.89	257,230	7,875
				<hr/> 1,511,600	<hr/> 35,170
<b>CORPORATE BONDS</b>					
200,000	Bank of Nova Scotia Dep. Note 2.1% due November 8, 2016	100.32	100.76	201,524	4,200
200,000	Toronto Dominion Bank Dep. Note 2.433% due August 15, 2017	100.73	101.52	203,048	4,866
200,000	Royal Bank Dep. Note 2.26% due March 12, 2018	99.28	100.68	201,366	4,520
200,000	Wells Fargo Canada 2.944% due July 25, 2019	100.02	102.39	204,782	5,888
300,000	Bank of Montreal 2.84% due June 4, 2020	101.77	101.70	305,106	8,520
200,000	Bank of Montreal 3.4% due April 23, 2021	100.65	104.08	208,164	6,800
150,000	Wells Fargo 3.46% due January 24, 2023	102.36	101.63	152,438	5,190
				<hr/> 1,476,428	<hr/> 39,984
<b>TOTAL PORTFOLIO</b>				<b>3,793,865</b>	<b>89,954</b>

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*From 04-01-14 To 06-30-14*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
<b>PURCHASES</b>					
04-09-14	04-10-14	745,000	Canada Treasury Bill .769% due May 8, 2014	99.94	744,560.45
05-07-14	05-08-14	745,000	Canada Treasury Bill .78% due June 5, 2014	99.94	744,554.49
06-16-14	06-20-14	250,000	Canada Housing Trust 1.95% due June 15, 2019	100.10	250,237.50
06-26-14	07-02-14	300,000	Bank of Montreal 2.84% due June 4, 2020	101.77	305,307.00
06-26-14	07-02-14	150,000	Wells Fargo 3.46% due January 24, 2023	102.36	153,541.50
					<b>2,198,200.94</b>
<b>SALES</b>					
04-10-14	04-10-14	745,000	Canada Treasury Bill .679% due April 10, 2014	100.00	745,000.00
05-08-14	05-08-14	745,000	Canada Treasury Bill .769% due May 8, 2014	100.00	745,000.00
06-05-14	06-05-14	745,000	Canada Treasury Bill .78% due June 5, 2014	100.00	745,000.00
					<b>2,235,000.00</b>

Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - LONG TERM INVESTMENT FUND***  
*From 04-01-14 to 06-30-14*

Cash Balance at April 1, 2014			0.00
ADD: Proceeds from Sales			<u>2,235,000.00</u>
			2,235,000.00
LESS: Cost of Purchases	2,198,200.94		
Accrued Bond Interest on Purchase	66.78		
Transfer to Short Term Investment Fund	<u>36,732.28</u>	<u>2,235,000.00</u>	
<b>Cash Balance at June 30, 2014</b>			<b>0.00</b>

Martin, Lucas & Seagram Ltd.

EXTERNAL INDIVIDUAL CREDIT RATING REPORT - JUNE 30, 2014

CLLAS - LONG TERM INVESTMENT FUND

Quantity	Security		Rating	Unit	Total	Price	Market	Pct.
				Cost	Cost		Value	Assets
<b>GOVERNMENT BONDS</b>								
300,000	Canada Housing Trust 1.85% Series 43	due December 15, 2016	AAA	101.30	303,900	101.27	303,813	8
250,000	Canada Housing Trust 1.75%	due June 15, 2018	AAA	100.11	250,275	100.36	250,890	6.6
250,000	Canada Housing Trust 1.95%	due June 15, 2019	AAA	100.10	250,238	100.45	251,135	6.6
					804,413		805,838	21.2
<b>PROVINCIAL BONDS</b>								
300,000	Alberta 1.85%	due September 1, 2016	AAA	101.35	304,050	101.30	303,912	8
330,000	Ontario 1.90%	due September 8, 2017	AA (low)	100.18	330,594	101.02	333,350	8.8
350,000	Ontario 2.1%	due September 8, 2018	AA (low)	99.57	348,495	101.08	353,791	9.3
250,000	British Columbia 3.25%	due December 18, 2021	AA (high)	102.30	255,750	105.33	263,318	6.9
250,000	Ontario 3.15%	due June 2, 2022	AA (low)	99.04	247,600	102.89	257,230	6.8
					1,486,489		1,511,600	39.8
<b>CORPORATE BONDS</b>								
200,000	Bank of Nova Scotia Dep. Note 2.1%	due November 8, 2016	AA	100.32	200,640	100.76	201,524	5.3
200,000	Toronto Dominion Bank Dep. Note 2.433%	due August 15, 2017	AA	100.73	201,460	101.52	203,048	5.4
200,000	Royal Bank Dep. Note 2.26%	due March 12, 2018	AA	99.28	198,560	100.68	201,366	5.3
200,000	Wells Fargo Canada 2.944%	due July 25, 2019	AA	100.02	200,040	102.39	204,782	5.4
300,000	Bank of Montreal 2.84%	due June 4, 2020	AA	101.77	305,307	101.70	305,106	8
200,000	Bank of Montreal 3.4%	due April 23, 2021	AA	100.65	201,300	104.08	208,164	5.5
150,000	Wells Fargo 3.46%	due January 24, 2023	AA	102.36	153,542	101.63	152,438	4
					1,460,849		1,476,428	38.9
<b>TOTAL PORTFOLIO</b>					3,751,750		3,793,865	100