



## ADVISORY BOARD MEETING

<u>Board Member</u>	<u>Alternate</u>	<u>Board Member</u>	<u>Alternate</u>
David Morritt	Lyndon Barnes	Donald Milner	S. Bruce Blain
Barry Bresner	Robert Love	Gordon Goodman	John Birch
Mike Swartz	Paul Wilson	Ken Crofoot	Eugene Cipparone
Julia Holland	James C. Tory	Melanie Koszegi	Natasha MacParland
William Scott	Malcolm Mercer	Daniel MacDonald	Carol Lyons

Tuesday, December 11, 2018 at 8:30 a.m.  
Goodmans LLP  
34<sup>th</sup> Floor, Bay Adelaide Centre, West Tower  
333 Bay Street.  
Toronto, Ontario

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DIAL-IN INFORMATION for those participating by phone:

Toronto:	416-915-3623
Toll Free North America:	1-877-211-3621
Conference ID #:	558 181 8200#

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## AGENDA

	<u>Responsibility</u>	<u>Est. Time</u>	<u>Tab</u>
1. Constitution of Meeting	Ken Crofoot		
2. Appointment of Secretary	Ken Crofoot		
3. Approval of the Minutes of September 11, 2018 Meeting <i>Proposed Resolution: To approve the minutes.</i>	Ken Crofoot	5 mins	3.0
4. Business Arising Out of the Minutes	Ken Crofoot		
5. Comments of Chair	Ken Crofoot	10 mins	



	<u>Responsibility</u>	<u>Est. Time</u>	<u>Tab</u>
6. Market Update and Reinsurance Renewal Planning	Ryan Durrell	10 mins	
7. Report of the General Manager's Office	Patrick Mahoney	30 mins	
7.1. Management Financial Statements as at Sept. 30, 2018			7.1
7.2. Subscribers Accounts at June 30, 2018			7.2
7.3. Revised "Top-up" Policy			7.3
<b><i>Proposed Resolution: To approve revised "Top-up" Policy</i></b>			
7.4. Reinsurance Risk Management Policy			7.4
<b><i>Proposed Resolution: To approve revised Reinsurance Risk Management Policy</i></b>			
7.5. Investment Policy			7.5
<b><i>Proposed Resolution: To confirm Investment Policy</i></b>			
7.6. 2019 AGM Planning			
8. Committee Reports		20 mins	
8.1. Audit Committee	Gord Goodman		
8.1.1. Reinsurance Security Update			
8.1.2. IFRS 17 Implementation Update			8.1.2
8.2. Claims Committee	Barry Bresner		8.2
8.3. Risk Management Committee	Julia Holland		
8.4. Policy Committee	Donald Milner		
9. Other Business			
9.1. Quarterly Report of the Investment Manager	Patrick Mahoney	5 mins	9.1
9.2. CLLAS-Axxima Service Agreement (in camera)	Ken Crofoot	10 mins	9.2
10. Next Meeting			
10.1. Tuesday, February 26, 2019 at 8:30 a.m.			

**Anticipated Adjournment Time: 10:30 a.m.**

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

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

8:30 a.m.  
Goodmans LLP  
34<sup>th</sup> Floor, Bay Adelaide Centre, West Tower  
333 Bay Street  
Toronto, Ontario

**Tuesday, September 11, 2018**

**Present:**

Ken Crofoot (Chair)	Goodmans LLP
Melanie M. Koszegi (via phone)	Davies Ward Phillips & Vineberg LLP
Barry Bresner	Borden Ladner Gervais LLP
Gordon Goodman	Cassels Brock & Blackwell LLP
Donald Milner (via phone)	Fasken Martineau DuMoulin LLP
Bill Scott	McCarthy Tétrault
Dan MacDonald (via phone)	McMillan LLP
Julia Holland	Torys LLP
Mike Swartz (via phone)	WeirFoulds LLP
Patrick Mahoney	Office of the General Manager, CLLAS
Norma Ibbetson	Office of the General Manager, CLLAS
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 June 19, 2018 Meeting of the Advisory Board**

**It was moved by Barry Bresner and seconded by Julia Holland that the minutes of the June 19, 2018 meeting of the Advisory Board be approved, as amended. The motion was carried unanimously.**

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

All business arising out of the minutes will be dealt with elsewhere in the agenda.

5. **Comments of the Chair**

No additional comments of the Chair.

6. **Reinsurance Renewal – Final Report/ Associate Firm Update**

Ryan Durrell reviewed the final placement of the July 1, 2018 reinsurance renewal with the Board, including his memorandum of September 4, 2018 that was in the Board package. As indicated at the June Board meeting, the primary objective for the July 1 renewal was to achieve a status quo renewal and this was accomplished.

Almost all Lloyd's syndicates and domestic reinsurers were renewed with very little turn over in participation levels. CNA advised late in the process that it was unable to participate, and its capacity was replaced by London markets. The premium per non-Quebec lawyers for the \$49MM xs \$1 MM layer (including the drop-down piece) at July 1, 2018 was \$1,939, unchanged from last year.

There were no material policy wording changes. Tail coverage continues to be provided to former Heenan Blaikie LLP lawyers on all CLLAS policies. Coverage is added by endorsement but additional premiums are no longer being charged for the coverage.

Mr. Durrell cautioned the Board that they should start planning for a more rational reinsurance market in near term. While it is too early to predict what market conditions will be like in the spring of 2019, the increased resistance from underwriters, slowly rising interest rates as well as poor loss experience in London across multiple lines of business suggest markets should be hardening. Lloyds is auditing its professional liability markets and has required syndicates to report on their underwriting results. The introduction of IFRS 17, given the special accounting treatment to be required for "burdensome contracts", may also influence the markets to participate in a soft professional liability market.

*CLLAS Associate Firm Initiative – Update*

Ryan Durrell advised that Axxima has met with several firms in Toronto and Vancouver over the past few months to explore the possibility of them joining the associate member program. The meetings went well and the firms continue to consider their potential participation. Over the course of the next few months leading up to the January 1, 2019 renewals (for most Ontario and B.C. firms), Axxima will be selectively approaching a number of other law firms.

## **7. Report of the General Manager's Office**

### *Cyber Initiative – Update*

Ryan Durrell reported that all but two of the CLLAS firms are now purchasing the Cyber coverage through the CLLAS program with Ascent/Ridge. Lenzcners has also purchased the coverage and Stockwoods is considering a quote. We have seen our first claim under the program and we are actively monitoring the response by the breach coach. To date we have been happy with the process.

The sub-committee continues to work on a number of policy issues, the most important one being the interaction between the policy's wording on terrorism and the standard Lloyds endorsement.

### *Financial Statements for the Period Ending June 30, 2018*

Mr. Mahoney presented CLLAS' financial management report as at June 30, 2018.

As shown on Exhibit II, CLLAS experienced an underwriting loss (premiums minus claims and expenses) for the first six months of the year of \$142,000. After taking into account investment income (including unrealized losses arising during the period) the loss was reduced to \$45,000. The Budget Variance (Exhibit IV) shows that expenses for the year are tracking very close to budget for the six-month period. While unbudgeted expenses will be incurred dealing with CLLAS' offsite storage files and IFRS 17, at this time, management expects to come in at or under budget overall.

At June 30, 2018, CLLAS had surplus of \$11.5 million. At June 30, 2018, CLLAS had cash and approved securities well in excess of the minimum AMRGF requirement mandated by Alberta insurance law. CLLAS' MCT ratio at the same date was estimated to be 454%, up slightly from 451% at December 31, 2017 and well above CLLAS' minimum requirements.

### *2019 AGM*

CLLAS is an Alberta regulated reciprocal and the Insurance Act specifies that the AGM must be held in Alberta unless the Superintendent agrees otherwise. Each year, CLLAS requests and exemption to enable it to hold the AGM in Ontario. Mr. Mahoney advised that, for the first time, the Superintendent has required that the next AGM, in 2019, be held in Alberta. Management will be exploring ways to ensure that the AGM can be held in the most efficient manner possible.

### *Digital filing/Offsite Storage - Update*

Mr. Mahoney advised the Board that further to the discussion at the last Board meeting the scanning of the offsite files is now underway. We have worked with the Chair to come up with a process to determine which files can be prudently destroyed, rather than scanned and destroyed. CLLAS is no longer creating paper files, so once this process is complete, CLLAS will be completely paperless

## **8. Committee Reports**

### *Report of the Audit Committee*

Gordon Goodman reported to the Board. The Committee's fall meeting is currently being scheduled and will include a review of the year end audit plan, IFRS 17 and the reinsurance security review.

### *Report of the Claims Committee*

Barry Bresner reported to the Board. Included in the material are some charts summarizing CLLAS' claims activity at June 30, 2018.

Mr. Bresner also addressed a refinement to CLLAS' policy of topping up legal fees in situations where an insured firm wishes to retain counsel whose rate is higher than LawPRO approved rates. Two recent settlements, where CLLAS was required late in the day to make a small but unanticipated contribution to settlement, have highlighted that the prospect of making a top up payment needs to be more actively managed. As a result, the Claims Committee recommends that the policy be amended to make it a pre-condition for reimbursement that, when requested, the firm provide CLLAS with copies of all legal accounts processed in the past, as well as copies of all legal accounts processed going forward. This will enable CLLAS to better monitor costs in the underlying layer and the potential quantum of the reimbursement amount if it is in fact triggered.

The Board agreed that the policy should be amended as recommended.

### *Report of the Risk Management Committee*

Julia Holland reported to the Board. The Risk Management seminar is taking place at Torys' office on September 25, 2018. Firms were asked to let Julia Holland know how many people will be attending the Seminar so she can plan accordingly. An email will be circulated providing some background on the speakers and topics for the seminar.

### *Report of the Policy Committee*

There was no report of the Policy Committee.

## **9. Other Business**

### *Quarterly Report of the Investment Manager*

This is an information item for the Board.

### *Annual Dinner*

The annual dinner will be held on Thursday, April 25, 2019 at the National Club.

There was no further business.

**10. Proposed Meeting Dates in 2019**

- Tuesday, February 26, 2019
- Tuesday, June 25, 2019
- Tuesday, September 10, 2019
- Tuesday, December 10, 2019

Date of the AGM is to be advised.

**11. Next Meeting**

The next regularly scheduled meeting of the Board will be on December 11, 2018.

There being no further business, the meeting was terminated.

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Chairman

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Secretary



# MEMORANDUM

DATE: November 23, 2018  
TO: CLLAS Advisory Board  
FROM: Patrick Mahoney  
COPY:  
RE: September 30, 2018 Financial Management Report

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CLLAS' financial management report for the period ended September 30, 2018 is attached. Included are the following exhibits:

Exhibit I:	Statement of Financial Position
Exhibit II:	Statement of Comprehensive Income
Exhibit III:	Statement of Changes in Equity
Exhibit IV:	Budget Variance Analysis
Exhibit V:	Summary of Risk Metrics
Exhibit VI:	Alberta Maintenance of Reserve and Guarantee Fund

## Financial Results

As shown on Exhibit II, CLLAS experienced an underwriting gain (premiums minus claims and expenses) of \$135,000 for the first nine months of 2018. After taking into account investment income (including unrealized losses arising during the period) CLLAS' total comprehensive loss was \$265,000. As shown on Exhibit I, CLLAS' surplus at September 30, 2018 stood at \$11.8 million.

The Budget Variance (Exhibit IV) shows that overall expenses for the year are tracking very close to budget for the first nine months. Management Services fees are \$15,000 (1.6%) over budget due to the heightened level of activity involved in managing a number of complex claims, but overall expenses are \$7,000 (0.4%) under budget. Management's expectation is that expenses for the year will end up being under budget.

## Risk Metrics

Exhibit V presents the results of various "risk metrics" monitored by CLLAS based on what have been identified through the ORSA process as its material risks. The Exhibit shows results for CLLAS at December 31, 2016, December 31, 2017, and September 30, 2018 against risk targets and risk limits. The results for September 30, 2018 are within CLLAS' risk tolerances. Items of note include:

Line 13: The key regulatory solvency test that CLLAS is required to comply with is known as the Alberta Maintenance of Reserve and Guarantee Fund ("AMRGF"). Details of this calculation are included in Exhibit VI, with the result summarized in Line 13 of Exhibit V. CLLAS must maintain





“cash and approved securities” in excess of the reserve fund plus the guarantee fund required by the Alberta regulator. Exhibit VI shows that the CLLAS held cash and approved securities well in excess of the AMRGF requirement at September 30, 2018.

Line 14: CLLAS also monitors its Minimum Capital Test ratio. At September 30, 2018, CLLAS’ MCT ratio is estimated to be 438%, down slightly from 451% at December 31, 2017. Note that mid-year MCT calculations are done on a simplified basis in the interest of efficiency; the “official” MCT calculation is done at year-end.

Please contact me if you have any questions with respect to the management financial statements or the solvency tests.

Sincerely,

Patrick Mahoney  
General Manager

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

**FINANCIAL MANAGEMENT REPORT**

# **CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

## **QUARTERLY FINANCIAL MANAGEMENT REPORT**

**September 30, 2018**

### **CONTENTS**

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

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF FINANCIAL POSITION**  
**September 30, 2018**

	<b>As at September 30, 2018</b>	<b>As at September 30, 2017</b>
<b>ASSETS</b>		
Cash	6,436,447	4,480,204
Short term investments	8,994,047	11,680,827
Bonds	5,052,584	5,086,720
Interest income due and accrued	37,150	32,479
Premium receivable	3,635,432	3,511,476
Other receivable	-	-
Prepaid expenses	210,577	209,250
Deferred policy acquisition costs	159,873	154,965
Unearned reinsurance premium ceded	4,126,706	3,832,939
Reinsurance recoverable	471,588	1,001,143
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	93,898,566	98,095,000
	<u>123,022,970</u>	<u>128,085,003</u>
<b>LIABILITIES</b>		
Accounts payable & accrued charges	185,451	435,662
Premium taxes payable	93,403	19,496
Unearned premium	5,527,752	5,339,149
Due to reinsurers	3,726,284	3,386,829
Provision for unpaid claims and adjustment expenses	101,677,722	106,166,000
Premium deficiency liability	-	-
	<u>111,210,612</u>	<u>115,347,136</u>
<b>SUBSCRIBERS' EQUITY</b>		
Surplus	11,921,813	12,767,482
Accumulated Other Comprehensive Income (Loss)	(109,455)	(29,615)
	<u>11,812,358</u>	<u>12,737,867</u>
	<u>123,022,970</u>	<u>128,085,003</u>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**For the Period Ending September 30, 2018**

	<b>Current Year</b>		<b>Prior Year</b>	
	<b>Quarter September 30, 2018</b>	<b>Year to Date September 30, 2018</b>	<b>Quarter September 30, 2017</b>	<b>Year to Date September 30, 2017</b>
Written Premium	7,390,585	7,390,585	7,138,422	7,138,422
Gross Written Premiums	7,390,585	7,390,585	7,138,422	7,138,422
Less: Reinsurance Ceded	5,517,391	5,517,391	5,124,626	5,124,626
Net Written Premiums	1,873,194	1,873,194	2,013,796	2,013,796
Change in Unearned Premiums	(1,401,046)	(402,424)	(1,506,209)	(426,822)
Earned Premiums	472,148	1,470,770	507,587	1,586,974
Claims Paid	(56,208)	(168,207)	(54,780)	(144,535)
Change in IBNR	(178,000)	(128,000)	800,000	972,000
Change in Case Reserve	(2,844)	(23,844)	(3,000)	646,000
Premium Deficiency Expense	-	-	-	-
Incurred Claims	(237,052)	(320,051)	742,220	1,473,465
Management and operating expenses	309,198	1,289,772	382,646	1,463,990
Reinsurance fees	69,750	209,250	69,750	209,250
Premium taxes	53,291	156,601	51,655	205,876
Total Operating Expenses	432,239	1,655,623	504,051	1,879,116
<b>Underwriting Gain (Loss)</b>	276,961	135,198	(738,684)	(1,765,607)
Investment Income	80,958	217,655	52,265	142,859
Income on Claim Related Matters	-	-	-	-
Interest Income on Premium Tax	-	-	-	-
<b>NET GAIN/(LOSS)</b>	<b>357,919</b>	<b>352,853</b>	<b>(686,419)</b>	<b>(1,622,748)</b>
<b>Other comprehensive income (loss)</b>				
Unrealized gains (losses) on available for sale financial assets arising during the year	(47,356)	(87,687)	(73,237)	(91,226)
Recognition of realized (gain) loss included in income	-	-	-	-
Other comprehensive income (loss) for the year	(47,356)	(87,687)	(73,237)	(91,226)
<b>Total comprehensive income (loss)</b>	<b>310,563</b>	<b>265,166</b>	<b>(759,656)</b>	<b>(1,713,974)</b>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF CHANGES IN EQUITY**  
**September 30, 2018**

	<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>11,518,961</b>	<b>(21,768)</b>	<b>11,547,193</b>
Prior year adjustment		-		-
<b>Comprehensive income (loss) for the year</b>				
Net gain (loss) for the year		352,852		352,852
<b>Other comprehensive income (loss)</b>				
Change in unrealized gain on available-for-sale assets			(87,687)	(87,687)
Recognition of realized gain included in income		-	-	-
Recognition of realized (gain) loss on available-for-sale assets			-	-
<b>Total comprehensive income (loss) for the year</b>		<b>352,852</b>	<b>(87,687)</b>	<b>265,165</b>
Distribution of premium surplus		-		-
<b>Balance at September 30, 2018</b>	<b>50,000</b>	<b>11,871,813</b>	<b>(109,455)</b>	<b>11,812,358</b>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS**  
**FOR THE PERIOD ENDED September 30, 2018**

	Annual Budget	Year to Date Budget %	Year to Date Budget \$	Year to Date Actual \$	Fav/(Unfav) Variance \$
<b>MANAGEMENT SERVICES*</b> (See Note 1)	520,500	75%	390,375	421,384	(31,009)
<b>PROFESSIONAL SERVICES</b>					
Actuarial Services	70,000	79%	55,300	61,309	(6,009)
Reinsurance Matters	300,000	79%	237,000	206,711	30,289
Strategic Matters	160,000	79%	126,400	132,786	(6,386)
Sub-Total Professional Services	530,000		418,700	400,806	17,894
GST/HST on Consulting Fees	136,565		105,180	106,885	(1,705)
<b>Total Management &amp; Professional Services *</b> (See Note 2)	<b>1,187,065</b>		<b>914,255</b>	<b>929,074</b>	<b>(14,819)</b>
<b>OTHER EXPENSES</b>					
Audit Expenses	113,000	75%	84,750	92,955	(8,205)
Annual Dinner	8,500	100%	8,500	5,996	2,504
Premium Taxes	207,000	75%	155,250	156,601	(1,351)
Chairman's Expenses	3,000	75%	2,250	-	2,250
Chairman's Honourium	150,000	100%	150,000	150,000	-
Reinsurance Expense	8,500	75%	6,375	4,159	2,216
D&O Insurance	20,000	100%	20,000	18,036	1,964
Office Expenses	25,000	75%	18,750	22,071	(3,321)
Claims: Borderaux (LawPro/LIF)	15,400	100%	15,400	16,075	(675)
Special Services	25,000	75%	18,750	-	18,750
Miller Insurance Fees (Reins. Comm.) (See Note 3)	279,000	75%	209,250	209,250	-
I.B.C Statistical Plan Fees	4,000	75%	3,000	1,488	1,512
Assessment Fees	3,000	75%	2,250	2,000	250
Investment counsel fees	30,000	75%	22,500	19,094	3,406
Investment - Custodial	18,000	75%	13,500	13,361	139
Risk Management/Loss Prevention	25,000	75%	18,750	11,300	7,450
License Fee	5,000	90%	4,500	4,163	337
Insurance: Sundry	-		-	-	-
<b>Sub-total</b>	<b>939,400</b>		<b>753,775</b>	<b>726,549</b>	<b>27,226</b>
<b>TOTAL</b>	<b>2,126,465</b>		<b>1,668,030</b>	<b>1,655,623</b>	<b>12,406</b>

**\* NOTE 1: MANAGEMENT SERVICES**

The actual budget of \$597,00 has been reduced to \$520,500 as s result of Commissions on CLLAS associate program.

**\* NOTE 2: 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	21%
Second Quarter, ending June 30th	41%
Third Quarter, ending September 30th	17%
Fourth Quarter, ending December 31st	21%
	<u>100%</u>

**\* NOTE 3: MILLER INSURANCE FEES (Reins. Comm.)**

The annual budget is based upon the annual fee actual for the policy year 2017/2018 and estimated for the policy period 2018/2019.

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**SUMMARY OF RISK METRICS**  
**September 30, 2018**

Exhibit V

	<b>Risk Category</b>	<b>Risk Metric</b>	<b>December 31, 2016</b>	<b>December 31, 2017</b>	<b>September 30, 2018</b>	<b>Target</b>	<b>Limit</b>
(1a)	<b>Insurance</b>	Prior year development - Gross of reinsurance	-13%	-8%	-5%	≤ 0%	> 20%
(1b)		Prior year development - Net of reinsurance	-45%	8%	-23%	≤ 0%	> 10%
(2a)		3-year net combined ratio	91%	115%	121%		
(2b)		3-year net combined ratio before surplus adjustments via premiums	78%	91%	92%	≤ 100%	> 125%
(3)		Maximum allocation to a single jurisdiction	56%	60%	60%	n/a	> 67%
(4)	<b>Reinsurance</b>	Reinsurer credit rating	A- to A+	A- to A+	A- to A+	≥ A	< A-
(5)		Maximum concentration with a single reinsurer excl. Colchester	12.2%	12.8%	12.7%	≤ 10%	> 15%
(6)	<b>Interest Rate</b>	Interest rate risk per MCT formula at 1.25%	\$112,000	\$198,000	\$213,000	≤ \$250,000	> \$600,000
(7)	<b>Liquidity</b>	Ratio of cash and short-term investments to gross claim liabilities	16%	14%	15%	≥ 15%	< 10%
(8)		Ratio of short term funds to total short & long term funds	69%	70%	64%	≥ 40%	< 20%
(9a)	<b>Asset Default</b>	Credit rating of invested assets	AA to AAA	AA to AAA	AA to AAA	AA to AAA	< A
(9b)		Credit rating of Bankers Acceptances and Certificates of Deposit	R1 - High	R1 - High	R1 - High	R1-High	< R1-High
(10a)		Maximum allocation to a single non-government security - Schedule I/II Banks	6.7%	6.7%	7.3%	< 7.5%	> 10%
(10b)		Maximum allocation to a single non-government security - Other	2.2%	2.1%	2.5%	< 3.75%	> 5%
(11)	<b>Strategic</b>	Annual Advisory Board turnover	0	0	1	≤ 2 members	> 4 members
(12)	<b>Operational</b>	Key management/advisor turnover	0	0	0	≤ 1 per 3 years	> 1 per year
(13)	<b>Regulatory Solvency Indicators</b>	AMRGF - Excess of cash and approved securities over required reserve and guarantee fund	\$9,595,000	\$7,749,500	\$6,712,000	\$3,500,000 to \$7,000,000	< \$3,500,000
(14)		MCT	463%	451%	438%	≥ 210%	< 210%

**Notes**

- (1) = Year-over-year change in ultimate losses / Prior year undiscounted unpaid claims (excl. ULAE); net development in 2017 is mainly due to one claim of \$650,000  
(2a) = [3-year net incurred losses + 3-year operating expenses] / [3-year net earned premiums]  
(2b) = (2a), where 3-year net earned premiums reflect actuary's indicated premium rates before surplus distributions  
(3) Based on insured lawyer counts  
(4) Based on A.M. Best. information from report on reinsurance security (October 31, 2018).  
(5) Based on claim liabilities exposure. Lloyds syndicates are assessed separately. 2015 information from report on reinsurance security (October 30, 2015); 2016 information from report on reinsurance security (October 21, 2016); 2017 information from report on reinsurance security (October 31, 2017); 2018 information from report on reinsurance security (October 31, 2018).  
(10) Maximum allocation does not consider cash and cash equivalents.  
(12) Includes principal attorney, general manager, accountant, auditor, actuary, reinsurance broker and excess insurance broker.

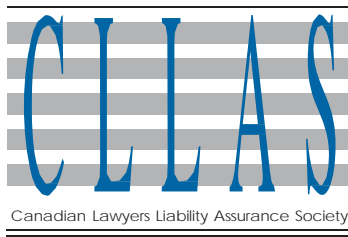
<b>Color Code</b>
<b>Meets Target</b>
<b>Between Target and Limit</b>
<b>Exceeds Limit</b>



**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**For the Period Ending September 30, 2018**

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

	Current Year to Date 30-Sep-18 (in \$000's)	Prior Year End 30-Sep-17 (in \$000's)
<b><u>Reserve Fund</u></b>		
Premiums collected or credited having one year or less to run	(1) 7,391	7,138
Less: Amount paid to licensed reinsurers	(2) 5,517	5,125
Premiums collected with more than one year to run, less expired portion	(3) -	-
Less: Amount paid to reinsurers on premiums on line 3, less expired portion.	(4) -	-
Subtotal (lines 1, minus line 2, plus line 3, minus line 4)	(5) 1,874	2,013
Reserve Fund Required (50% of Line 5)	(6) 937	1,007
<b><u>Guarantee Fund</u></b>		
Total Liabilities	(7) 111,211	115,347
Less: Unearned Premiums	(8) 5,528	5,339
Less: Recoverable from licensed reinsurers	(9) 92,899	97,018
Plus: Statutory Margin	(10) 50	50
Guarantee Fund Required (Line 7 minus Lines 8 and 9 plus line 10)	(11) 12,834	13,040
<b>TOTAL RESERVE &amp; GUARANTEE FUND REQUIRED (Line 6+11)</b>	(12) 13,771	14,047
Cash & Approved Securities	(13) 20,483	21,248
Excess of Cash & Securities over Reserve & Guarantee Fund (line 13 minus line 12)	(14) 6,712	7,202



# MEMORANDUM

DATE: December 3, 2018  
TO: CLLAS Advisory Board  
FROM: Patrick Mahoney  
COPY:  
RE: CLLAS Subscribers' Accounts as at June 30, 2018

---

You will find attached to this memo the Subscribers' Accounts for the year ended June 30, 2018.

I look forward to discussing the attached with you at the up-coming Board meeting.

# CLLAS SUBSCRIBERS' ACCOUNTS

STATEMENT OF FINANCIAL POSITION AND STATEMENT OF OPERATIONS BY UNDERWRITING PERIOD  
FOR THE YEAR ENDED JUNE 30, 2018

**LAW FIRMS:**

- 1 Blake, Cassels & Graydon LLP
- 2 Borden Ladner Gervais LLP
- 3 Fasken Martineau DuMoulin LLP
- 4 Davies Ward Phillips & Vineberg LLP
- 5 Dentons Canada LLP
- 7 Goodmans LLP
- 8 McCarthy Tetrault LLP
- 9 McMillan LLP
- 10 Osler, Hoskin & Harcourt LLP
- 11 Torys LLP
- 12 WeirFoulds LLP
- 13 Cassels, Brock & Blackwell LLP

**UNDERWRITING PERIODS:**

- 1 1987/1988 to 1991/1992
- 2 1992/1993 to 1996/1997
- 3 1997/1998 to 2001/2002
- 4 2002/2003 to 2006/2007
- 5 2007/2008 to 2011/2012
- 6 2012/2013 to 2016/2017
- 7 2017/2018 to 2022/2023

CLLAS SUBSCRIBERS' ACCOUNTS  
UNDERWRITING PERIODS CONSOLIDATED  
STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED JUNE 30, 2018

SUBSCRIBER	1	2	3	4	5	7	8	9	10	11	12	13	Total
ASSETS													
Net Asset Account	874,727	2,788,626	1,667,042	764,440	2,496,665	1,174,674	2,451,325	1,735,932	2,193,750	1,496,926	482,401	1,064,020	19,190,528
Accrued Interest	1,463	2,989	1,934	838	2,162	1,206	2,592	1,745	2,281	1,573	508	1,122	20,414
Premium Receivable	0	0	0	0	0	0	0	0	0	0	0	0	0
Reinsurance Receivable	5,505	54,968	40,800	13,833	40,838	18,354	39,195	25,808	32,096	23,095	7,839	17,400	319,730
Prepaid Expenses	0	15,633	11,660	3,462	0	4,769	11,020	6,245	9,373	7,072	2,302	5,409	76,947
Total Assets	881,694	2,862,217	1,721,437	782,573	2,539,665	1,199,003	2,504,133	1,769,730	2,237,500	1,528,667	493,049	1,087,951	19,607,619

LIABILITIES

Undiscounted Case Reserves	0	117,945	87,832	29,501	87,838	39,479	82,645	53,683	68,538	51,079	17,009	37,450	673,000
Undiscounted IBNR	164,065	679,522	505,869	173,886	400,193	226,433	499,715	325,546	405,568	279,248	99,682	220,274	3,980,000
Impact of Discounting and Provision for Adverse Deviation	211,233	546,135	403,627	140,593	348,022	181,223	410,031	275,072	326,417	212,367	77,663	174,616	3,307,000
Accrued Expenses	0	28,341	23,987	8,341	0	8,749	21,722	10,951	17,231	12,563	4,555	9,380	145,819
Total Liabilities	375,298	1,371,943	1,021,314	352,321	836,054	455,885	1,014,113	665,251	817,754	555,257	198,908	441,721	8,105,819

SUBSCRIBERS' EQUITY

Total Subscribers' Equity	506,396	1,490,273	700,123	430,252	1,703,611	743,119	1,490,020	1,104,478	1,419,746	973,410	294,141	646,231	11,501,800
Total Liabilities and Equity	881,694	2,862,217	1,721,437	782,573	2,539,665	1,199,003	2,504,133	1,769,730	2,237,500	1,528,667	493,049	1,087,951	19,607,619

CLLAS SUBSCRIBERS' ACCOUNTS  
UNDERWRITING PERIODS CONSOLIDATED  
STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED JUNE 30, 2018

Exhibit 1  
Page 2

SUBSCRIBER	1	2	3	4	5	7	8	9	10	11	12	13	Total
Direct Written Premium	0	1,366,266	1,204,958	410,024	0	425,828	1,064,598	534,452	846,394	622,251	205,513	458,138	7,138,422
Retroassessment	-1,500,000	0	0	0	0	0	0	0	0	0	0	0	-1,500,000
Gross Written Premium	-1,500,000	1,366,266	1,204,958	410,024	0	425,828	1,064,598	534,452	846,394	622,251	205,513	458,138	5,638,422
Reinsurance Ceded	0	974,223	872,732	296,766	0	304,539	766,902	383,160	608,014	447,904	142,745	327,641	5,124,626
Net Written Premium	-1,500,000	392,044	332,226	113,258	0	121,289	297,696	151,293	238,380	174,347	62,768	130,496	513,796
Change in Unearned Premium	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Earned Premium	-1,500,000	392,044	332,226	113,258	0	121,289	297,696	151,293	238,380	174,347	62,768	130,496	513,796
Claims Paid	-27,785	-32,105	-23,247	-8,463	-23,310	-10,509	-25,667	-18,641	-19,383	-10,237	-4,179	-9,931	-213,456
Change in Undiscounted Case Reserves	0	-1,402	-1,044	-351	-1,044	-469	-982	-638	-815	-607	-202	-445	-8,000
Change in Undiscounted IBNR	41,099	135,436	103,672	35,916	-2,713	45,338	103,538	60,245	86,012	59,564	23,189	48,705	740,000
Change in Impact of Discounting and Provision for Adverse Deviation	-7,509	724	2,758	826	-54,074	483	1,321	-4,591	3,459	4,538	2,514	3,552	-46,000
Incurred Claims	5,805	102,653	82,139	27,928	-81,141	34,842	78,209	36,375	69,273	53,258	21,321	41,880	472,544
Operating Expenses	7,745	377,274	312,942	108,244	30,750	118,620	286,111	151,389	228,197	165,527	59,825	125,529	1,972,151
Premium Tax	0	39,470	29,415	8,827	14,359	11,729	27,820	15,884	23,291	17,936	5,576	12,312	206,620
Total Expenses	7,745	416,744	342,357	117,072	45,110	130,349	313,931	167,273	251,488	183,463	65,401	137,840	2,178,771
Underwriting Gain (Loss)	-1,513,550	-127,353	-92,270	-31,742	36,032	-43,901	-94,445	-52,355	-82,382	-62,374	-23,955	-49,224	-2,137,519
Investment Income	17,380	36,316	23,479	10,187	25,858	14,695	31,556	21,260	27,779	19,127	6,185	13,700	247,522
Other Income	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Gain (Loss)	-1,496,169	-91,037	-68,791	-21,555	61,890	-29,207	-62,889	-31,095	-54,603	-43,247	-17,770	-35,524	-1,889,997
Other Comprehensive Income	-7,574	-15,478	-10,018	-4,341	-11,195	-6,247	-13,426	-9,036	-11,815	-8,148	-2,629	-5,813	-105,721
Total Comprehensive Income	-1,503,744	-106,515	-78,810	-25,896	50,694	-35,454	-76,315	-40,131	-66,417	-51,395	-20,399	-41,337	-1,995,718



# MEMORANDUM

DATE: November 27, 2018  
TO: CLLAS Advisory Board  
FROM: Patrick Mahoney  
COPY: Barry Bresner – Chair CLLAS Claims Committee  
RE: Defence Counsel Fee Policy

---

As discussed at the September 2018 Board meeting, attached is the draft Defence Counsel Fee Policy for consideration by the Board. The draft Policy preserves the substance of the “top-up” policy and sets out the procedure for entitlement to reimbursement for top-up payments made by an insured firm.

The Board is requested to review the draft Policy at its up-coming meeting and, if appropriate, adopt the Policy. I look forward to discussing this matter at the meeting.

Sincerely,

Patrick Mahoney  
General Manager



## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

### Defence Counsel Rates Policy

Last Updated  
December 11, 2018

**DRAFT**



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## DEFENCE COUNSEL RATES POLICY

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Effective date: [DATE]

### 1. Purpose and Scope

CLLAS takes the view that member firms should have the ability to retain defence counsel of their choice even if the rates per hour for the defence team exceed the maximums permitted by the underlying law society insurance program. The purpose of this policy is to document CLLAS' policy with respect to payment of defence counsel fees in these circumstances.

### 2. CLLAS' Approach to "Topping-up" Legal Fees

- (a) If any member of the defence team has agreed to work with the underlying law society insurance program at a specified rate, that will be the rate applicable to any invoices paid by CLLAS after exhaustion of the underlying limit.
- (b) If any member of the defence team is retained by the insured firm at a rate which exceeds the maximum rate permitted by the underlying law society program, the insured firm will be responsible for any difference in the cost of the defense counsel and the LawPRO rates, subject to the following:
  - i. If the claim (including defence costs incurred by the underlying law society program but not by the insured firm) ultimately resolves at \$1 million or less, the insured firm will remain responsible for any difference in the rates.
  - ii. If the claim (including defence costs incurred by the underlying law society program but not by the insured firm) exceeds \$1 million, CLLAS will reimburse the insured firm for the difference in rates, and will pay future accounts, pursuant to the terms of the applicable insurance policy, at the rates agreed to by the insured firm at the outset of the claim.

In order to effectively manage its claims reserves and its relationship with its reinsurers, CLLAS needs to be able to track its exposure to the reimbursement of defence counsel fees. As a result, it is a pre-condition of reimbursement that, on request, the insured firm provide CLLAS with copies of all legal accounts processed to the date of the request, as well as copies of all legal accounts processed going forward from the date of the request.

From a process perspective, when a claim file first exceeds the reporting threshold (\$500,000 in the underlying layer), CLLAS will remind the insured firm in writing of the policy and request (1) to be provided with all legal accounts paid to date, and (2) to be copied on all legal accounts paid in the future. In the event that an insured firm chooses to not provide the accounts after being so





requested, CLLAS would advise that the entitlement to the top-up is conditional on providing the accounts in a timely manner.

### **3. Authority**

The Board has the authority to make revisions to this policy.

### **4. History of Modifications**

This Policy was first approved by CLLAS on [DATE].



# MEMORANDUM

DATE: December 3, 2018  
 TO: CLLAS Board  
 FROM: Patrick Mahoney  
 COPY: Gord Goodman, Chair CLLAS Audit Committee  
 RE: CLLAS Reinsurance Risk Management Policy

CLLAS' Reinsurance Risk Management Policy (the "Policy") established the policies and procedures by which CLLAS manages its reinsurance risk. The policy was first adopted in June 2016, but it documented procedures that had been in place for about 10 years. At its February 2018 meeting, the CLLAS Board asked the Audit Committee to review the Policy to determine if any amendments were appropriate.

At its Fall audit planning meeting the Committee discussed the Policy and agreed to recommend the changes that are blacklined on the attached draft. The changes are in two areas:

## 1. The Report on Reinsurance Security

Each year in the Fall, the Audit Committee reviews reinsurance security, with a focus on the July 1<sup>st</sup> reinsurance placement. Management provides a report that provides information on all CLLAS reinsurers, with additional information on certain reinsurers that have triggered a higher level of review due, for example, to a ratings downgrade, a "concentration risk", or claims collection difficulties. By way of illustration, the following reinsurers triggered this higher level of review (referred to as a "Level II" review) in 2018:

	AWAC	Colchester	Lloyd's	Swiss Re (incl. Westport)	AMA 1200 (Argo)	PPI 9969 (Pioneer)	AML 2001 (MS Amlin)
Current claims liability exposure (all years) exceeds 10%		✓	✓		✓		
Current claims liability exposure (prior year) exceeds 10%		✓	✓		✓	✓	✓
Claim limit exposure (current year) exceeds 10%			✓	✓			
Unregistered in Canada	✓	✓					
Difficulty collecting reinsurance proceeds after claim settlement							
Rating downgrade / "watch" list							



A Level II review involves a more intensive review of the reinsurer and includes monitoring stock performance and reviewing financial statements. The Audit Committee agreed with the recommendation of management that Level II review should not be triggered due to “concentration risk” if the liability exposure, while perhaps significant to CLLAS, is not significant to the reinsurer. The proposed approach is set out in Appendix I to the Policy and proposes that CLLAS’ exposure is to be considered significant to the reinsurer only if its share of CLLAS’ total current liabilities or claim limit exposure exceeds 0.1% of the reinsurer’s assets and/or 0.5% of the reinsurer’s capital and surplus.

Under the revised standard, the Argo syndicate would continue to trigger Level II review, but Lloyd’s itself and Swiss Re would not.

The rationale for this change is that, while CLLAS should continue to monitor the concentration risk, ratings, etc. of all its reinsurers (including for example Swiss Re) it is not clear that reviewing the reinsurer’s stock performance and financial statements adds any value to the process.

## **2. Reinsurance Risk Management Policy**

Two minor changes are also being proposed to Section 3.8 of the Policy. These changes are to remove vagueness from the Policy and to ensure that the wording of the Policy conforms to current business practices.

I look forward to discussing this matter at the up-coming Board Committee meeting.

Sincerely,

Patrick Mahoney  
General Manager



## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

### Reinsurance Policy

Last Updated

~~June 22, 2016~~ [December 11, 2018](#)



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## REINSURANCE POLICY

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Effective date: June 22, 2016

### 1. Purpose and Scope

- 1.1. The purpose of this policy is to provide guidance to the Advisory Board, Audit Committee, Principal Attorney, General Manager, and Broker on the implementation and monitoring of reinsurance arrangements for CLLAS. This policy complies with the Insurance Act of Alberta and OSFI Guideline B-3, *Sound Reinsurance Practices and Procedures*.
- 1.2. This policy outlines guiding principles with regards to the following:
  - Objectives in seeking reinsurance coverage;
  - Policies and procedures used to manage reinsurance risk;
  - Monitoring and oversight of reinsurance risk; and
  - Roles and responsibilities in managing reinsurance risk.
- 1.3. This policy applies to all existing and potential reinsurance transactions.

### 2. Objectives

CLLAS' objectives in purchasing reinsurance are the following:

- 2.1. Capacity – The purchase of reinsurance gives CLLAS flexibility to offer high coverage limits to its Subscribers while ceding insurance layers beyond its risk appetite.
- 2.2. Cost effectiveness – CLLAS has the flexibility to use its reciprocal structure to purchase more reinsurance and reduce its self-insured retention, or conversely retain more risk and reduce reinsurance, in order to optimize short and long term costs.
- 2.3. Surplus preservation – The purchase of reinsurance reduces the volatility in CLLAS' earnings and surplus position as it provides protection against large losses in exchange for a fixed premium at the inception of the policy year.
- 2.4. Surplus relief – The level of surplus required by regulatory authorities varies directly with the amount of net, i.e. retained, policy liabilities. The purchase of reinsurance allows CLLAS to operate with less surplus due to the lower amount of net policy liabilities.



### 3. Policies and Procedures to Manage Reinsurance Risk – New Transactions

- 3.1. The reinsurance structure will be reviewed and approved by the Advisory Board annually prior to the inception of the policy year with consideration to CLLAS' risk appetite, surplus position, exposure to large losses, short and long term strategic goals as well as then-prevailing reinsurance market conditions.
- 3.2. CLLAS will purchase reinsurance from either:
  - Insurance companies duly licensed to operate in Canada; or
  - Insurance companies not licensed to operate in Canada, provided that CLLAS implements such security arrangements as:
    - it deems appropriate to protect its financial interests; and
    - are in a form acceptable to the regulator (e.g. a Reinsurance Security Agreement) to the extent it wishes to obtain a surplus/asset credit for such reinsurance.
- 3.3. The selection of reinsurers will be subject to due diligence, which will be commensurate with CLLAS' exposure to a reinsurer, and may include a review of the following:
  - Cost of coverage;
  - Availability of coverage;
  - Financial strength, credit rating and outlook as determined by A.M. Best, Standard and Poor's or other similar credit rating agency;
  - Level of claims liability exposure ceded;
  - Claims payment record;
  - Funding sources;
  - Retrocession arrangements;
  - Reputation;
  - Management and governance practices;
  - Supervisory regime and legal/insolvency framework in the reinsurer's home jurisdiction;
  - Any other matters that may threaten the service or security of a reinsurer.
- 3.4. For reinsurers with significant reliance on retrocession, CLLAS' due diligence will extend to a review of the reinsurer's retrocession partners.
- 3.5. In order to minimize its reinsurance default risk, CLLAS' reinsurers should, at time of reinsurance placement, be rated A- or better by A.M. Best and/or S&P unless otherwise expressly authorized by the Advisory Board.
- 3.6. In order to minimize its reinsurance concentration risk, on an annual basis, CLLAS will assess its exposure to individual reinsurers as set out in Section 4.1 below. The results of this annual



assessment will be reviewed by the Audit Committee, which will report any recommendations to the Board.

3.7. All reinsurance contracts will be in written form, binding, signed by signing officers of CLLAS and the reinsurers and, subject to Section 3.8 below, will be executed prior to the effective date of reinsurance coverage. Reinsurance contracts will clearly and comprehensively document all material terms and conditions mutually agreed to by CLLAS and its reinsurers.

3.8. In the event that a full reinsurance contract cannot be executed prior to the effective date, the reinsurance coverage will be set out in a summary document (e.g. cover note, binding letter of intent, or confirmation email). ~~The summary document will be signed prior to the effective date and be contractually binding.~~ The summary document will set out the following, at a minimum:

- The premium paid by CLLAS;
- The percentage of the risk being assumed by each reinsurer;
- The risks and limits reinsured;
- The effective and termination dates of the coverage;
- ~~Any applicable exclusions to the terms of coverage;~~
- ~~Any standard clauses that are to be relied on in the administration of the contract;~~ and
- Any material issues most likely to arise.

Upon finalization, the reinsurance contract will replace the summary document. The reinsurance contract will be signed by the authorized signing officers of CLLAS and the reinsurers as soon as practicable and within 90 days of execution.

3.9. The reinsurance contracts will contain an insolvency clause clarifying that the reinsurers must continue to make full payments to CLLAS in the unlikely event of CLLAS' insolvency. Reinsurance contracts will not contain terms or conditions that may limit CLLAS' ability to enforce the contractual obligations of its reinsurers.

3.10. The reinsurance contracts will be subject to the laws of the province of CLLAS' head office.

#### **4. Policies and Procedures to Manage Reinsurance Risk – Existing Transactions**

4.1. The Broker will monitor the security of the reinsurance arrangements between CLLAS and its reinsurers and, subject to Section 3.4 above, the security of the retrocession arrangements between CLLAS' reinsurers and their retrocession partners. The monitoring will include the following, at a minimum:

- Financial health and credit rating measured against criteria recommended by the Broker and reviewed by the Audit Committee;



- Concentration by reinsurer measured against criteria recommended by the Broker and reviewed by the Audit Committee;
- Collectability issues;
- Licensing status in Canada (registered vs. unregistered).

The Broker will provide other relevant reinsurance updates as necessary. The Broker will advise CLLAS of any rating downgrade as soon as practicable.

4.2. The Broker will report to the Audit Committee on an annual basis. [The report will reflect the approach outlined in Appendix I unless otherwise advised by the Audit Committee.](#) The Audit Committee will report any recommendations to the Board.

4.3. The General Manager will ensure the following:

- The reinsurance risk management practices and procedures comply with this reinsurance policy;
- The reinsurance arrangements effect a transfer of risk; and
- The reinsurance arrangements are accounted for in the appropriate manner.

4.4. The General Manager, with the assistance of the Broker, will maintain a complete description of all reinsurance arrangements, including reinsurance contracts and records of due diligence performed on reinsurance counterparties.

## 5. Roles and Responsibilities

5.1. The Board is responsible for the following:

- Annually reviewing and approving the reinsurance strategy and structure;
- Annually reviewing and approving policies and procedures to manage and control reinsurance risks; and
- Annually reviewing and approving this reinsurance policy on the recommendation of the Audit Committee.

5.2. The Audit Committee is responsible for the following:

- Annually reviewing the report on reinsurance security prepared by the Broker, including the criteria used measure financial health and concentration risk; and
- Annually reviewing this reinsurance policy and recommending appropriate changes in reinsurance structure to the Advisory Board for the upcoming renewal.

5.3. The Principal Attorney is responsible for the following:

- Annually participating in the negotiation of reinsurance rates and coverage; and





- Annually signing and executing reinsurance agreements on behalf of the Subscribers.

5.4. The General Manager is responsible for the following:

- Annually participating in the negotiation of reinsurance rates and coverage;
- Annually reporting to the Board on the effectiveness and compliance with this reinsurance policy;
- Identifying, assessing and monitoring reinsurance risks;
- Recommending appropriate changes in reinsurance strategies, policies and procedures;
- Immediately informing the Advisory Board and regulator of any reinsurance issues that could materially impact CLLAS' financial condition;
- Developing appropriate action plans and ensuring timely communication with the Board when reinsurance risk limits are exceeded; and
- Maintaining all reinsurance contracts.

5.5. The Broker is responsible for the following:

- Conducting a reinsurance renewal strategy meeting with the General Manager to discuss objectives and recommend a cost-effective reinsurance structure in accordance with CLLAS' risk appetite;
- Adhering to the reinsurance policy guidelines regarding reinsurer selection;
- Negotiating on CLLAS' behalf with reinsurers and keeping CLLAS informed of significant developments in the negotiations;
- Ensuring that all reinsurance contracts meet the requirements laid out in this policy;
- Monitoring the security of reinsurance arrangements and reporting to the Audit Committee based on the requirements of this policy;
- Providing such additional information as may be necessary to assess the creditworthiness of reinsurers (e.g. credit agency reports, annual reports, stock price information); and
- Providing relevant timely market updates regarding the reinsurance marketplace in general, and any developments respecting CLLAS reinsurers specifically (e.g. mergers, acquisitions, regulatory proceedings, etc.).

## 6. Authority

The Board has the authority to make revisions to this policy.

The Principal Attorney has the authority to sign and execute reinsurance agreements.

The Broker has the authority to negotiate reinsurance arrangements on behalf of CLLAS.

## 7. History of Modifications

The reinsurance policy was first approved by CLLAS on June 22, 2016.



The reinsurance policy ~~was~~will be reviewed by CLLAS on December 11, 2018. ~~by June 23, 2017.~~  
Section 3.8 was amended to include confirmation email as a summary document, and Appendix I  
was added.

## Section 4.2 – Annual Report to the Audit Committee

### Level I Monitoring

The Broker will provide the Audit Committee with the following information (“Level I Monitoring information”) on all reinsurers participating on policy years with open claims:

- Current A.M. Best and S&P 5-year rating chart comparison;
- Current claims liability exposure (i.e. case reserves and IBNR) to each reinsurer from all policy years combined;
- Current claims liability exposure to each reinsurer for the prior policy year; and
- Claim limit exposure to each reinsurer for the current year.

### Triggers for Level II Monitoring

With respect to any particular reinsurer, should any of the following events occur, Level II Monitoring will take place:

- Downgrading of the financial strength rating;
- A rating agency placing a reinsurer on a “watch” list;
- Difficulties collecting reinsurance proceeds after a claim is settled;
- Use of a reinsurer that is unregistered in Canada; or
- Any other events deemed material by the Audit Committee or its advisors.

With respect to any particular reinsurer, should any of the following events occur, Level II Monitoring will take place if its exposure to the reinsurer is significant relative to the reinsurer’s total assets and/or capital and surplus, as set out below:

- Current claims liability exposure (i.e. case reserves and IBNR) for all policy years combined exceeds 10% of the total;
- Current claims liability exposure for the prior policy year exceeds 10% of the total; or
- Claim limit exposure to each reinsurer for the current year exceeds 10% of the total limits provided by CLLAS.

CLLAS’ exposure is considered to be significant to the reinsurer if its share of CLLAS’ total current liabilities or claim limit exposure exceeds 0.1% of the reinsurer’s assets or 0.5% of the reinsurer’s capital and surplus.

### Level II Monitoring:

The Broker will provide the Audit Committee with the following information (“Level II Monitoring information”) on all reinsurers triggering Level II Monitoring:



- Stock performance relative to the remainder of the market;
- Early warning signals/ratios (as provided by A.M. Best or equivalent agency); and
- Balance sheet and income statement highlights (as provided by A.M. Best or equivalent agency);

In addition, meetings or direct correspondence with these reinsurers may be undertaken as necessary to discuss the financial health of the reinsurer.



## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

### Investment Policy

Last Updated  
December 9, 2015



## 1. PURPOSE

- 1.1. This investment policy ("Policy") sets forth the investment objectives and guidelines for the management of the investments of the Canadian Lawyers Liability Assurance Society ("CLLAS") and the conflict of interest rules applicable to the members of the Advisory Board (the "Board") of CLLAS, the employees of the Office of the General Manager (the "General Manager") directly engaged in providing services to CLLAS and the employees of the investment counsel directly engaged in providing investment services to CLLAS (the "Investment Manager"), collectively referred to as the "CLLAS Agents".
- 1.2. This policy formalizes investment-related activities that comply with the *Alberta Insurance Act* and OSFI's Guideline B-1 *Prudent Person Approach* adopted by the Alberta Superintendent of Insurance.
- 1.3. This Policy is considered to reflect the financial needs of CLLAS and the risk appetite of its subscribers and to set investment standards which a reasonably prudent person would apply to avoid undue risk of loss, maintain appropriate liquidity and obtain a reasonable return.

## 2. CLLAS INVESTMENT ACTIVITIES

- 2.1. The Investment Manager will invest and reinvest, with full discretion but in accordance with the provisions of this Policy, the funds of CLLAS not required for operational purposes.
- 2.2. The Investment Manager will maintain two Funds (the "Funds") for investment purposes: the Short Term Investment Fund and the Long term Investment Fund. Monies provided to the Investment Manager for investment shall be allocated to one or both of the Funds as follows:

Fund	Target Allocation	Acceptable Range
Short Term Investment Fund	40%	20% to 100%
Long Term Investment Fund	60%	0% to 80%

- 2.3. In any event, the Short Term Investment Fund must represent not less than 20% of the total market value of the two Funds at the time the monies are received by the Investment Manager, after giving effect to such allocation. Transfers between the Funds may also be made subject to the Short Term Fund being at least 20% of the market value of the two Funds at the time of transfer and after giving effect thereto.
- 2.4. Investments in the two Funds will be denominated in Canadian dollars.
- 2.5. The Short Term Investment Fund is restricted to investments which mature within one year.



- 2.5.1. Such investments are restricted to the following:
- Treasury Bills issued by the Government of Canada or by any province of Canada having a rating A or better;
  - Certificates of Deposit issued by a Canadian chartered bank having a rating R-1 High or better;
  - Bankers Acceptances accepted by a Canadian chartered bank having a rating of R-1 High or better; and
  - Bonds issued or guaranteed by any of the above which mature in less than one year.
- 2.5.2. Not less than 50% of short term investments will be invested in qualifying Government of Canada or provincial securities.
- 2.6. The Long Term Investment Fund consists of all investments which are not designated as being part of the Short Term Investment Fund.
- 2.6.1. Such investments are restricted to the following:
- Securities issued or guaranteed by the Government of Canada or any province of Canada; and
  - Bonds issued by corporations incorporated under the laws of Canada or any province of Canada.
- 2.6.2. The maximum term to maturity of any one investment shall not exceed 10 years. For greater certainty, this Fund may include short term investments of the type permitted for investment under section 2.5.1
- 2.6.3. Not less than 60% of the market value of this Fund shall be invested in securities issued or guaranteed by the Government of Canada or by the government of any province of Canada and all such securities must, at the time of purchase, be rated A or better.
- 2.6.4. Not more than 40% of the market value of this Fund may be invested in bonds issued by corporations incorporated under the laws of Canada or any province of Canada and all such bonds must, at the time of purchase, be rated A or better.
- 2.7. Investments which do not meet the criteria in Sections 2.5 and 2.6 are ineligible for inclusion in the investment portfolio.
- 2.8. All investments shall be designated as available-for-sale and shall be reported at fair market value, unless otherwise determined by the General Manager with the concurrence of CLLAS' auditor.



- 2.9. The investment portfolio, in aggregate, will at all times comply with the applicable regulatory requirements and restrictions. In particular, Sections 415 to 432 of the *Alberta Insurance Act* describe restrictions with respect to investments.
- 2.10. Unless otherwise required by the Board, the Investment Manager will report to CLLAS each quarter on the status of the Funds and will compare the performance of the Funds with the following benchmarks for the period covered by the report.
  - 2.10.1. The benchmark for the Short Term Investment Fund consists of 30-day Treasury Bills.
  - 2.10.2. The benchmark for the Long Term Investment Fund is a composite benchmark comprised of 60% DEX Short Term Bond Indices (equal portions of the Federal and Provincial Indexes) and 40% DEX Mid Term Bond Indices (equal portions of the Federal and Provincial Indexes).
  - 2.10.3. Each report shall also provide such additional information as CLLAS may reasonably require.
- 2.11. The Board will re-examine the asset mix policy periodically in light of significant changes in any of the following:
  - 2.11.1. the Board becoming aware of any significant liability with respect to any claim;
  - 2.11.2. capital market prospects;
  - 2.11.3. the risk appetite of the subscribers of CLLAS;
  - 2.11.4. any changes in regulatory requirements, and
  - 2.11.5. any other factors considered relevant by the Board.
- 2.12. Nothing in this Section 2 will preclude the Chair or, in his absence, the Vice Chair, from withholding from the Investment Manager funds anticipated to be required for operational purposes and investing such funds in short term investments of the type permitted for investment under Section 2.5.1 and having maturities not exceeding 90 days.
- 2.13. The Board, in conjunction with the General Manager, will review and, if necessary, update this Policy at least annually.

### **3. ASSETS HELD PURSUANT TO REINSURANCE SECURITY AGREEMENTS**

- 3.1. Section 3 of this Policy applies to monies held for the benefit of CLLAS pursuant to Reinsurance Security Agreements with reinsurers not licensed to do business in Canada which may be entered into by CLLAS from time to time.
- 3.2. Such Reinsurance Security Agreements must comply with the requirements of the Alberta Superintendent of Insurance. Pursuant to the terms of applicable Reinsurance Security





Agreements, the market value of the deposits held pursuant to such Agreements must not total not less than the amount required in the Minimum Capital Test in order to avoid any capital deduction or margin requirement as a result of CLLAS ceding risks to unlicensed reinsurers.

- 3.3. Pursuant to the terms of applicable Reinsurance Security Agreements, such deposits must be denominated in Canadian dollars and are restricted to the following:
  - 3.3.1. Cash;
  - 3.3.2. Bonds and debentures issued by the Government of Canada, any province of Canada or any municipality of Canada;
  - 3.3.3. Bonds and debentures issued by a Canadian corporation, trust or limited partnership;
  - 3.3.4. Common or preferred shares in the capital of a Canadian or Provincial corporation; and
  - 3.3.5. Guaranteed investment certificates.
- 3.4. CLLAS has entered into a Loss Portfolio Transfer (“LPT”) with Colchester Reinsurance Limited. The terms of the LPT require that the assets supporting Colchester’s liabilities be held under a Reinsurance Security Agreement and that an investment policy that permits investment in securities other than Cash, T-bills, Government of Canada bonds and Canadian Provincial Government Bonds must be approved by CLLAS.

#### **4. CONFLICTS OF INTEREST**

- 4.1. No CLLAS Agent will knowingly permit his or her interest to conflict with his or her duties and powers in respect of CLLAS.
- 4.2. A conflict of interest is deemed to include any direct, indirect, actual or perceived material pecuniary interest of a CLLAS Agent in any arrangement, contract, investment, transaction or other matter in which CLLAS participates or proposes to participate. The pecuniary interest of a CLLAS Agent is deemed to include that of:
  - 4.2.1. his or her spouse;
  - 4.2.2. any person with whom the CLLAS Agent is living in a relationship outside marriage;
  - 4.2.3. any member of the CLLAS Agent's family who shares his or her home; and
  - 4.2.4. any corporation or trust controlled by the CLLAS Agent or in which he or she has a substantial beneficial interest.
- 4.3. CLLAS Agents must not:
  - 4.3.1. make, influence or participate in the making of any decision, if the effect or such decision is the potential furthering of the CLLAS Agent's interests;



- 4.3.2. use material information derived from is or her status as a CLLAS Agent that has not been generally disclosed, to further the CLLAS Agent's interests; or
- 4.3.3. accept, in connection with his or her status as a CLLAS Agent, ay any gift or personal benefit except those of a minor nature or as permitted by law.
- 4.4. At the earliest opportunity, each CLLAS Agent must fully disclose in writing, if practical, any conflict of interest or potential conflict of interest to the Chair or Vice Chair. The Chair or Vice Chair will record such declarations of conflict and report them to the Board at the earliest opportunity.
- 4.5. Board members in attendance at any meeting of the Board or its Committees must also declare to the Chair of the meeting any conflict or potential conflict of interest in any matter being considered at that meeting which relates to investment made pursuant to this policy and must refrain from participating in the discussion of or voting on such matter.
- 4.6. If any CLLAS Agent has doubt as to whether a particular situation represents a conflict of interest, he or she may provide the necessary information to the Chair or Vice Chair and request that the Board determine whether or not a conflict exists. The Chair or Vice Chair will record such requests and include them on the agenda for the next Board meeting for determination.
- 4.7. The obligation of CLLAS Agents under this Policy are in addition to those imposed on CLLAS Agents by any professional organization with which they may be associated.
- 4.8. The Chair will provide each member of the Board, the General Manager and the Investment Manager with a copy of this Policy. The Board may require periodic confirmation of compliance with this Policy.

## **5. ROLES AND RESPONSIBILITIES**

- 5.1. The Board is responsible for the following:
  - 5.1.1. Ensuring that the investments are in compliance with applicable regulatory requirements and restrictions and that the investments are managed in a prudent manner;
  - 5.1.2. Establishing investment objectives, asset allocations and performance measures;
  - 5.1.3. Reviewing and approving this Policy annually;
  - 5.1.4. Appointing and modifying or terminating the appointment of the Investment Manager;
  - 5.1.5. Reviewing the annual investment review and compliance report; and
  - 5.1.6. Reviewing changes, if any, to the investment policy for the assets supporting the LPT.



5.2. The General Manager is responsible for the following:

- 5.2.1. Ensuring that the investments are in compliance with applicable regulatory requirements and restrictions and that the investments are managed in a prudent manner;
- 5.2.2. Monitoring the Investment Manager's performance, based on the benchmarks set in this Policy, and recommending corrective actions to the Board when required;
- 5.2.3. Monitoring compliance with this Policy;
- 5.2.4. Maintaining a system of internal controls designed to prevent losses from inappropriate investment activities, fraud or human error;
- 5.2.5. Filing all documentation required by the Alberta Superintendent of Insurance.

5.3. The Investment Manager is responsible for the following:

- 5.3.1. Managing the day-to-day securities transactions;
- 5.3.2. Ensuring compliance with this Policy;
- 5.3.3. Achieving performance targets set in this Policy;
- 5.3.4. Maintaining an appropriate level of liquidity to meet financial obligations;
- 5.3.5. Reporting to the General Manager and Board on a quarterly basis, or if warranted, on a more frequent basis on compliance with this Policy;
- 5.3.6. Providing regular reports to the Board which include a review of the current portfolio, a review of investment performance and future investment strategies.

## 6. AUTHORITY

- 6.1. The Board has the authority to make revisions to this Policy.
- 6.2. The Board may, at any time, modify or terminate the appointment of Investment Manager and appoint one or more investment counsel to act as an Investment Manager in its place. The Chair or, in his absence, the Vice Chair shall be responsible, in consultation with the General Manager, for the supervision of the Investment Manager.
- 6.3. The Investment Manager has the authority to purchase, sell or hold securities that will be used to meet the objectives set forth in this Policy.

## 7. HISTORY OF CHANGES

December 2015: The Policy was amended to comply with OSFI's Guideline B-1 adopted by the Alberta Superintendent of Insurance. Notable changes include the following:

- Addition of accounting classification of investments;



- Addition of section on the oversight of assets held pursuant to Reinsurance Security Agreements;
- Addition of section on roles and responsibilities;
- Addition of section on authority with respect to this Policy;
- Addition of section on history of changes.

Other minor changes were also made.

December 2013:	The Policy was amended to reflect CLLAS' financial profile in light of the Loss Portfolio Transfer. The following changes were adopted: <ul style="list-style-type: none"><li>• Increasing the maximum allowable investments in corporate bonds from 20% to 40%;</li><li>• Changing the minimum for federal and provincial bonds to 60% in the Long Term Investment Fund;</li><li>• Adding a benchmark for the Short-Term Investment Fund.</li></ul>
May 2012:	The Policy was amended to restrict all investments based on applicable regulatory requirements and restrictions. The reporting frequency was clarified to be on a quarterly basis. Other minor stylistic changes were made.
October 2008:	The benchmark for the Long-Term Fund was changed from Scotia McLeod's Short Term Bond Index and Provincial Short Term Bond Index to 60% DEX short-term index and 40% DEX mid-term index.
Prior:	Prior revisions to this Policy date from 2001.



## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

### IFRS 17 PROGRESS REPORT

First Report  
October 31, 2018

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## 1. BACKGROUND

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### 1.1. Purpose of Report

The purpose of this Report is to outline the Canadian Lawyers Liability Assurance Society's (CLLAS) progress made in preparation for IFRS 17 to the Audit Committee, the Board and the Alberta Superintendent of Insurance (Superintendent). This is the first progress report. Subsequent reports will be prepared semi-annually on or before:

- March 31, 2019
- September 30, 2019
- March 31, 2020
- September 30, 2020
- March 31, 2021

### 1.2. Overview of Operations

CLLAS was formed in 1986 and licensed in Ontario as an insurer in 1987 with the first policies issued with an effective date of July 1, 1987. Effective July 1, 2012, CLLAS's lead regulator was changed from Ontario to Alberta. CLLAS is licensed in Alberta, British Columbia and Ontario and Nova Scotia.

CLLAS provides professional liability insurance to 10 subscribing law firms in excess of the compulsory coverage provided by the various law societies. Since inception, coverage provided by CLLAS has been on a claims-made basis. CLLAS provides the following per claim and aggregate coverage layers:

- \$49 million excess of \$1 million<sup>1</sup> plus
- \$30 million excess of a minimum of \$65 million
- \$10/20/30/40/50/60 million excess of \$160 million (optional layer)
- 5% of \$30 million excess of \$50 million or \$110 million excess of \$50 million

CLLAS relies on the use of reinsurance as part of its business strategy. Since its inception, proportional and aggregate cover reinsurance agreements have been in place. In addition, on June 30, 2012, CLLAS entered into a loss portfolio transfer agreement to cover all outstanding claim obligations on policies written prior to June 30, 2012.

CLLAS' operations, including underwriting, claims, brokerage, actuarial and finance, are outsourced to Axxima Insurance Services, a division of 3303128 Canada Inc. CLLAS' Advisory Board, supported by its standing committees, provides oversight for these operations.

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<sup>1</sup> The excess policies are endorsed to drop down to excess of \$25,000 in certain instances.

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## 2. IFRS PROJECT STRUCTURE AND RESOURCES

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Description of the project structure, governance and timeline, including the role of the board or Chief Agent, project sponsor, key project team members (internal and external) and accountabilities.

Assessment of whether resources are sufficient to meet project deliverables.

– May 2018 OSFI Advisory

### 2.1. Project Resources

The IFRS 17 implementation project team is multi-disciplinary, consisting of professionals in the fields of accounting, actuarial and management. Key team members are:

- Patrick Mahoney, General Manager of CLLAS and Project Sponsor
- Julie-Linda Laforce, Appointed Actuary of CLLAS
- Cecilia Jeganathan, Project Accountant for CLLAS
- Sarah Chevalier, Consultant (Axxima)
- Elena Cealaia, Consultant (Axxima)

Financial reporting for insurance entities requires both actuarial and accounting expertise. Julie-Linda Laforce and Sarah Chevalier are both accredited actuaries and will address all actuarial aspects of the implementation of IFRS 17. Cecilia Jeganathan and Elena Cealaia are both accredited accountants and will address the accounting aspects of the implementation of IFRS 17. Patrick Mahoney, the General Manager of CLLAS, will be responsible for the oversight of this project.

CLLAS' Audit Committee and Board will be involved and will have key input in adopting the accounting policies under IFRS 17 (additional details provided in Section 2.2). The Board members expected to be most involved in the implementation are:

- Ken Crofoot, Principal Attorney and Chair of the Board
- Gordon Goodman, Chair of the Audit Committee

The auditor, Deloitte, is also expected to be consulted during the implementation planning phase, in particular with respect to the presentation and disclosures of financial statements.

The resources assigned to this project are expected to be adequate to meet the project deliverables described below.



## 2.2. Project Structure

The IFRS 17 implementation project will be performed in three key phases, as described below.

### Phase I – Impact Assessment (2018)

This phase involves reviewing business processes (e.g., systems, premium processes, preparation of financial statements, approval processes, etc.) and considering the implications of IFRS 17 on these processes and options for a smooth transition to IFRS 17. The target completion date for this phase is December 31, 2018. It includes the following deliverables:

- Gathering of information on current business practices by questionnaire and discussion
- Preparation of impact assessment of IFRS 17 on business processes, including key considerations for Board to approve accounting policies
- Preparation of IFRS 17 implementation plan
- In-person discussion in November 2018 between the Audit Committee and the IFRS 17 project team to provide an introductory education session and discuss the impact assessment and implementation plan
- Preparation of first progress report

### Phase II – Implementation Planning (2019)

This phase involves implementing business process changes and Board-approved accounting policy decisions to be able to enable the preparation of financial statements under the new framework starting in 2020. This Phase would be completed in accordance with the following timeline:

#### *Spring 2019:*

- In-person education session for the Audit Committee on key accounting policy decisions (e.g. risk adjustment, option to present financial results in other comprehensive income and other key decisions affecting the presentation of financial statements)
- Preparation of progress report

#### *Summer 2019:*

- Implementation of business process changes identified in the implementation plan, subject to key accounting policy decisions discussed with the Board in Spring 2019
- Preparation of mock-up financial statements to illustrate the quantitative impact of IFRS 17
- Preparation of mock-up MCT to illustrate the quantitative impact of IFRS 17

#### *Fall 2019:*

- In-person education session for the Audit Committee and/or Board, as appropriate
- Presentation of mock-up financial statements
- Presentation of mock-up MCT
- Preparation of progress report

Liaison with the auditor with respect to the implementation of IFRS 17 will take place over the course of 2019.

### **Phase III – Parallel Runs (2020)**

Financial statements for 2021 prepared under IFRS 17 will require comparative financial information for reporting year 2020. For this reason, financial statements under IFRS 4 and under IFRS 17 in 2020 will need to be prepared. The key objectives of this phase are the following:

- Preparation of 2020 comparative financial results that will appear in the 2021 financial statements
- “Practice” preparing financial statements under the new accounting framework
- Determine and implement refinements to business processes, if required
- Preparation of two progress reports

The plan for Phase III will be refined over the course of Phase II.

### 3. IFRS PROJECT STATUS

Indicate the status of key milestones of the project plan. For example, indicate if the project is on schedule, ahead of schedule or behind schedule. If behind schedule, indicate the steps being taken to bring the project back on schedule. When evaluating project status, Federally Regulated Insurers (FRIs) should:

- i. Conduct a qualitative assessment of IFRS 17/IFRS 4 differences (e.g. impact on policyholder liability, retained earnings, regulatory capital, etc.);
- ii. Identify issues and solutions in applying IFRS 17 where a decision has been made and, where a decision has not been made, the major factors relevant to the decision and the timeline for completing that decision;
- iii. Describe possible choices, actions, elections or policies (accounting or actuarial) being considered and applicable criteria when making a decision;
- iv. Where a decision has been determined and it is possible to estimate its impact, provide a preliminary estimate of the range of quantitative impacts for each financial statement item affected by the choice and the potential impact on capital levels. If it is not yet possible to estimate its impact, describe the timeline and process for completing that estimate.

– May 2018 OSFI Advisory

The project plan presented in Section 2.2 specifies that Phase I – Impact Assessment should be completed by December 31, 2018. The table below summarizes the status of the key elements of Phase I as of the date of this report:

Element	Status	Assessment of Resources
Gathering of information on current business practices by questionnaire and discussion	Completed	Sufficient to meet deliverables
Preparation of impact assessment of IFRS 17 on business processes, including key considerations for Board to approve accounting policy decisions	In progress	Sufficient to meet deliverables
Preparation of an implementation plan	In progress	Sufficient to meet deliverables
In-person discussion between Audit Committee and the IFRS 17 project team to provide an introductory education session and discuss the impact assessment and implementation plan	To take place in November 2018	Sufficient to meet deliverables
Preparation of first progress report	Completed	Sufficient to meet deliverables

The project remains on schedule. Phase II – Implementation Planning is due to commence in March 2019. Phase III – Parallel Runs is due to commence in January 2020.

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## 4. SIGNIFICANT ACCOUNTING IMPACTS

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FRI's should provide a summary of the significant changes caused by the difference between IFRS 4 and IFRS 17. OSFI has identified the following accounting policy options affecting the FRI's financial statements:

- a. Level of aggregation
- b. Estimate of future cash flows
- c. Discount rates
- d. Risk adjustment
- e. Contractual service margin
- f. Embedded guarantees
- g. Accounting for financial guarantee contracts
- h. Deferred acquisition costs
- i. Premium allocation approach measurement
- j. Contracts with direct participation features
- k. Reinsurance
- l. Impact of adoption of IFRS 9 on IFRS 17 transition date
- m. Impact on presentation and disclosures
- n. Transition

The progress report should comment on the above and on any other items that have a significant impact on the FRI's financial statement balances (mainly on the statement of financial position), recognition, classification, measurement, presentation or disclosure. Each report should provide the status and progress towards decisions made.

– May 2018 OSFI Advisory

The impact assessment of the IFRS 17 implementation is currently in progress. Certain elements of IFRS 17 are not applicable to CLLAS:

- Embedded guarantees (item f. above)
- Financial guarantee contracts (item g. above)
- Contracts with direct participation features (item j. above)

The impact assessment is expected to be discussed with the Audit Committee in November 2018 and with the Board in December 2018.

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## 5. OPERATIONAL PREPAREDNESS

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FRIs should update their assessment of the IFRS 17 impact on:

- i. Preparation of regulatory returns;
- ii. Changes required to systems, if any;
- iii. Training designed and delivered to staff; and
- iv. Any other items impacting the project.

– May 2018 OSFI Advisory

### **i. Preparation of Regulatory Returns**

Templates and guidance for the preparation of the P&C-1, MCT and AMRGF under IFRS 17 have not yet been released by the Superintendent's office. The impact on regulatory returns will be assessed once these are made available.

As part of Phase II – Implementation Planning which spans 2019, CLLAS expects to prepare mock financial statements and solvency tests to illustrate the quantitative impact of adopting IFRS 17.

### **ii. Changes Required to Systems**

The assessment of these changes is in progress.

### **iii. Training Designed and Delivered to Staff**

An education session for the Audit Committee is planned in November 2018. Two additional education sessions are planned over the course of 2019.

As CLLAS does not have internal staff, it relies on an external consulting firm, Axxima, to manage the implementation planning of IFRS 17. The members of the project team from Axxima are well acquainted with the IFRS 17 standard and supporting guidance, participate in industry committees and regularly attend accounting and actuarial conferences and events on this topic.

### **iv. Other Impacts**

There are no other impacts to report at this time.

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## APPENDIX A – IFRS 17 SELF-ASSESSMENT QUESTIONNAIRE

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Item	Complete	In Progress On Time	In Progress At Risk	Not Started	Not Applicable	Comments
1. Does the FRI have an approved IFRS 17 Project Plan in place? Is the project on track?		X				See sections 2.2 and 3.
2. Has the FRI determined its accounting policies with respect to IFRS 17 including options and actuarial methods associated with:  <div> <div>Levels of aggregation</div> <div>Estimate of future cash flows</div> <div>Discount rates</div> <div>Risk adjustment</div> <div>Contractual service margin</div> <div>Embedded guarantees</div> <div>Accounting for financial guarantee contracts</div> <div>Deferred acquisition costs</div> <div>Premium allocation approach measurement</div> <div>Contracts with direct participation features</div> <div>Transition</div> </div>		<div>X</div> <div>X</div> <div>X</div> <div>X</div> <div>X</div> <div></div> <div>X</div> <div>X</div> <div></div> <div>X</div>			<div></div> <div></div> <div></div> <div></div> <div></div> <div>X</div> <div>X</div> <div></div> <div></div> <div>X</div>	Expected to be determined by December 31, 2019.
3. Has the FRI performed a qualitative assessment of IFRS 4/IFRS 17 differences?		X				Expected to be discussed with Audit Committee in November 2018 and Board in December 2018
4. Has the FRI performed a quantitative assessment or proforma financial statements for IFRS 17?				X		Expected to be performed in 2019 as part of Phase II – Implementation Planning

Item	Complete	In Progress On Time	In Progress At Risk	Not Started	Not Applicable	Comments
5. Has the FRI performed an IFRS 9 impact analysis on classification and measurement of financial instruments?				X		Expected to be performed in 2019 as part of Phase II – Implementation Planning
6. Have changes to source systems been examined?		X				Will be assessed as part of impact assessment.
7. Has the FRI designed and delivered training to staff?		X				Audit Committee and Board education session planned for December 2018. See Section 5.
8. On a best effort basis, has the FRI reviewed and determined the impact of IFRS 17 on the regulatory capital ratio (MCT)?				X		Expected to be performed in 2019 as part of Phase II – Implementation Planning, subject to templates and guidance being made available by the Superintendent's office.
9. Other items of note for discussion					X	
10. Qualitative discussion (if necessary) of project					X	



Actuaries & Insurance Management Advisors

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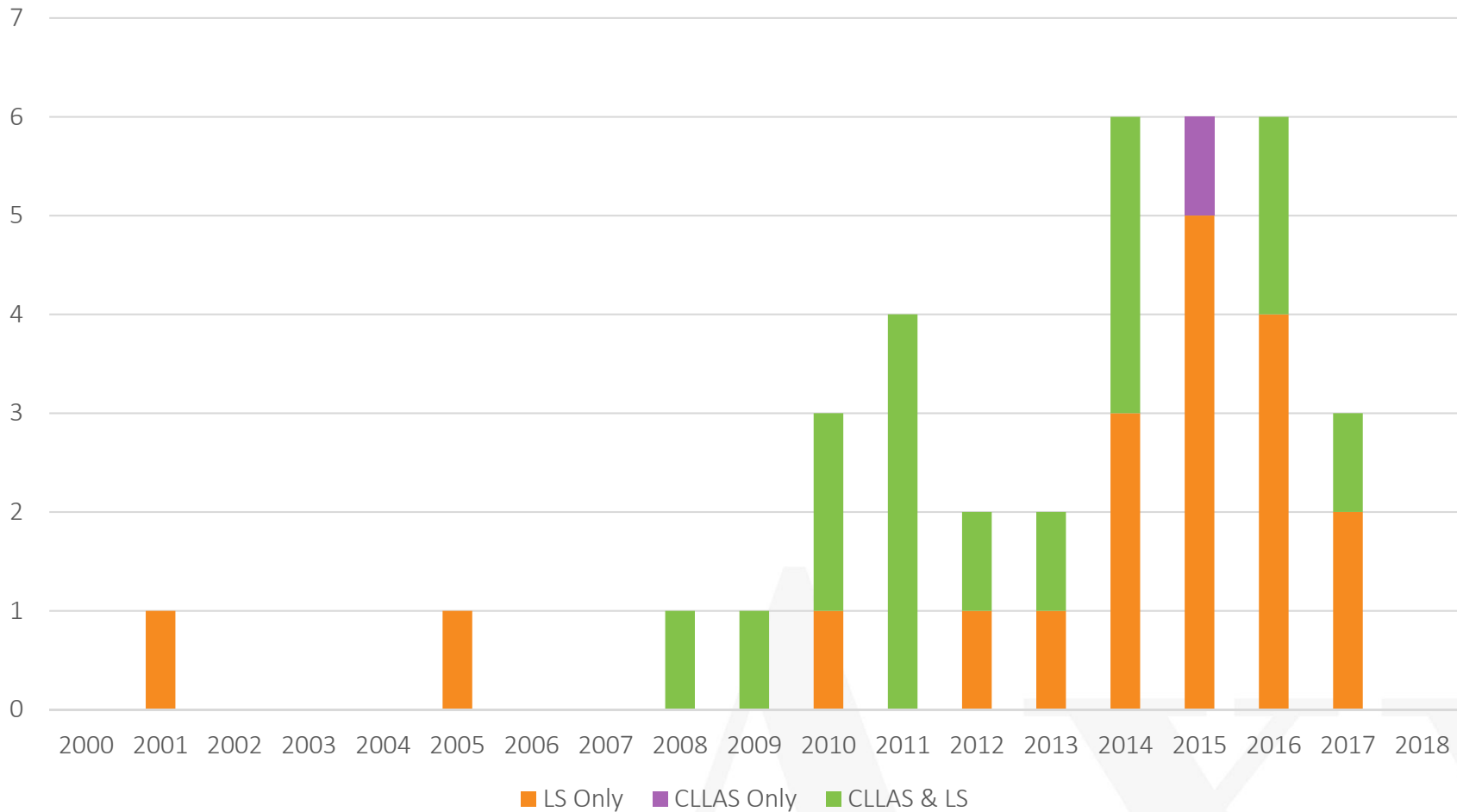
CLLAS

Open Large Loss Claims Summary  
As at September 30, 2018



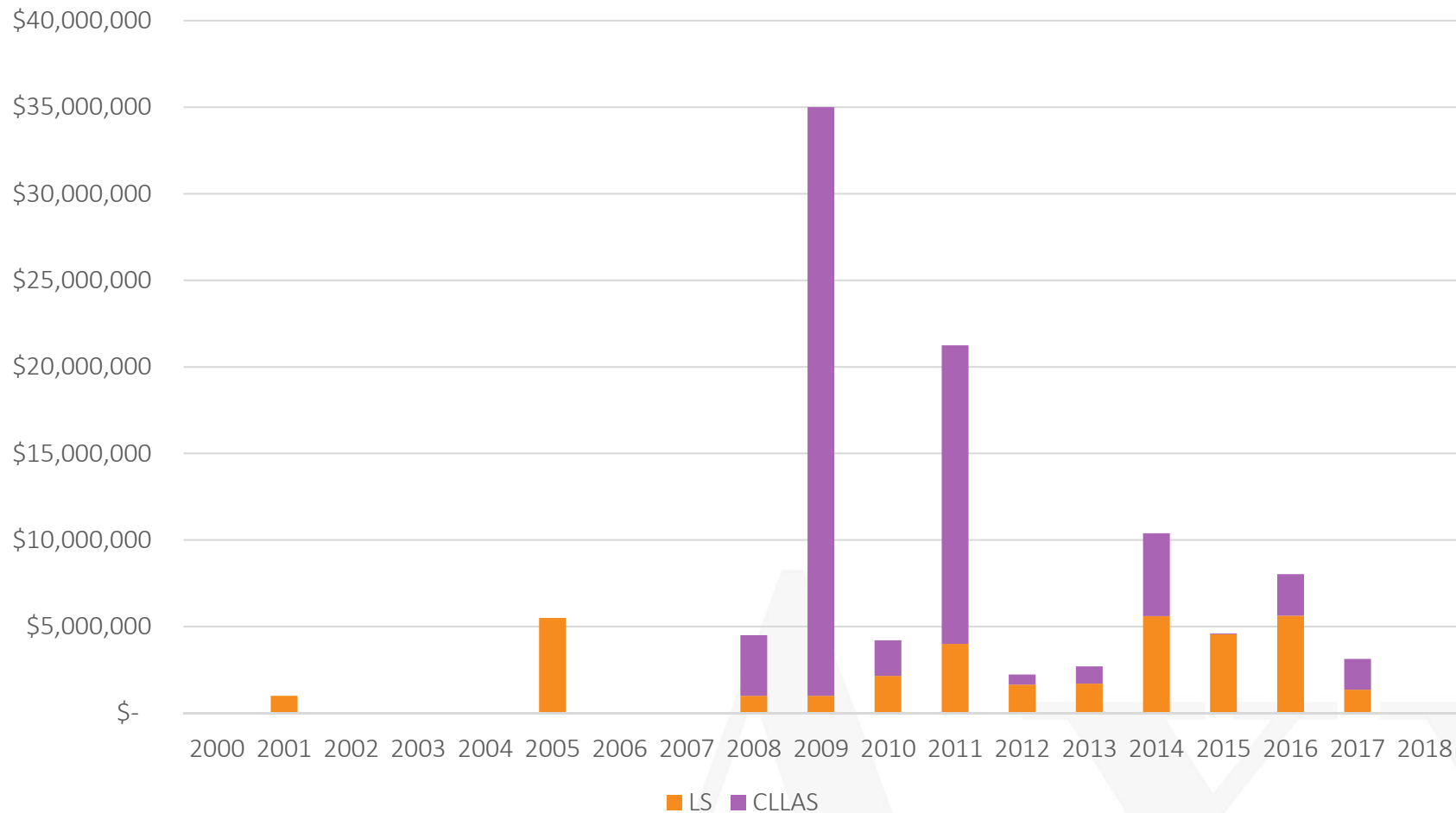
# Open Large Loss Claims

## Number of Claims by Insurer



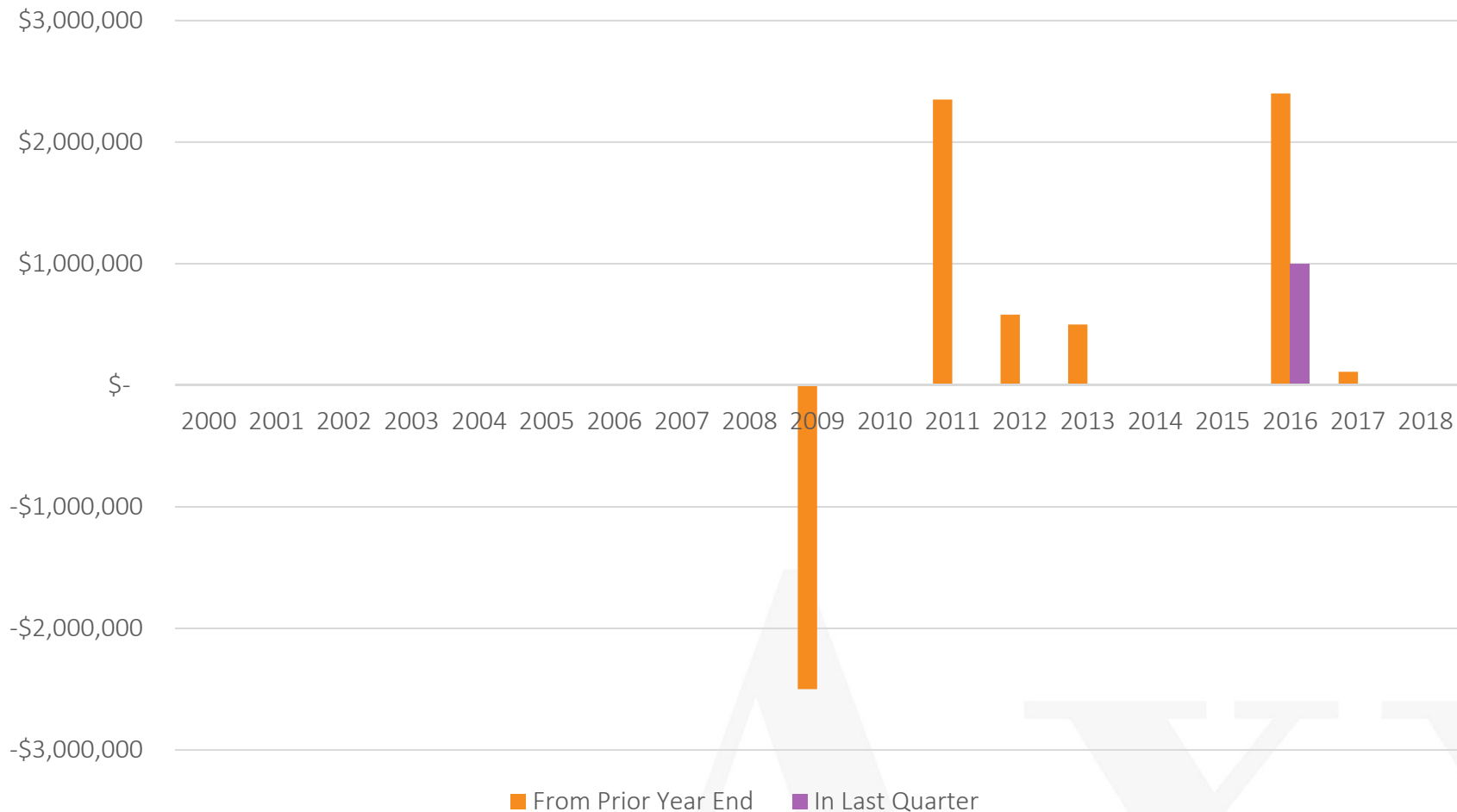
# Open Large Loss Claims

## Incurred Amounts by Insurer



# Open Large Loss Claims

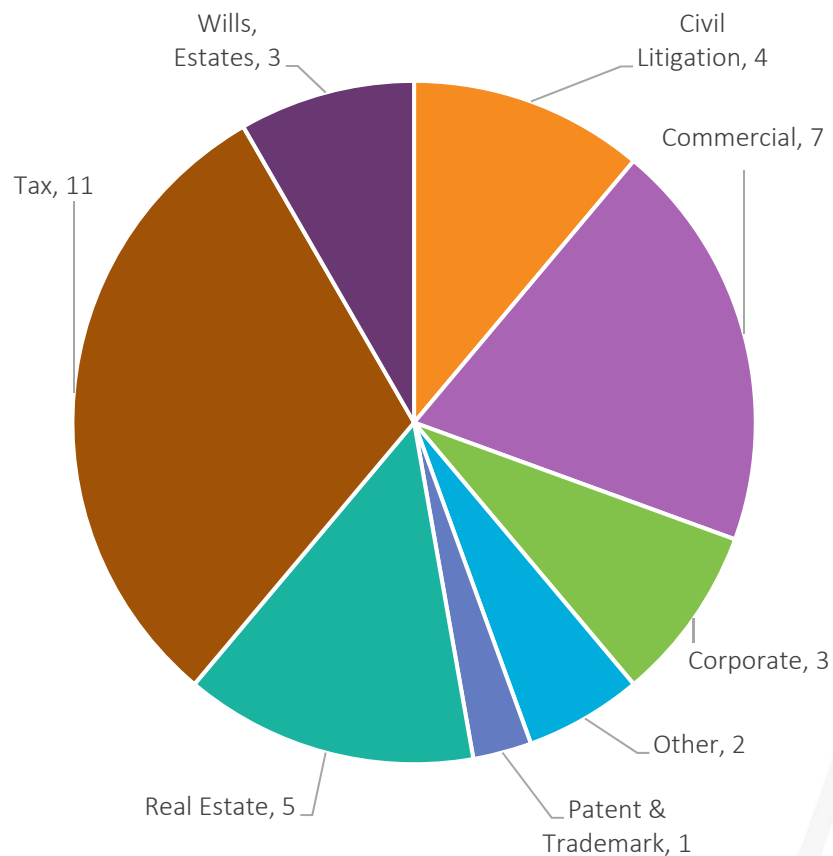
## Change in Incurred Amounts (CLLAS)



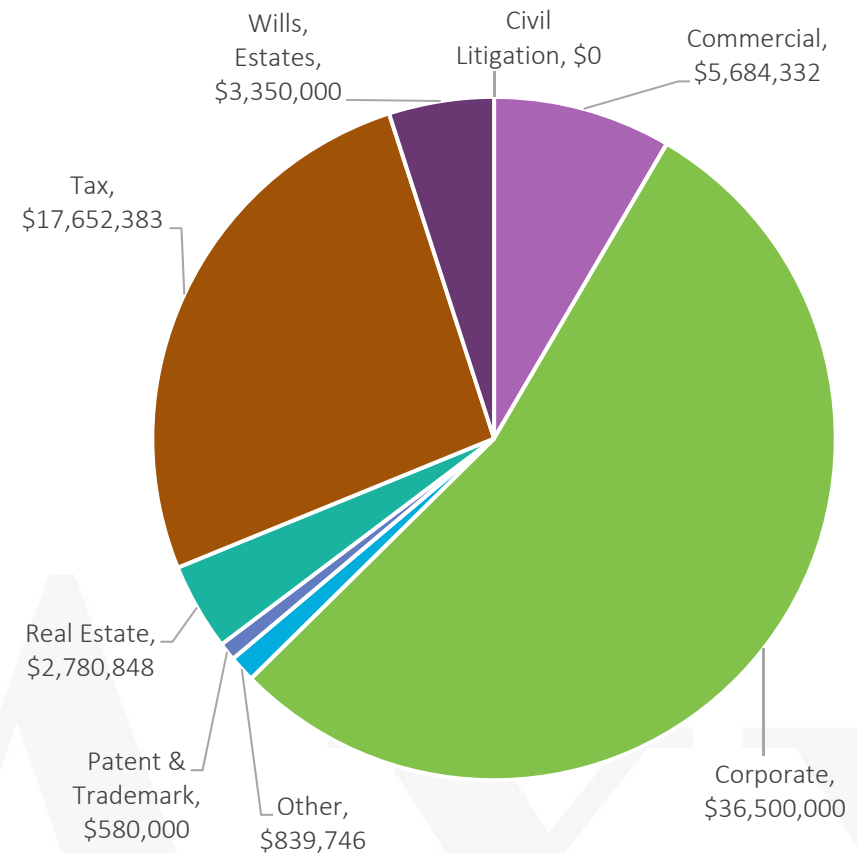
# Open Large Loss Claims

## By Area of Law

Number of Claims (CLLAS & LS)

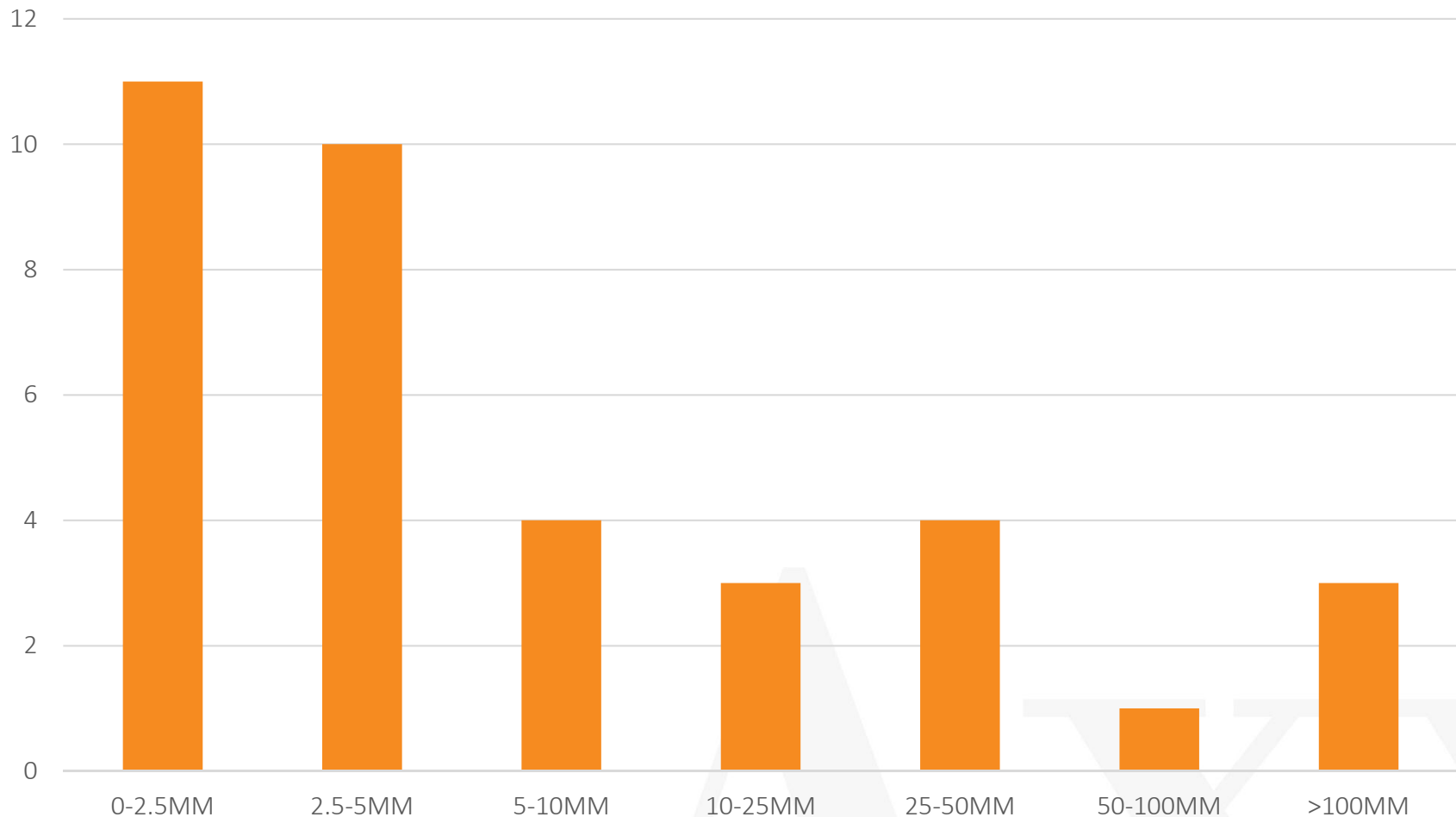


CLLAS Incurred



# Open Large Loss Claims

## Number of Claims by Best Estimate of Worst Case



# Open Large Loss Claims

## Claim Count Movement in Quarter

Policy Year	Law Society Only	CLLAS Only	CLLAS & Law Society
2000	0	0	0
2001	0	0	0
2002	0	0	0
2003	0	0	0
2004	0	0	0
2005	0	0	0
2006	0	0	0
2007	0	0	0
2008	0	0	0
2009	0	0	0
2010	0	0	0
2011	0	0	0
2012	0	0	0
2013	1	0	0
2014	-1	0	0
2015	0	0	0
2016	-1	0	1
2017	0	0	0
2018	0	0	0

# Notes

## Slide 1

- Illustrates the number of open claims by insurer.
- LS Only: Large (\$500,000+) Law Society (“LS”) claims which have not yet developed into CLLAS (\$1,000,000+) claims
- CLLAS Only: Claims which are typically drop-down claims where the Law Society does not respond
- CLLAS & LS: Claims where amounts have been incurred by both the Law Society and CLLAS

## Slide 2

- Illustrates the aggregate incurred amounts (paid + reserved) by policy year
- Identifies the quantum yet to be crystalized and highlights extraordinary years

## Slide 3

- Illustrates movements in paid (always positive, except in cases of recovery) and reserved amounts
- Positive values highlight strengthening of reserves, or adverse claim development. Negative values highlight reduced reserves or better than expected outcomes

# Notes (Cont'd)

## Slide 4

- Illustrates the split between areas of law for the number of open claims and the incurred amounts (paid + reserved)
- Highlights the law areas of claims being actively managed

## Slide 5

- Based on counsel's best estimate of the worst case outcome of each open claim
- Highlights the potential claim sized being actively managed

## Slide 6

- Illustrates the emergence or closure (including reduction of incurred value below the large loss monitoring threshold of \$500,000) of claims over the previous quarter
- Note: Claims may move between Law Society Only, CLLAS & Law Society, and CLLAS Only



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

INVESTMENT REPORT  
SEPTEMBER 30, 2018

**MARTIN, LUCAS & SEAGRAM LTD.**  
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**CANADIAN LAWYERS LIABILITY**  
**ASSURANCE SOCIETY**

**COMMENTARY FOR THE QUARTER ENDING SEPTEMBER 30, 2018**

**Review of Market Yields**

After shifting modestly higher during the first two months of the third quarter, bond yields moved in a steady upward trend throughout September. At the end of the quarter, the most significant change occurred at the short end of the yield curve, where the yield on 3-month Treasury Bills advanced 33 basis points. Meanwhile, the upward shift in the balance of the curve was fairly uniform with an average increase of 25 basis points for issues maturing from 1 to 10 years.

As a result of these shifts, the slope of the yield curve flattened slightly during the quarter. At the end of September, the yield advantage of the 10-year issue over the Treasury bill was down to 83 basis points compared to 91 basis points three months earlier.

	<b>Jan. 01/95</b>	<b>Mar. 31/18</b>	<b>Jun. 30/18</b>	<b>Sep. 30/18</b>
3-month Treasury Bills	6.80%	1.10%	1.26%	1.59%
5-year Canadas	8.99%	1.96%	2.06%	2.33%
10-year Canadas	9.09%	2.09%	2.17%	2.42%

During the quarter, in the Short Term Investment Fund, activity involved the roll-over of money market securities. At the end of the quarter the proceeds of a BA maturity were earmarked for the purchase of bonds in the Long Term Investment Fund.

In the Long Term Investment Fund, a provincial bond matured and a new medium-term provincial bond was purchased with the proceeds. Since the end of the quarter, most of the closing balance in the Short Term Fund was used to increase two bond positions and introduce a new corporate and government issue in the Long Term Investment Fund.

During the third quarter, the market value of the Long Term Investment Fund holdings declined \$44,958 which represents a capital decrease of 0.9%.

At September 30, 2018, the average term to maturity of the Long Term Investment Fund stood at 4.7 years and the duration was 4.3 years.

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

<b><i>Distribution at September 30, 2018</i></b>	<b><i>Valuation</i></b>	<b><i>%</i></b>
Short Term Investment Fund	\$9,852,630	66.1%
Long Term Investment Fund	\$5,052,188	33.9%
<b>TOTAL COMBINED VALUATION</b>	<b>\$14,904,818</b>	<b>100.0%</b>

**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 September 30, 2018
- Security Purchases and Sales
- Cash Reconciliations
- External Individual Credit Rating Report

**LONG TERM INVESTMENT FUND**

**TIME-WEIGHTED RATES OF TOTAL RETURN  
FOR PERIODS ENDING SEPTEMBER 30, 2018**

	3 Years*	2 Years*	1 Year	Last 3 months
<b><i>Long Term Investment Fund – Gross of Fees</i></b>	<b><i>0.83%</i></b>	<b><i>-0.32%</i></b>	<b><i>0.91%</i></b>	<b><i>-0.22%</i></b>
<b><i>Long Term Investment Fund – Net of Fees</i></b>	<b><i>0.55%</i></b>	<b><i>-0.60%</i></b>	<b><i>0.63%</i></b>	<b><i>-0.29%</i></b>
<b>Benchmark Portfolio **</b>	<b>0.84%</b>	<b>-0.50%</b>	<b>0.74%</b>	<b>-0.30%</b>

\*Annualized

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

60% Canada Short Bond Index

40% Canada Mid Bond Index

**SHORT TERM INVESTMENT FUND**

**TIME-WEIGHTED RATES OF TOTAL RETURN  
FOR PERIODS ENDING SEPTEMBER 30, 2018**

	Since Inception Oct. 01/08 *	3 Years*	2 Years *	1 Year	Last 3 Months
<b><i>Short Term Investment Fund – Gross of Fees</i></b>	<b><i>0.81%</i></b>	<b><i>0.82%</i></b>	<b><i>0.96%</i></b>	<b><i>1.29%</i></b>	<b><i>0.35%</i></b>
<b><i>Short Term Investment Fund – Net of Fees</i></b>	<b><i>0.69%</i></b>	<b><i>0.69%</i></b>	<b><i>0.81%</i></b>	<b><i>1.12%</i></b>	<b><i>0.30%</i></b>
<b>Benchmark Portfolio **</b>	<b>0.76%</b>	<b>0.70%</b>	<b>0.82%</b>	<b>1.10%</b>	<b>0.31%</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

**LONG TERM INVESTMENT FUND**

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

	Dec. 17/13	Dec. 31/17	Mar. 31/18	Jun. 30/18	Sep. 30/18
<b>Bonds, Treasury Bills &amp; Cash</b> Less than 1 year term	100.0%	15.8%	11.8%	11.8%	8.9%
<b>Canadas</b> Greater than 1 year term		18.7%	18.5%	18.6%	18.6%
<b>Provincials</b> Greater than 1 year term		31.9%	31.5%	31.5%	38.2%
<b>Corporates</b> Greater than 1 year term		33.6%	38.2%	38.1%	34.3%
<b>TOTAL PORTFOLIO</b>	<b>100.0%</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. 31/17	Mar. 31/18	Jun. 30/18	Sep. 30/18
Under 1 year	15.7%	11.8%	11.8%	8.9%
1 - 3 years	19.8%	19.7%	18.7%	14.9%
3 - 5 years	26.0%	28.7%	31.6%	35.6%
5 - 7 years	14.1%	15.9%	21.7%	17.7%
7 - 10 years	24.4%	24.1%	16.2%	22.9%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Average Maturity (yrs)</b>	<b>4.30</b>	<b>4.31</b>	<b>4.36</b>	<b>4.69</b>
<b>Average Duration (yrs)</b>	<b>3.95</b>	<b>3.96</b>	<b>4.01</b>	<b>4.28</b>

**SHORT TERM INVESTMENT FUND**

	Dec. 31/17	Mar. 31/18	Jun. 30/18	Sep. 30/18
<b>Short Term</b> <b>Average Duration (yrs)</b>	<b>0.10</b>	<b>0.08</b>	<b>0.10</b>	<b>0.10</b>

## COMPLIANCE WITH INVESTMENT POLICY STATEMENT

AT SEPTEMBER 30, 2018

	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	66.1%	Yes
Minimum Canada & Provincial Percentage	50%	51.8%	Yes
Minimum Provincial Quality	A	N/A	Yes
Minimum Bank CD & BA Quality	R1 (high)	R1 (high)	Yes
<b><i>Long Term Investment Fund</i></b>			
Maximum Term of Any Issue	10 years	8.7 years	Yes
Maximum Percentage of Total Fund (Short & Long)	60% of Total	33.9%	Yes
Minimum Canada Percentage	20%	23.5%	Yes
Maximum Provincial Percentage	40%	38.2%	Yes
Minimum Canada & Provincial Percentage	60%	61.7%	Yes
Minimum Provincial Quality *	A	AA (low)	Yes
Maximum Corporate Percentage	40%	38.3%	Yes
Minimum Corporate Quality *	A	AA (low)	Yes

\* At time of purchase

This will confirm that during the third 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.

Martin, Lucas & Seagram Ltd.  
 PERFORMANCE REPORT  
 GROSS OF FEES  
**CLLAS – LONG TERM INVESTMENT FUND**  
*(RBC Investor Services)*  
*From 06-30-18 to 09-30-18*

Portfolio Value on 06-30-18	5,105,686
Accrued Interest	20,414
Contributions	2,568
Withdrawals	-28,244
Realized Gains	-315
Unrealized Gains	-44,643
Interest	17,136
Dividends	0
Change in Accrued Interest	16,735
Portfolio Value on 09-30-18	5,052,188
Accrued Interest	37,150
Average Capital	5,115,654
Total Gains before Fees	-11,087
<b>IRR for 0.25 Years</b>	<b>-0.22%</b>

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

North American bond yields, which had been rangebound most of this year, broke higher in September and have continued to rise since then. In the U.S., 10-year Treasury yields recently hit a 7-year high, while the 10-year Canada bond yield reached levels last seen in early 2014.

On the domestic front, following a weak start early this year, Canada's economic backdrop improved in the second quarter with the economy recording an annualized growth rate of 2.9%. This was the fastest pace in a year and just above the Bank of Canada's estimate of 2.8%. Despite better than expected economic conditions this summer, the Bank of Canada kept interest rates steady at its meeting last month, reiterating that, while more hikes would be needed to keep inflation on target, it would maintain a gradual approach. Indeed, Canada's annual inflation rate surged in August to its highest level in nearly seven years, although inflation indicators did retreat in September, which reduced the year over year CPI increase to 2.2%. Meanwhile, following 13 months of negotiations, at the eleventh hour Canada reached a deal to join the U.S. and Mexico in a new trilateral trade agreement called the United States-Mexico-Canada Agreement (USMCA). While the new agreement is not as favourable to Canada as the one it replaced (NAFTA) and reciprocal tariffs on aluminum and steel remain in place, Canada did retain some important protections. More importantly, the agreement averts the serious economic consequences if no deal had been reached and removes a significant cloud of uncertainty that was weighing on the domestic economy. Furthermore, a resolution surrounding the fate of NAFTA improves the outlook for business investment and also removes one obstacle to the normalization of domestic monetary policy. It is now widely anticipated that the Bank of Canada will raise rates later this month and will likely upgrade its economic projections, suggesting that the expected pace of future rate increases will increase moderately over the medium term.

South of the border, aggregate growth in the U.S. jumped to an upwardly revised 4.2% in the second quarter, the largest gain in almost 4 years and the fastest growth rate among the advanced economies. This was fuelled by a surge in exports that preceded China's retaliatory tariffs, as well as strong consumer and business spending. Continued strength in the labour market, which has driven the unemployment rate to a near two-decade low, and ongoing support from fiscal stimulus via the tax cuts, are expected to sustain the expansion going forward. The Federal Reserve echoed this sentiment last month by raising interest rates another quarter of a percent, which brings the upper range to 2.25%. The Bank also stated that it now expects the economy to grow at a 3.1% pace this year and to continue to expand moderately for at least three more years thereafter. In the wake of their more optimistic view on growth, employment and higher inflation expectations, the Bank has adopted a more hawkish tone and now projects another rate hike in December, which would bring the 2018 total to four, to be followed by three additional increases next year.

Overseas, revised figures show that Eurozone GDP growth in the second quarter kept pace with the 0.4% sequential gain recorded in the first quarter. However, this increase has lagged behind the strong improvement recorded last year. This is largely the result of softening domestic consumption due to higher inflation and weaker growth in household incomes, as well as a slowdown in trade that has caused a decline in industrial production. A pick-up in economic



activity in the second half of the year remains challenged by trade-related uncertainties, which continue to weigh on business investment in critical industries such as steel and automotive. Furthermore, Turkey is now vulnerable to defaulting on their significant corporate debts amidst a likely recession. Given the exposure of some of the Eurozone's largest banks to Turkey, concerns surrounding the risk of contagion are growing. Friction between the Eurozone and Italy's new government also remains a concern. Despite softer growth this year, and what the European Central Bank (ECB) calls a "relatively vigorous" pick-up in underlying inflation, the ECB remains on track to reduce the pace of its monthly bond purchases and end this quantitative easing program by December of this year. However, interest rate hikes are not currently expected until the later half of next year. Citing weaker foreign demand and rising protectionism, the bank has again trimmed its aggregate growth forecast for this year to 2.0%, and to 1.8% in 2019.

In China, GDP expanded by 6.5% in the third quarter, its slowest pace in almost a decade, albeit still in line with the government's forecast of around 6.5% growth in 2018. This slowdown is partly the result of less government spending, which reflects policies designed to rebalance the economy away from investment towards consumption and measures to rein in debt growth. Meanwhile, its trade battle with the U.S. has escalated dramatically. The U.S. and China activated tariffs on \$50 billion of each other's goods in July. Despite several rounds of subsequent negotiations, the Trump Administration announced a second bout of 10% tariffs on another \$200 billion of imports last month with plans to increase the rate to 25% at the end of this year. Following up on its pledge to retaliate, China quickly countered with additional tariffs on another \$60 billion of American imports. Mr. Trump had warned that, if China took retaliatory action, the U.S. would move to apply tariffs on another \$267 billion of additional imports, meaning all imports from China would be taxed. The growing dispute, with no settlement in sight as the U.S. shifts to a more confrontational policy, continues to weigh on China's equity market as well as its currency, which is trading near its lows for the year. While the fall in China's currency has provided a partial offset, along with U.S. fiscal stimulus which has boosted U.S. demand for Chinese exports, recent data suggests that U.S. tariffs are starting to bite. Gauges of business activity stalled in September following 15 months of expansion, while import growth slowed noticeably last month. In response, policy makers have recently shifted towards more accommodative monetary and fiscal policies in an attempt to cushion the impact.

Meanwhile, Japan returned to economic growth in the second quarter with a sharp upward revision to an annualized gain of 3%, the quickest pace in more than two years. This was due largely to a rebound in private consumption and capital spending. Despite the pick-up in economic activity, the Bank of Japan has kept its monetary policy largely accommodative and reiterated its commitment to "powerful, continuous monetary easing". This, together with the recent jump in wages, should also help domestic demand drive economic growth going forward. Trade tensions have also eased, with the U.S. and Japan now planning bilateral talks aimed at reaching a trade agreement.

While the global economic expansion remains on track to match last year's pace, which was the strongest since 2011, cracks in the global backdrop are starting to widen. Global growth has become less balanced this year, with growing divergences between developed regions and mounting weakness among some emerging economies. In the wake of these developments, the International Monetary Fund (IMF) has shaved their global economic growth forecast for this year and next, citing trade policy tensions, the imposition of import tariffs between the U.S. and China, weaker performances by eurozone countries and pressures on emerging markets

experiencing tighter financial conditions and capital outflows. While the IMF does not expect contagion to spill over to the stronger performing emerging economies, they acknowledged that downside risks have increased and the susceptibility to large global shocks has risen.

Until recently, U.S. equity markets had shown considerable resilience to rising trade tensions, tightening financial conditions and higher administered interest rates as investors seemed more focused on the strong economic backdrop and robust profit growth. However, early this month, the U.S. stock market experienced its steepest sell-off since early this year. Offshore markets have also been caught up in the downdraft. The sudden loss in investor confidence has been driven by a confluence of factors. These include the recent run-up in bond yields and the negative impact this could have on growth and stock valuations, escalating trade tensions between the U.S. and China and the collateral damage on corporate profitability, along with the possibility that a slowdown in the Chinese economy could spill over into global markets. Investors also have conflicting concerns, with some worrying that a strong economy will lead to faster Fed rate increases, while others believe ongoing weakness in the U.S. housing and auto sectors portend slower economic growth ahead. Meanwhile, the upcoming U.S. mid-term elections add to the already elevated drama on the political front. Interestingly, the normal flight to safety during a stock market selloff, when investors rotate out of stocks into the relative safety of bonds, has been muted thus far as yields have backed off only marginally during the latest pullback in stocks. This suggests investors believe that yields have more upside potential.

This is a difficult juncture for investors and the extreme moves in the stock and bond markets are particularly unsettling given the prolonged period of unusually low volatility. It seems unlikely that many of the uncertainties roiling the markets will be resolved quickly. As a result, we expect volatility will remain elevated as investors weigh the generally favourable economic and business backdrop against a variety of factors that have the potential to damage the global expansion. In weighing the crosscurrents in the bond market, we expect that domestic yields will remain under moderate upward pressure as the Bank resumes the gradual normalization of rates now that NAFTA has been resolved. Budding inflationary pressures and rising deficits south of the border as well as the shift by global central banks to a less accommodative stance also supports the expectation that yields will move higher over the near term. As a result, we continue to believe the outlook warrants maintaining the Long Term Funds relatively defensive duration of just over 4 years and keeping a laddered maturity structure in order to provide a prudent hedge against the possibilities.

RWB/de

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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**  
(RBC Investor Services)

**Portfolio Holdings at September 30, 2018**

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
<b>CASH</b>					
	Cash Account			853,553	0
<b>MONEY MARKET ISSUES</b>					
1,500,000	Canada Treasury Bill 1.37% due October 4, 2018	99.74	99.98	1,499,646	20,496
1,000,000	Royal Bank BA 1.718% due October 18, 2018	99.59	99.90	999,048	17,108
800,000	CIBC BA 1.689% due October 31, 2018	99.65	99.84	798,739	13,465
1,535,000	Canada Treasury Bill 1.410% due November 1, 2018	99.68	99.87	1,533,000	21,574
255,000	Canada Treasury Bill 1.43% due November 15, 2018	99.68	99.81	254,513	3,635
1,025,000	Bank of Nova Scotia BA 1.710% due November 16, 2018	99.73	99.76	1,022,561	17,480
615,000	FirstBank BA 1.83% due November 26, 2018	99.57	99.71	613,220	11,206
1,825,000	Canada Treasury Bill 1.500% due November 29, 2018	99.66	99.74	1,820,315	27,281
460,000	Toronto Dominion Bank BA 1.796% due December 20, 2018	99.57	99.57	458,036	8,226
				8,999,078	140,470
<b>TOTAL PORTFOLIO</b>				<b>9,852,630</b>	<b>140,470</b>

Disclosures:

1. Please note that the securities listed herein are held on your behalf by the above noted custodian. You may wish to contact them directly to determine if your account is covered by any recognized Investor Protection Plan and/or for information on how these securities are held.
2. The cost of each position shown in the account is the book cost (original cost adjusted for distributions, capital returns and re-orgs). For unit costs marked with an \*, the book cost cannot be determined and the value shown is based on the closing market price on July 15, 2015.

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
**(RBC Investor Services)**  
*From 07-01-18 To 09-30-18*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
<b>PURCHASES</b>					
07-03-18	07-03-18	615,000	CIBC BA 1.532% due August 31, 2018	99.75	613,480.95
07-19-18	07-20-18	500,000	Royal Bank BA 1.718% due October 18, 2018	99.58	497,890.00
07-19-18	07-19-18	1,000,000	Toronto Dominion Bank BA 1.601% due September 19, 2018	99.73	997,330.00
07-23-18	07-23-18	460,000	CIBC BA 1.709% due September 21, 2018	99.72	458,732.24
07-23-18	07-24-18	500,000	Royal Bank BA 1.718% due October 18, 2018	99.59	497,960.00
07-25-18	07-26-18	1,500,000	Canada Treasury Bill 1.37% due October 4, 2018	99.74	1,496,068.50
08-08-18	08-09-18	1,535,000	Canada Treasury Bill 1.410% due November 1, 2018	99.68	1,530,035.81
08-16-18	08-17-18	800,000	CIBC BA 1.689% due October 31, 2018	99.65	797,232.00
08-16-18	08-17-18	840,000	Royal Bank BA 1.705% due September 4, 2018	99.92	839,294.40
08-22-18	08-23-18	255,000	Canada Treasury Bill 1.43% due November 15, 2018	99.68	254,192.67
08-30-18	08-31-18	615,000	FirstBank BA 1.83% due November 26, 2018	99.57	612,330.90
09-01-18	09-04-18	840,000	Royal Bank BA 1.705% due September 28, 2018	99.89	839,059.20
09-05-18	09-06-18	1,825,000	Canada Treasury Bill 1.500% due November 29, 2018	99.66	1,818,722.00
09-18-18	09-19-18	1,025,000	Bank of Nova Scotia BA 1.710% due November 16, 2018	99.73	1,022,222.25
09-21-18	09-24-18	460,000	Toronto Dominion Bank BA 1.796% due December 20, 2018	99.57	458,034.88
					<b>12,732,585.80</b>
<b>SALES</b>					
07-03-18	07-03-18	615,000	Bank of Nova Scotia BA 1.424% due July 3, 2018	100.00	615,000.00
07-20-18	07-20-18	840,000	Bank of Nova Scotia BA 1.500% due July 20, 2018	100.00	840,000.00
07-20-18	07-20-18	655,000	Toronto Dominion Bank BA 1.461% due July 20, 2018	100.00	655,000.00
07-24-18	07-24-18	960,000	CIBC BA 1.509% due July 24, 2018	100.00	960,000.00
07-26-18	07-26-18	1,500,000	Canada Treasury Bill 1.160% due July 26, 2018	100.00	1,500,000.00

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
**(RBC Investor Services)**  
*From 07-01-18 To 09-30-18*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
08-09-18	08-09-18	1,525,000	Canada Treasury Bill 1.190% due August 9, 2018	100.00	1,525,000.00
08-17-18	08-17-18	860,000	CIBC BA 1.559% due August 17, 2018	100.00	860,000.00
08-17-18	08-17-18	780,000	FirstBank BA 1.534% due August 17, 2018	100.00	780,000.00
08-23-18	08-23-18	250,000	Canada Treasury Bill 1.020% due August 23, 2018	100.00	250,000.00
08-31-18	08-31-18	615,000	CIBC BA 1.532% due August 31, 2018	100.00	615,000.00
09-04-18	09-04-18	840,000	Royal Bank BA 1.705% due September 4, 2018	100.00	840,000.00
09-06-18	09-06-18	1,825,000	Canada Treasury Bill 1.210% due September 6, 2018	100.00	1,825,000.00
09-19-18	09-19-18	1,000,000	Toronto Dominion Bank BA 1.601% due September 19, 2018	100.00	1,000,000.00
09-21-18	09-21-18	460,000	CIBC BA 1.709% due September 21, 2018	100.00	460,000.00
09-28-18	09-28-18	840,000	Royal Bank BA 1.705% due September 28, 2018	100.00	840,000.00
					<b>13,565,000.00</b>

Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - SHORT TERM INVESTMENT FUND***  
***(RBC Investor Services)***  
*From 07-01-18 to 09-30-18*

Cash Balance at June 30, 2018		<u>6,203.68</u>
ADD: Proceeds from Sales	13,565,000.00	
Bond Interest Credited (from Long Term Investment Fund)	17,135.80	
Transfer to/from Long Term Investment Fund	<u>8,540.00</u>	<u>13,590,675.80</u>
LESS: Cost of Purchases	-12,732,585.80	
Q2 2018 Investment Counsel Fees - Short Term Investment Fund	-2,769.34	
Q2 2018 Investment Counsel Fees - Long Term Investment Fund	-3,605.89	
Trust Company Charges	<u>-4,365.70</u>	<u>-12,743,326.73</u>
<b>Cash Balance at September 30, 2018</b>		<u><u><b>853,552.75</b></u></u>

Martin, Lucas & Seagram Ltd.

EXTERNAL INDIVIDUAL CREDIT RATING REPORT - SEPTEMBER 30, 2018

**CLLAS - SHORT TERM INVESTMENT FUND**

			<b>Unit</b>	<b>Total</b>		<b>Market</b>	<b>%</b>
<b>Quantity</b>	<b>Security</b>	<b>Rating</b>	<b>Cost</b>	<b>Cost</b>	<b>Price</b>	<b>Value</b>	<b>Assets</b>
1,500,000	Canada Treasury Bill 1.37%	R-1 (high)	99.74	1,496,069	99.98	1,499,646	16.7%
	due October 4, 2018						
1,000,000	Royal Bank BA 1.718%	R-1 (high)	99.59	995,850	99.90	999,048	11.1%
	due October 18, 2018						
800,000	CIBC BA 1.689%	R-1 (high)	99.65	797,232	99.84	798,739	8.9%
	due October 31, 2018						
1,535,000	Canada Treasury Bill 1.410%	R-1 (high)	99.68	1,530,036	99.87	1,533,000	17.0%
	due November 1, 2018						
255,000	Canada Treasury Bill 1.43%	R-1 (high)	99.68	254,193	99.81	254,513	2.8%
	due November 15, 2018						
1,025,000	Bank of Nova Scotia BA 1.710%	R-1 (high)	99.73	1,022,222	99.76	1,022,561	11.4%
	due November 16, 2018						
615,000	FirstBank BA 1.83%	R-1 (high)	99.57	612,331	99.71	613,220	6.8%
	due November 26, 2018						
1,825,000	Canada Treasury Bill 1.500%	R-1 (high)	99.66	1,818,722	99.74	1,820,315	20.2%
	due November 29, 2018						
460,000	Toronto Dominion Bank BA 1.796%	R-1 (high)	99.57	458,035	99.57	458,036	5.1%
	due December 20, 2018						
				8,984,689		8,999,078	100%

**CLLAS - LONG TERM INVESTMENT FUND**  
**(RBC Investor Services)**

**Portfolio Holdings at September 30, 2018**

<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>					
250,000	Canada Housing Trust 1.95% due June 15, 2019	100.10	99.98	249,943	4,875
200,000	Canada Housing Trust 2.4% Series 48 due December 15, 2022	100.37	99.30	198,590	4,800
200,000	Canada Housing Trust 2.35% due September 15, 2023	105.62	98.70	197,390	4,700
250,000	Canada Housing Trust 2.9% due June 15, 2024	102.64	101.20	252,995	7,250
300,000	Canada Housing Trust Ser. 70 2.25% due December 15, 2025	100.98	96.77	290,298	6,750
				<hr/> 1,189,216	<hr/> 28,375
<b>PROVINCIAL BONDS</b>					
250,000	British Columbia 3.25% due December 18, 2021	102.30	102.25	255,625	8,125
250,000	Ontario 3.15% due June 2, 2022	99.04	101.79	254,470	7,875
350,000	Ontario 2.85% due June 2, 2023	103.15	100.47	351,642	9,975
400,000	Ontario 2.60% due June 2, 2025	101.08	98.15	392,580	10,400
350,000	British Columbia 2.3% due June 18, 2026	104.40	95.98	335,923	8,050
350,000	Ontario 2.60% due June 2, 2027	97.56	96.56	337,967	9,100
				<hr/> 1,928,207	<hr/> 53,525
<b>CORPORATE BONDS</b>					
200,000	Wells Fargo Canada 2.944% due July 25, 2019	100.02	100.39	200,776	5,888
300,000	Bank of Montreal 2.84% due June 4, 2020	101.77	100.28	300,849	8,520
250,000	Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	104.57	99.81	249,528	6,408
200,000	Bank of Montreal 3.4% due April 23, 2021	100.65	101.43	202,866	6,800
150,000	Royal Bank 1.968% due March 2, 2022	100.05	96.81	145,208	2,952
250,000	National Bank of Canada 2.105% due March 18, 2022	102.04	97.15	242,873	5,263



Martin, Lucas & Seagram Ltd.

**CLLAS - LONG TERM INVESTMENT FUND**  
**(RBC Investor Services)**

**Portfolio Holdings at September 30, 2018**

<b>Quantity</b>	<b>Security</b>	<b>Unit Cost</b>	<b>Price</b>	<b>Market Value</b>	<b>Annual Income</b>
150,000	Wells Fargo 3.46% due January 24, 2023	102.36	100.99	151,484	5,190
250,000	Toronto Dominion Bank Dep. Note 3.226% due July 24, 2024	102.02	100.40	250,996	8,065
200,000	Bank of Nova Scotia Dep. Notes 2.62% due December 2, 2026	99.23	95.09	190,188	5,240
				1,934,766	54,325
<b>TOTAL PORTFOLIO</b>				<b>5,052,188</b>	<b>136,225</b>

Disclosures:

1. Please note that the securities listed herein are held on your behalf by the above noted custodian. You may wish to contact them directly to determine if your account is covered by any recognized Investor Protection Plan and/or for information on how these securities are held.
2. The cost of each position shown in the account is the book cost (original cost adjusted for distributions, capital returns and re-orgs). For unit costs marked with an \*, the book cost cannot be determined and the value shown is based on the closing market price on July 15, 2015.

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*(RBC Investor Services)*  
*From 07-01-18 To 09-30-18*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
<b>PURCHASES</b>					
09-11-18	09-13-18	350,000	Ontario 2.60% due June 2, 2027	97.56	341,460.00
					<b>341,460.00</b>
<b>SALES</b>					
09-10-18	09-10-18	350,000	Ontario 2.1% due September 8, 2018	100.00	350,000.00
					<b>350,000.00</b>

Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - LONG TERM INVESTMENT FUND***  
*From 07-01-18 to 09-30-18*

Cash Balance at June 30, 2018		<u>0.00</u>
ADD: Transfer from Short Term Investment Fund	-8,540.00	<u>-8,540.00</u>
ADD: Proceeds from Sales	350,000.00	
Bond Interest Credited (to Long Term Investment Fund)	17,135.80	
Transfer to Short Term Investment Fund	<u>-14,567.85</u>	<u>352,567.95</u>
LESS: Cost of Purchases	-341,460.00	
Accrued Interest Debited (from Long Term Investment Fund)	<u>-2,567.95</u>	<u>-344,027.95</u>
<b>Cash Balance at September 30, 2018</b>		<u><u><b>0.00</b></u></u>

## EXTERNAL INDIVIDUAL CREDIT RATING REPORT - SEPTEMBER 30, 2018

## CLLAS - LONG TERM INVESTMENT FUND

					Unit	Total		Market	Pct.
Quantity	CUSIP	Security		Rating	Cost	Cost	Price	Value	Assets
GOVERNMENT BONDS									
250,000	13509PEL3	Canada Housing Trust 1.95%	due June 15, 2019	AAA	100.10	250,238	99.98	249,943	4.9%
200,000	13509PDL4	Canada Housing Trust 2.4% Series 48	due December 15, 2022	AAA	100.37	200,740	99.30	198,590	3.9%
200,000	13509PDV2	Canada Housing Trust 2.35%	due September 15, 2023	AAA	105.62	211,240	98.70	197,390	3.9%
250,000	13509PEF6	Canada Housing Trust 2.9%	due June 15, 2024	AAA	102.64	256,600	101.20	252,995	5.0%
300,000	13509PFD0	Canada Housing Trust Ser. 70 2.25%	due December 15, 2025	AAA	100.98	302,940	96.77	290,298	5.7%
						1,221,758		1,189,216	23.5%
PROVINCIAL BONDS									
250,000	110709BJ0	British Columbia 3.25%	due December 18, 2021	AA (high)	102.30	255,750	102.25	255,625	5.1%
250,000	68323AAW4	Ontario 3.15%	due June 2, 2022	AA (low)	99.04	247,600	101.79	254,470	5.0%
350,000	68323ABN3	Ontario 2.85%	due June 2, 2023	AA (low)	103.15	361,025	100.47	351,642	7.0%
400,000	68323ACX0	Ontario 2.60%	due June 2, 2025	AA (low)	101.08	404,305	98.15	392,580	7.8%
350,000	11070TAJ7	British Columbia 2.3%	due June 18, 2026	AA (high)	104.40	365,400	95.98	335,923	6.6%
350,000	68323AEE0	Ontario 2.60%	due June 2, 2027	AA (low)	97.56	341,460	96.56	337,967	6.7%
						1,975,540		1,928,207	38.2%
CORPORATE BONDS									
300,000	06367VCT0	Bank of Montreal 2.84%	due June 4, 2020	AA	101.77	305,307	100.28	300,849	6.0%
200,000	06367VJN6	Bank of Montreal 3.4%	due April 23, 2021	AA	100.65	201,300	101.43	202,866	4.0%
200,000	064151QE6	Bank of Nova Scotia Dep. Note 2.62%	due December 2, 2026	AA	99.23	198,460	95.09	190,188	3.8%
250,000	633067C27	National Bank of Canada 2.105%	due March 18, 2022	AA (low)	102.04	255,100	97.15	242,873	4.8%
150,000	780086KD5	Royal Bank 1.968%	due Mar 2, 2022	AA	100.05	150,075	96.81	145,208	2.9%
250,000	891145S47	Toronto Dominion Bank Dep. Note 2.563%	due June 24, 2020	AA	104.57	261,425	99.81	249,528	4.9%
250,000	891145T79	Toronto Dominion Bank Dep. Note 3.226%	due July 24, 2024	AA	102.02	255,050	100.40	250,996	5.0%
150,000	94975ZBN5	Wells Fargo 3.46%	due January 24, 2023	AA (low)	102.36	153,542	100.99	151,484	3.0%
200,000	94975ZBM7	Wells Fargo Canada 2.944%	due July 25, 2019	AA (low)	100.02	200,040	100.39	200,776	4.0%
						1,980,299		1,934,766	38.3%
TOTAL PORTFOLIO						5,177,595		5,052,188	100.0%

Martin, Lucas & Seagram Ltd.  
**DATE TO DATE GAINS AND LOSSES**  
**CLLAS - LONG TERM INVESTMENT FUND**  
**(RBC Investor Services)**  
*From 12-31-17 to 09-30-18*

Security	12-31-17 Market Value	Additions Withdrawals	09-30-18 Market Value	09-30-18 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
<b>CASH</b>								
Cash Account	0	0	0	0				
<b>GOVERNMENT BONDS</b>								
Canada Housing Trust 1.75% due June 15, 2018	250,538	-252,188	0	0	-275	-538	0	0
Canada Housing Trust 1.95% due June 15, 2019	250,878	-2,438	249,943	250,238	0	0	-295	-935
Canada Housing Trust 2.4% Series 48 due December 15, 2022	202,352	-2,400	198,590	200,740	0	0	-2,150	-3,762
Canada Housing Trust 2.35% due September 15, 2023	201,562	-4,700	197,390	211,240	0	0	-13,850	-4,172
Canada Housing Trust 2.9% due June 15, 2024	0	256,699	252,995	256,600	0	0	-3,605	-3,605
Canada Housing Trust Ser. 70 2.25% due December 15, 2025	297,822	-3,375	290,298	302,940	0	0	-12,642	-7,524
<b>GOVERNMENT BONDS Total</b>	<u>1,203,151</u>		<u>1,189,216</u>	<u>1,221,758</u>	<u>-275</u>	<u>-538</u>	<u>-32,542</u>	<u>-19,998</u>
<b>PROVINCIAL BONDS</b>								
Ontario 2.1% due September 8, 2018	351,470	-357,350	0	0	1,505	-1,470	0	0
British Columbia 3.25% due December 18, 2021	260,843	-4,063	255,625	255,750	0	0	-125	-5,218
Ontario 3.15% due June 2, 2022	259,995	-3,938	254,470	247,600	0	0	6,870	-5,525
Ontario 2.85% due June 2, 2023	359,489	-4,988	351,642	361,025	0	0	-9,384	-7,847
Ontario 2.60% due June 2, 2025	402,400	-5,200	392,580	404,305	0	0	-11,725	-9,820
British Columbia 2.3% due June 18, 2026	344,204	-4,025	335,923	365,400	0	0	-29,477	-8,281
Ontario 2.60% due June 2, 2027	0	344,028	337,967	341,460	0	0	-3,493	-3,493
<b>PROVINCIAL BONDS Total</b>	<u>1,978,400</u>		<u>1,928,207</u>	<u>1,975,540</u>	<u>1,505</u>	<u>-1,470</u>	<u>-47,334</u>	<u>-40,184</u>
<b>CORPORATE BONDS</b>								
Royal Bank Dep. Note 2.26% due March 12, 2018	200,318	-202,260	0	0	1,440	-318	0	0
Wells Fargo Canada 2.944% due July 25, 2019	202,590	-5,888	200,776	200,040	0	0	736	-1,814
Bank of Montreal 2.84% due June 4, 2020	304,167	-4,260	300,849	305,307	0	0	-4,458	-3,318
Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	251,923	-3,204	249,528	261,425	0	0	-11,898	-2,395
Bank of Montreal 3.4% due April 23, 2021	206,270	-3,400	202,866	201,300	0	0	1,566	-3,404
Royal Bank 1.968% due March 2, 2022	146,957	-2,952	145,208	150,075	0	0	-4,868	-1,749
National Bank of Canada 2.105% due March 18, 2022	246,235	-5,263	242,873	255,100	0	0	-12,228	-3,363
Wells Fargo 3.46% due January 24, 2023	155,757	-5,190	151,484	153,542	0	0	-2,058	-4,274
Toronto Dominion Bank Dep. Note 3.226% due July 24, 2024	0	252,078	250,996	255,050	0	0	-4,054	-4,054

Martin, Lucas & Seagram Ltd.  
**DATE TO DATE GAINS AND LOSSES**  
**CLLAS - LONG TERM INVESTMENT FUND**  
**(RBC Investor Services)**  
*From 12-31-17 to 09-30-18*

Security	12-31-17 Market Value	Additions Withdrawals	09-30-18 Market Value	09-30-18 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
Bank of Nova Scotia Dep. Notes 2.62% due December 2, 2026	196,150	-2,620	190,188	198,460	0	0	-8,272	-5,962
CORPORATE BONDS Total	1,910,366		1,934,766	1,980,299	1,440	-318	-45,533	-30,332
<b>TOTAL PORTFOLIO</b>	<b>5,091,917</b>		<b>5,052,188</b>	<b>5,177,596</b>	<b>2,670</b>	<b>-2,326</b>	<b>-125,408</b>	<b>-90,514</b>
TOTAL DATE TO DATE GAIN OR LOSS								-92,839
<b>% CHANGE DURING PERIOD</b>								<b>-1.82</b>

## MEMORANDUM

---

DATE: December 3, 2018  
TO: CLLAS Board  
FROM: Patrick Mahoney  
RE: CLLAS-Axxima Client Service Agreement

---

It recently came to my attention (via a request from CLLAS' auditors) that our service agreement with CLLAS is seriously out-of-date. Attached is a 1996 agreement with Dion Durrell that was signed by Mike Thorley.

The Board adopted the following resolution in Feb 2014: *"It was moved by Gord Goodman and seconded by Don Milner that Axxima through its wholly owned subsidiary, 3303128 Canada Inc., be appointed as General Manager and program administrator of CLLAS in place of Dion Durrell effective September 18, 2013. The motion was carried unanimously."* However, the agreement does not appear to have been updated at that time.

Attached is an updated agreement. This will be on the agenda for the December 11, 2018 Board meeting, and the Board can either approve the agreement at the meeting, or ask that the matter be tabled for further discussion at the February 2019 meeting.

Please let me know if you have any questions about the attached.

Sincerely,



# ToryTory DesLauriers & Binnington

Barristers & Solicitors

Suite 3000 Aetna Tower  
P.O. Box 270  
Toronto-Dominion Centre  
Toronto, Canada M5K 1N2

Telephone: (416) 865-0040  
Facsimile: (416) 865-7380

Michael G. Thorley, Q.C.  
(416) 865-7337

November 14, 1996

## DELIVERED

Mr. Patrick Mahoney  
Assistant General Manager  
Canadian Lawyers Liability Assurance Society  
Suite 306  
20 Queen Street West  
Toronto, Ontario  
M5H 3R3

RECEIVED  
NOV 14 1996

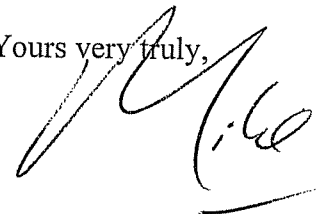
Dear Patrick:

**Re: CLLAS - Management Agreement**

I acknowledge with thanks your letter of November 13th and am returning one fully-executed copy of the management agreement.

Thank you for your assistance in settling this agreement.

Yours very truly,



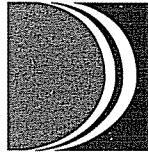
Michael G. Thorley

MGT:cjb  
Enclosure

*Affiliated With*  
Desjardins Ducharme Stein Monast • Montreal • Quebec City  
Lawson Lundell Lawson & McIntosh • Vancouver

*Member of the International Partnership*  
Tory Ducharme Lawson Lundell • London, England • Hong Kong





**DION DURRELL**  
*Actuaries and Consultants*

November 13, 1996

Mr. Michael Thorley, Chairman  
Canadian Lawyers Liability Assurance Society  
c/o Tory Tory DesLauriers & Binnington  
30<sup>th</sup> Floor, Aetna Tower  
79 Wellington Street West  
Toronto, Ontario  
M5K 1N2

Dear Mr. Thorley:

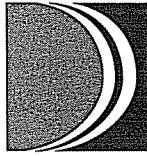
**Re: Canadian Lawyers Liability Assurance Society (CLLAS)  
Insurance Management and Consulting Services**

The purpose of this letter is to confirm our mutual understanding of the terms of the engagement of Dion, Durrell + Associates Inc. (DD+A) as General Manager to CLLAS and the services we will perform on CLLAS' behalf.

1. It is understood that insurance management and consulting services as described in Section 2 shall be deemed to have commenced on January 1, 1996.
2. DD+A agrees to provide the following services:
  - a. **Underwriting Management Services**
    - i. Review and issuance of policies, certificates of excess insurance and endorsements attaching thereto;
    - ii. Premium invoicing;
    - iii. Responding to subscriber inquiries;
    - iv. Advice and placement of reinsurance protections, as approved by the Advisory Board;

**DION, DURRELL + ASSOCIATES INC.**

20 Queen Street West, Suite 306, Toronto, Ontario, Canada M5H 3R3 Tel: 416-408-2626 Fax: 416-408-3721



- v. Preparation of reinsurance accounts for payment by CLLAS;
- vi. Technical support in drafting of insurance/reinsurance policies and agreements;
- vii. Database management - reinsurance. DD+A will maintain a reinsurance database. This database will contain information required to manage insurance policies, to calculate premiums and to prepare reinsurance accounts.

**b. Actuarial Services**

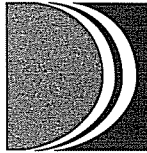
DD+A will undertake the following duties where and whenever required:

- i. Establishment of premium rates;
- ii. Calculation of retro-assessments, when levied by the Advisory Board;
- iii. Actuarial opinions, to accompany insurance regulatory filings;
- iv. Calculation of IBNR provisions, for establishment of proper claims reserves;
- v. Analysis and advice in setting attachment levels of insurance;
- vi. Establishment of computer databases, where appropriate.

**c. Accounting Management Services**

In liaison with the CLLAS auditors and the Attorney-in-Fact, DD+A will:

- i. Maintain a computerized accounting system;
- ii. Prepare quarterly financial statements;
- iii. Liaise with the auditors in respect of the preparation of audited financial statements at CLLAS' fiscal year end and in respect of the audit opinions required to be prepared with the Insurance regulatory filings (P&C1) as at December 31st each year;
- iv. Liaise with the Attorney-in-Fact in respect of investment and banking activity, where required.



d. **Claims Management Services**

In conjunction with the Claims Committee, DD+A will:

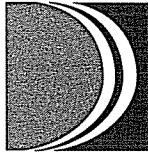
- i. Provide claims administration services including,
  - Maintain a claims database system for recording of claims reported
  - Maintain an aggregate claims database in respect of all subscribers claims experience on a first dollar basis;
  - Liaise actively with subscribers on claims administration where and whenever required;
  - Maintain and up-date claims files including case reserves.
- ii. Provide claims management and analysis including,
  - Establish overall claims management policy
  - Liaise with subscribers, counsel, underlying insurers, reinsurers.

e. **Corporate Secretarial Services**

DD+A agrees to be responsible for providing corporate secretarial services for Advisory Board and Committee meetings, these services to include issuing notice of meetings; preparing agendas; taking of, transcribing and distribution of meeting minutes. DD+A also agrees to keep records of Advisory Board membership, keep updated documents relating to the operations of CLLAS and generally perform corporate secretarial duties as required and in conjunction with the Attorney-in-Fact.

f. **Liaison with Department of Insurance**

DD+A will be responsible for ensuring that all filings are made with the Ontario Superintendent of Insurance and generally that all duties of the



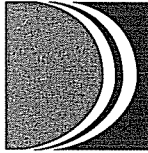
Attorney-in-Fact are carried out in order to comply with the Ontario Insurance Act. Such responsibilities shall principally be, but not limited to:

- i. Provincial licensing of the reciprocal;
- ii. Payment of provincial premium taxes and retail sales tax.;
- iii. Preparation and filing of P&C1's;
- iv. Technical liaison with CLLAS auditors and Provincial Superintendent of Insurance examiners.

3. DD+A agrees to provide the necessary personnel to undertake the services described in Section 2. DD+A will designate an individual to be General Manager and this individual will have the authority to use this title under CLLAS letterhead in respect of services described in Section 2. DD+A acknowledges that their personnel must be satisfactory to CLLAS. If the General Manager is unable to carry out his/her responsibilities DD+A agrees to provide immediately a temporary replacement and a permanent replacement as soon as practical thereafter, all as subject to approval by the Executive Committee.

DD+A agrees to provide the General Manager with all necessary secretarial, clerical and technical assistance.

4. The fee to be paid by CLLAS to DD+A in each calendar year for the services described in Section 2 shall be agreed upon between the parties within 60 days after the beginning of such year. If DD+A is requested to perform additional services from time to time, an additional fee for such services will be negotiated. DD+A's fees will be billed and payable monthly, and each bill will provide appropriate detail for the period billed.




5. The engagement of DD+A on the terms described herein shall remain in effect until terminated by either party on not less than 90 days' prior written notice to the other. If such termination takes effect on a date other than December 31<sup>st</sup> in any year, all fees for services performed to the date of termination, other than those performed on a fixed fee basis, will be paid by CLLAS and an appropriate adjustment will be made for fixed fee services to reflect the extent to which such services may have been performed to the date of termination but not fully paid for at the date through fixed monthly billings.

All computer databases, financial, underwriting/reinsurance claims and premium information, policies, correspondence to and from CLLAS, and Advisory Board/Committee Minutes associated with the business and activities of CLLAS will be kept in a safe and secure place and will not be destroyed by DD+A without the permission of the Advisory Board. DD+A acknowledges that such material is and shall remain the property of CLLAS. Upon termination of its insurance management services hereunder, DD+A will transfer this material to CLLAS or as it may otherwise direct.

Yours very truly,

**Dion, Durrell + Associates Inc.**

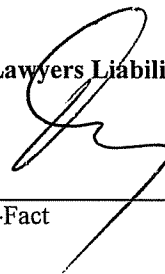
Per:

  
C. Ian Durrell


The arrangements described in the foregoing letter are in accordance with our requirements and are acceptable to us.

**Canadian Lawyers Liability Assurance Society**

Per:

  
Attorney-in-Fact

Date:

  
Nov 14/96

December 15, 2018

Canadian Lawyers Liability Assurance Society  
c/o Goodmans LLP  
Bay Adelaide Centre – West Tower  
333 Bay Street, Suite 3400  
Toronto, Ontario M5H 2S7

Attention: Mr. Ken Crofoot

Dear Ken,

**Re: Canadian Lawyers Liability Assurance Society (“CLLAS”)  
Client Services Agreement**

The purpose of this letter agreement (“Agreement”) is to confirm our mutual understanding of the terms of the engagement of Axxima Insurance Services, a division of 3303128 Canada Inc. as General Manager to CLLAS and Axxima Inc. as actuarial consultant for CLLAS (collectively referred to as “Axxima”) and the services we will provide on CLLAS’ behalf.

## **PART A: SERVICES**

Axxima agrees to provide insurance management, brokerage, actuarial and strategic consulting services as more particularly described below (collectively referred to as the “Services”) to CLLAS under the general direction of CLLAS’ Principal Attorney:

1. Underwriting Management Services
  - (a) review and issuance of policies, certificates of insurance and endorsements attaching thereto;
  - (b) insurance premium invoicing;
  - (c) response to subscriber member inquiries;
  - (d) provision of advice regarding and negotiation of placement of reinsurance protections as approved by the Advisory Board;
  - (e) preparation of reinsurance accounts for payment by CLLAS;
  - (f) technical support in drafting of insurance/reinsurance policies and agreements;
  - (g) database management.
2. Actuarial Consulting Services
  - (a) preparation of annual actuarial valuation, quarterly updates, financial monitoring and annual presentation to Audit Committee including liaison with auditor actuary and peer reviewer actuary as part of the Appointed Actuary role;

- (b) annual premium rating indications;
- (c) assistance in setting, reviewing and monitoring CLLAS' surplus policy;
- (d) annual preparation of CLLAS business plan.
- (e) actuarial input into regulatory filings (AMRGF, ORSA, risk metrics and P&C-1).

## 2. Accounting Management Services

- (a) maintenance of accounting system;
- (b) preparation of quarterly financial statements;
- (c) liaison with auditors in respect of the preparation of audited financial statements and required audit opinions;
- (d) liaison with Board and investment manager in respect of investment activity as appropriate;
- (e) maintenance of cashbooks, cashflow statements, bank statement reconciliation, accounts payable/receivable, including cheque preparation and deposit.

## 3. Insurance Regulatory Services

Management of compliance with provincial insurance regulatory requirements including licencing, remittance of premium taxes and retail sales taxes and related returns, preparation and filing of P&C1 forms and other regulatory requirements, technical liaison with auditors and regulators.

## 4. Claims Management Services

- (a) maintenance of claims database system for recording of claims reported;
- (b) provision of claims management and analysis inclusion establishment of overall claims policy;
- (c) liaison with subscribers on claims where and when required;
- (d) maintenance and update of claims files including case reserves;
- (e) monitoring of overall claims management policy;
- (f) liaison with adjusters, defence counsel, underlying insurers, reinsurers as appropriate;
- (g) liaison with actuary as appropriate.

## 5. Corporate Secretarial Services

- (a) provision of corporate secretarial services including issuance of notices of meeting, preparation of agendas and taking of meeting minutes;
- (b) maintenance of records of Board membership;
- (c) maintenance of documentation relating to the operations of CLLAS;
- (d) preparation of annual operating budget.



6. Strategic Consulting Services

Axxima will provide strategic consulting services to CLLAS as agreed with the Principal Attorney and/or Board.

**PART B: PERSONNEL**

1. Axxima agrees to provide the necessary personnel with the skills and experience required to undertake the services described in Part A. Axxima will designate an individual to be General Manager, subject to approval by CLLAS, and this individual will have the authority to use this title under CLLAS letterhead with respect to services described in Part A. The CLLAS Board will designate a qualified Axxima actuary as Appointed Actuary for CLLAS. Axxima agrees to provide the General Manager and Appointed Actuary with all necessary secretarial, clerical and technical assistance.
2. Axxima acknowledges that all personnel must be satisfactory to CLLAS. If the General Manager is unable to carry out his/her duties, Axxima agrees to provide a temporary replacement immediately and a permanent replacement as soon as practical thereafter, all subject to approval by CLLAS.
3. Axxima agrees that it will not delegate, assign or otherwise arrange for the provision of all or part of the Services to be performed by an agent, contractor, supplier or vendor of the Consultant without the consent of CLLAS. The foregoing provisions do not apply to the temporary use by Axxima of contracted individuals working from Axxima's premises under daily supervision of Axxima's employees; such individuals will be regarded as employees of Axxima for purposes of this Agreement.

**PART C: INDEMNITY**

1. Axxima shall indemnify and hold harmless CLLAS and its directors, officers, employees and agents, past and present for any and all claims, losses, liabilities and damages, (including costs, expenses and reasonable legal fees) arising out of or relating to all legal proceedings brought against CLLAS as a result of any negligent act or omission or wilful misconduct of Axxima or its employees in the course of fulfilling the obligations under this Agreement.

**PART D: INSURANCE**

1. Axxima shall, at its sole cost and expense, take out and keep in full force and effect at all times during the term of this Agreement comprehensive commercial general liability and all risk property damage insurance each with limits in an amount of not less than \$5,000,000 per occurrence. Such insurance will include comprehensive general liability insurance and coverage for personal injury liability, bodily injury liability, contractual



liability, business interruption, liability for damage to or losses relating to performance by Axxima of its obligations set forth herein, and “all-risk” liability insurance, such coverage to include the business operations conducted by Axxima.

## **PART E: FEES**

1. The fees to be paid by CLLAS to Axxima in each calendar year for the services described in Part A will be as agreed between the parties within 60 days after the beginning of such year. If Axxima is requested to perform additional services from time to time, an additional fee for such services will be negotiated; Axxima’s fees will be invoiced and payable monthly, and each invoice will provide appropriate detail for the period.
2. In addition to the fees otherwise payable, Axxima will be reimbursed for reasonable out-of-pocket expenses incurred by Axxima in connection with providing the services. Details of these expenses will be provided in the applicable fee statement.

## **PART F: TERMINATION**

1. This Agreement is effective on January 1, 2019 and will remain in effect until terminated by either party on not less than 180 days prior written notice to the other, subject to Section F.2 and unless terminated earlier in accordance with Section F.3 or F.4.
2. The Appointed Actuary is responsible for valuing the actuarial and other policy liabilities of CLLAS and for addressing other matters specified by the insurance regulator(s). Notwithstanding Section F.1, CLLAS and Axxima acknowledge that the Appointed Actuary is a personal appointment made by the Board of CLLAS and that the Board may revoke that appointment (or the Appointed Actuary may resign) without advance notice.
3. Each of CLLAS and Axxima may, at its option, terminate this Agreement by written notice to the other party, effective immediately on receipt of the notice, should the other party cease conducting business in the normal course, become insolvent, make a general assignment for the benefit of creditors, suffer or permit the appointment of a receiver for its business or assets, or avail itself of, or become subject to, any proceedings under the *Bankruptcy and Insolvency Act* (Canada) or any other statute of any province or territory relating to insolvency or the protection rights of creditors.
4. In the event that a party fails to perform its obligations under this Agreement and the failure continues for 30 days after the other party has notified it in writing of the performance failure, the other party is entitled to terminate the Agreement effective immediately after the provision of written notice of termination. If the breach is corrected within the 30 day period, the Agreement continues in full force and effect, without limitation of any right to damages resulting from the breach.

## **PART G: INFORMATION SECURITY**

1. “Confidential Information” means information about the business affairs of CLLAS except where such information has entered the public domain without a breach of this Agreement, is obtained by Axxima from a third party who has no obligation of confidentiality to CLLAS or is independently developed or obtained by Axxima without breach of this Agreement.
2. Axxima will use the same means it uses to protect its own confidential and proprietary information to maintain the confidentiality of the Confidential Information and in any event, no less than a reasonable degree of care.
3. Axxima will not use any Confidential Information for any purpose or disclose any Confidential Information to a third party other than to facilitate the provision of the Services under this Agreement.
4. Axxima agrees that all computer databases, financial, underwriting, claims, premium and reinsurance information, policies, correspondence to and from CLLAS, and Advisory Board/Committee minutes will be maintained in Canada in a secure place and will not be destroyed unless otherwise expressly authorized by CLLAS. Axxima acknowledges that such material is and will remain the property of CLLAS. Upon termination of its insurance management services hereunder, Axxima will transfer this material to CLLAS or as CLLAS may otherwise direct.
5. Axxima represents to CLLAS that it has and agrees to maintain at all times while this Agreement is in effect a disaster recovery plan and a business continuity plan and the appropriate resources, adequate backup records, facilities and capabilities intended to ensure the reasonable continuation of the Services in the event that Axxima experiences problems that significantly affect its business operations.

## **PART H: GENERAL**

1. Axxima may not assign its rights or duties under this Agreement without the prior written consent of CLLAS.
2. Any notice required or permitted under this Agreement will be given in writing and served personally, or sent by registered mail, postage prepaid or by email, addressed to:

CLLAS: Canadian Lawyers Liability Assurance Society  
c/o Goodmans LLP  
Bay Adelaide Centre – West Tower  
333 Bay Street, Suite 3400  
Toronto, Ontario M5H 2S7



Att'n: Ken Crofoot

AXXIMA: Axxima Insurance Services  
510 – 36 Toronto Street  
Toronto ON M5C 2C5  
Att'n: Patrick Mahoney, CEO

provided that any party may change its address for purposes of receipt of communications by giving 10 business days prior written notice to the other party in the manner prescribed above. Any notice given under this section will be deemed to have been received when delivered, or if sent by registered mail, will be deemed to have been received on the seventh day following the mailing of the letter, or if sent by email, will be deemed to have been received when acknowledged by return email or delivery receipt.

3. No term or provision of this Agreement is deemed waived and no breach excused, unless the waiver or consent is in writing and signed by the party claiming to have waived or consented. Any consent by any party to, or waiver of, a breach by the other, whether expressed or implied, does not constitute consent to, waiver of, or excuse for, any other different or subsequent breach.
4. This Agreement is governed by and construed in accordance with the applicable laws of the Province of Alberta and the laws of Canada applicable therein and is treated in all respects as an Alberta contract. The parties consent to the non-exclusive jurisdiction of the courts of the Province of Alberta for the purpose of any action or proceeding brought by either of them in connection with or arising out of this Agreement.
5. If any provision of this Agreement is held to be invalid, illegal or unenforceable, all other provisions will nevertheless continue in full force and effect.
6. This Agreement may not be changed or amended except in writing duly executed by the duly authorized representatives of both parties.
7. This Agreement is binding upon and inures to the benefit of the parties and their respective successors and permitted assigns.
8. Time is of the essence for time periods named in this Agreement.
9. Except as expressly provided otherwise in this Agreement, dates and times by which CLLAS or Axxima is required to perform under this Agreement will be postponed automatically to the extent and for the period of time that CLLAS or Axxima, as the case may be, is prevented from meeting the dates and times by reason of any causes beyond its reasonable control. For the purposes of this Section, the causes beyond a party's reasonable control are defined as: acts of God, acts of government, terrorism, acts of

wars, quarantines, epidemics, riots, fire, unavailability of communications or electrical power service provided by third parties, governmental regulations superimposed after the fact and earthquakes, floods and other disasters. The party prevented from performing must use its best efforts to perform in a timely manner, utilizing all resources reasonably required in the circumstances including, without limitation, obtaining supplies or services from other resources if they are reasonably available.

10. CLLAS and/or its agents (including CLLAS' regulators) may audit Axxima's performance of the Services, so as to ensure compliance with the terms of the Agreement, upon reasonable notice to Axxima.
11. Any terms and provisions of this Agreement that by their nature operate beyond the term or expiry of this Agreement shall survive the termination or expiry of this Agreement.
12. The parties have requested that this Agreement be drawn up in English. Les parties aux présentes ont exigé que cette entente et tous autres documents envisagés par les présentes soient rédigés en anglais.

Sincerely,

Patrick Mahoney, Chair

The arrangements described in this letter are in accordance with our requirements and are acceptable to us.

Accepted and agreed to this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Per: \_\_\_\_\_  
Principal Attorney