

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

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

8:30 a.m.  
Davies Ward Phillips & Vineberg LLP  
44<sup>th</sup> Floor, 1 First Canadian Place  
Toronto, Ontario

**Tuesday, June 19, 2012**

**Present:**

Nicholas Leblovic (Chairman)	Davies Ward Phillips & Vineberg LLP
Natasha MacParland	Davies Ward Phillips & Vineberg LLP
Barry Bresner	Borden Ladner Gervais LLP
Gordon Goodman	Cassels, Brock & Blackwell LLP
Donald Milner	Fasken Martineau DuMoulin LLP
Ken Crofoot/Eugene Cipparone	Goodmans LLP
Bill Scott	McCarthy Tetrault LLP
Daniel MacDonald	McMillan LLP
Julia Holland	Torys LLP
Les O'Connor/Mike Swartz	WeirFoulds LLP
Patrick Mahoney	Office of the General Manager
Norma Ibbetson	Office of the General Manager
Joe Tontini	Dion, Durrell + Associates

**1. Constitution of Meeting**

The Chairman brought the meeting to order.

**2. Appointment of Secretary**

Norma Ibbetson acted as Secretary.

**3. Approval of Minutes of the February 21, 2012 Meeting of the Advisory Board**

**It was moved by Gord Goodman and seconded by Barry Bresner that, subject to the identified edits, the minutes of the February 21, 2012 meeting of the Advisory Board be approved. The motion was carried unanimously.**

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

Items arising out of the minutes will be dealt with under the other agenda items.

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

Mr. Leblovic reported on his trip to London with Joe Tontini and Patrick Mahoney. They met with numerous London reinsurers (incumbents and potential new markets) to discuss renewal terms. A more complete report will follow under Joe Tontini's report to the Board.

Mr. Leblovic also reported on the meetings in Edmonton with the Alberta Regulator at their request. Joe Tontini and Patrick Mahoney also made the trip. The feedback was very positive.

A transitional meeting with Blakes has taken place. Blakes has agreed not to participate in the June Board meeting. Blakes also recognizes that the next five years are required to run-off the previous underwriting periods and so no conversations about how to deal with Blakes' economic interest are likely to take place for some time. The Chair will continue to work with Blakes on transitional issues including subscribers equity.

#### **6. Restructuring and Reinsurance Renewal**

Joe Tontini reported to the Board. Effective July 1, 2012 CLLAS will move its' head office to Alberta and consequently will be governed by the Alberta regulator. There are some required changes to the Subscribers Agreement coming out of the move. A black-lined version of the proposed changes was provided to the Board in the meeting material. Changes in the Agreement fall into the following categories:

- technical changes required to reflect Alberta's legislative and regulatory provision;
- integration of past amendments and
- changes to reflect the current governance structure of CLLAS

The Loss Portfolio Transfer (LPT), which is the transfer of CLLAS' net claims liabilities is close to completion. Both Colchester and Wentworth (a Fairfax subsidiary in Barbados) have expressed an interest, each subject to an independent actuarial pricing review. CLLAS prepared an underwriting submission for the LPT and approached a number of reinsurers. Colchester has provided an indication of \$50,440,000 in premium to transfer CLLAS's net liabilities of approximately \$45,600,000 effective June 30, 2012.

The Reinsurance Security Agreement (RSA) to accompany the LPT is almost finalized. The RSA can be executed after July 1<sup>st</sup> provided CLLAS does not forward any premium to Colchester until executed.

CLLAS will retain the drop down exposure, i.e. \$975,000 on a per claim basis (the layer between \$25,000 and \$1,000,000). CLLAS will also purchase aggregate stop-loss protection from Colchester to cap its policy year losses at \$5 million.

Mr. Tontini reviewed the expiring structure with the Board and advised that there will be no changes for 2012/2013 except for the change to the international structure. The recommendation is for CLLAS to delete from the CLLAS Blanket Excess Policy (the umbrella policy) the exclusion in the endorsement relating to the CLLAS International Policy exposures. In other words, the umbrella policy will now sit above both the CLLAS and the CLLAS International policies. A detailed explanation of the issue is outlined in the June 13, 2012 memorandum to the Advisory Board.

The reinsurance contracts will also contain endorsement re terrorism, criminal activity, etc.

We have been pushing for a further 15% reinsurance cost reduction. Mr. Tontini cautioned that this maybe the last year this can be accomplished.

The Board has in the past approved the use of a portion of the surplus to reduce rates. The Board decided not to approve an additional distribution of surplus (beyond the usual investment income on surplus) at this time but agreed to consider an additional distribution of surplus for the 2013/14 policy term.

Mr. Tontini reported that CLLAS is proposing changes to its Primary Policy wording to clarify that the intent of the policy is to provide coverage for “cyber” exposures as they relate directly or indirectly to “Professional Services”. The underlying law society coverage, except for Alberta and British Columbia, is silent on the subject and so is the current CLLAS Primary Policy. CLLAS wants to make it clear that coverage is intended and afforded by its Primary Policy.

CLLAS recently had a request to provide coverage for a professional corporation of a non-lawyer consultant. Since professional corporations of lawyers are covered, CLLAS is proposing to amend its Primary Policy to make sure that professional corporations of non-lawyer consultants are also covered.

CLLAS is proposing to add a “conformity clause” to its Primary Policy. This will ensure that if the terms of the policy are in conflict with the mandatory statutory or law society requirements of any of the provinces in which the CLLAS Primary Policy responds, then the CLLAS Primary Policy will automatically recognize and respect the statutory requirements.

**It was moved by Donald Milner and seconded by Bill Scott that, the policy changes as proposed be approved with effect July 1, 2012. The motion was carried unanimously.**

**It was moved by Donald Milner and seconded by Gord Goodman that the proposed amendments to the Subscribers Agreement be approved effective July 1, 2012. The motion was carried unanimously.**

**It was moved by Gord Goodman and seconded by Donald Milner that the Loss Portfolio Transfer be approved as presented. The motion was carried unanimously.**

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

Bob Wilson reported to the Board on the status of the renewals of the excess insurance and CLLAS International programs. He advised that world events continue to appear to have no significant effect on the soft insurance markets. He cautioned that new players coming into the market are throwing terms on the table that may not be sustainable.

The excess program that provides the \$110,000,000 excess of \$50,000,000 layer was renewed with a rate reduction of 13.9%. ProForm was also able to continue the two year rolling rate guarantee subject to the existing criteria. The CLLAS International program rates for U.S. lawyers will see a rate drop of 15% with all other rates unchanged.

There are no changes to the Canadian Excess policy wordings with the exception agreement by all participating insurers to follow the changes made to the CLLAS primary wording effective July 1, 2012. With respect to the International policy wording discussions are currently underway to ensure

that the policy wording mirrors the changes to the CLLAS primary wording as it related to “cyber-coverage”. CLLAS international firms will be updated on the progress of these discussions.

An updated reinsurance rating schedule was included in the agenda materials.

The Chair thanked Mr. Wilson for his work on the renewal and Mr. Wilson left the meeting.

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

*Management Report at March 31, 2012*

Mr. Mahoney reviewed with the Board the Balance Sheet and Income Statement for the quarter ending March 31, 2012. It was a good first quarter with not much of note. He reminded the Board that the Balance sheet will look different with the introduction of the LPT.

With respect to the budget variance the only item of note was “restructuring” line item.

The Chair asked for total cost to be provided for the September meeting of restructuring including the reinsurance cost, professional fee both DDA and counsel.

**9. Report of the Claims Committee**

Barry Bresner reported to the Board. There have been a couple of settlements in the past few weeks. The Committee has seen a number of class action claims in the tax area, generated by opinions provided and used by promoters of investments. The Committee continues to watch very closely a number of claims flowing from charitable donation programs. Mr. Mahoney noted that it appeared that all such claims had been identified and he was cautiously optimistic that no additional claims in this area would surface.

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

Bill Scott reported on behalf of the Risk Management Committee.

*Blue-drop* – Mr. Scott reported that efforts to obtain CLE accreditation from LSUC for the on-line program have finally been successful.

*Benchmarking* – Mr. Walker has met with all firms and their management committees on an individual basis to discuss the results for their particular firm.

*Re-audits* – Mr. Walker started the re-audit process.

*CNA Seminar* – Mr. Walker attended a CAN seminar and his report and material were circulated to the Board.

One of the issues the Committee is currently looking at and seeking input on is what the role of the risk management committee should be in the future. There was a suggestion that perhaps a Fall loss prevention seminar be created where the firms attend and discuss good risk management policies (on a topic of their choosing) limiting the topics to approximately six.

*E-learning project* – there has been some interest from various firms express on accessing the e-learning program. The Chair will look at the corporate structure for the project, i.e. licensing, marketing, staff, etc. and the ongoing maintenance of the site in order to keep it current with evolving changes in practice.



**11. Report of the Policy Committee**

Donald Milner reported. A copy of the black-lined changes to the policy will be circulated to the Board members.

**12. Report of the Investment Manager**

The investment manager's report is included in the Board materials as an information item.

**13. Other Business**

Updated Committee Listing for 2012 provided as an information item. Only change to the previously distributed listing is the addition to the Policy Committee of Michael Swartz.

**14. Next Meeting**

The next regularly scheduled meeting of the Board will be on September 11, 2012.

There being no further business, the meeting was terminated.

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Chairman

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Secretary

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

**FINANCIAL MANAGEMENT REPORT**

**For the Period Ending June 30, 2012**

# **CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

## **FINANCIAL MANAGEMENT REPORT**

**June 30, 2012**

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**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2012**

	<b>As at June 30, 2012</b>	<b>As at June 30, 2011</b>
<b>ASSETS</b>		
Cash	3,314,497	5,138,274
Short term investments	13,569,427	19,474,353
Bonds	43,358,951	44,237,353
Interest income due and accrued	299,412	324,551
Premium receivable	0	0
Other receivable	183,539	3,532,619
Prepaid expenses	114,778	0
Deferred policy acquisition costs	0	0
Unearned reinsurance premium ceded	0	0
Reinsurance recoverable	938,711	2,279,986
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	67,530,000	35,798,000
	<u>129,309,315</u>	<u>110,785,136</u>
<b>LIABILITIES</b>		
Accounts payable & accrued charges	201,233	3,062,708
Premium taxes payable	0	1,179,293
Unearned premium	(0)	(0)
Due to reinsurers	44,270,000	0
Provision for unpaid claims and adjustment expenses	72,944,000	83,715,000
Provision for unpaid premium liabilities	0	(0)
Premium deficiency liability	0	0
	<u>117,415,233</u>	<u>87,957,000</u>
<b>SUBSCRIBERS' EQUITY</b>		
Surplus	9,832,322	21,522,529
Accumulated Other Comprehensive Income (Loss),	2,061,760	1,305,607
	<u>11,894,082</u>	<u>22,828,136</u>
	<u>129,309,315</u>	<u>110,785,136</u>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**For the Period Ending June 30, 2012**

	<b>Current Year</b>		<b>Prior Year</b>	
	<b>Quarter June 30, 2012</b>	<b>Year to Date June 30, 2012</b>	<b>Quarter June 30, 2011</b>	<b>Year to Date June 30, 2011</b>
Written Premium	0	0	0	0
Gross Written Premiums	0	0	0	0
Less: Reinsurance Ceded	44,270,000	44,270,000	0	0
Net Written Premiums	(44,270,000)	(44,270,000)	0	0
Change in Unearned Premiums	1,268,284	2,536,567	2,004,732	3,987,433
Earned Premiums	(43,001,716)	(41,733,433)	2,004,732	3,987,433
Claims Paid	5,668,707	6,294,394	324,537	449,684
Change in IBNR	(25,580,000)	(26,035,000)	929,000	1,881,000
Change in Case Reserve	(13,563,000)	(14,063,000)	1,550,000	1,655,000
Premium Deficiency Expense	(298,000)	(586,000)	(286,000)	(548,000)
Change in provision for unpaid premium liability	0	0	0	0
Incurred Claims	(33,772,293)	(34,389,606)	2,517,537	3,437,684
Management and operating expenses	711,619	1,305,862	538,854	1,217,626
Reinsurance fees	68,250	136,500	68,250	136,500
Premium taxes	0	0	85,594	87,316
Total Operating Expenses	779,869	1,442,362	692,698	1,441,442
<b>Underwriting Gain (Loss)</b>	(10,009,293)	(8,786,189)	(1,205,503)	(891,692)
Investment Income	387,138	795,061	444,990	836,286
Income on Claim Related Matters	0	0	1,559,658	1,559,658
<b>NET GAIN/(LOSS)</b>	<u>(9,622,154)</u>	<u>(7,991,128)</u>	<u>799,145</u>	<u>1,504,252</u>
<b>Other comprehensive income (loss)</b>				
Unrealized gains (losses) on available for sale financial assets arising during the year	203,352	(246,584)	448,217	107,554
Recognition of realized (gain) loss included in income	-	5,912	-	-
Other comprehensive income (loss) for the year	203,352	(240,672)	448,217	107,554
<b>Total comprehensive income (loss)</b>	<u>(9,418,802)</u>	<u>(8,231,800)</u>	<u>1,247,361</u>	<u>1,611,806</u>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF CHANGES IN EQUITY**  
**June 30, 2012**

	<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>17,773,450</b>	<b>2,302,432</b>	<b>20,125,881</b>
Prior year adjustment		-		-
<b>Comprehensive income (loss) for the year</b>				
Net gain (loss) for the year		(7,991,128)		(7,991,128)
<b>Other comprehensive income (loss)</b>				
Change in unrealized gain on available-for-sale assets			(246,584)	(246,584)
Recognition of realized (gain) loss on available-for-sale assets			5,912	5,912
<b>Total comprehensive income (loss) for the year</b>		<b>(7,991,128)</b>	<b>(240,672)</b>	<b>(8,231,800)</b>
<b>Balance at June 30, 2012</b>	<b>50,000</b>	<b>9,782,322</b>	<b>2,061,760</b>	<b>11,894,082</b>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS**  
**FOR THE PERIOD ENDED June 30, 2012**

	Annual Budget	Year to Date Budget % Accrued to Date	Year to Date Budget \$	Year to Date Actual \$	Fav/(Unfav) Variance \$
<b>MANAGEMENT SERVICES</b>	588,000	50%	294,000	296,138	(2,138)
<b>PROFESSIONAL SERVICES</b>					
Actuarial Services	102,000	67%	68,340	73,574	(5,234)
Reinsurance Matters (Note 1)	375,000	67%	251,250	263,830	(12,580)
Strategic Matters	120,000	67%	80,400	15,348	65,052
Restructuring	225,000	67%	150,750	202,194	(51,444)
Sub-Total Professional Services	822,000		550,740	554,946	(4,206)
GST/HST on Consulting Fees	183,300		109,816	110,641	(825)
<b>Total Management &amp; Professional Services *</b> (See Note 2)	<b>1,593,300</b>		<b>954,556</b>	<b>961,725</b>	<b>(7,169)</b>
<b>OTHER EXPENSES</b>					
Audit Expenses	84,000	50%	42,000	61,914	(19,914)
Annual Dinner	7,000	100%	7,000	6,714	287
Premium Taxes	545,000	50%	272,500	-	272,500
Premium Taxes: Interest	-		-	-	-
Chairman's Expenses	2,000	50%	1,000	507	493
Chairman's Honourium	75,000	100%	75,000	75,000	-
Reinsurance Expense	10,000	50%	5,000	6,332	(1,332)
Office Expenses	25,000	50%	12,500	14,715	(2,215)
Office Expenses - Website management software license	1,000	100%	1,000	1,188	(188)
Claims: Borderaux (LSUC)	15,000	50%	7,500	14,540	(7,040)
Special Services	100,000	50%	50,000	51,343	(1,343)
Special Services - Restructuring	75,000	50%	37,500	-	37,500
Miller Insurance Fees (Reins. Comm.) (See Note 3)	300,000	50%	150,000	136,500	13,500
I.B.C Statistical Plan Fees	16,000	50%	8,000	12,694	(4,694)
FSCO Assessment Fees	10,000	50%	5,000	(1,312)	6,312
Investment counsel fees	167,000	50%	83,500	68,902	14,598
Investment - Custodial	47,000	50%	23,500	20,463	3,037
Risk Management/Loss Prevention	100,000	50%	50,000	7,629	42,371
License Fee	5,000	50%	2,500	3,500	(1,000)
Insurance: Sundry	-		-	11	(11)
<b>Sub-total</b>	<b>1,584,000</b>		<b>833,500</b>	<b>480,637</b>	<b>352,863</b>
<b>TOTAL</b>	<b>3,177,300</b>		<b>1,788,056</b>	<b>1,442,362</b>	<b>345,694</b>

**\* NOTE 1: REINSURANCE MATTERS**

Reinsurance Budget was adjusted subsequent to the February Board meeting based on the decision taken at the meeting with respect to reinsurance renewal strategy.

**\* 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	26%
Second Quarter, ending June 30th	41%
Third Quarter, ending September 30th	16%
Fourth Quarter, ending December 31st	17%
	<u>100%</u>

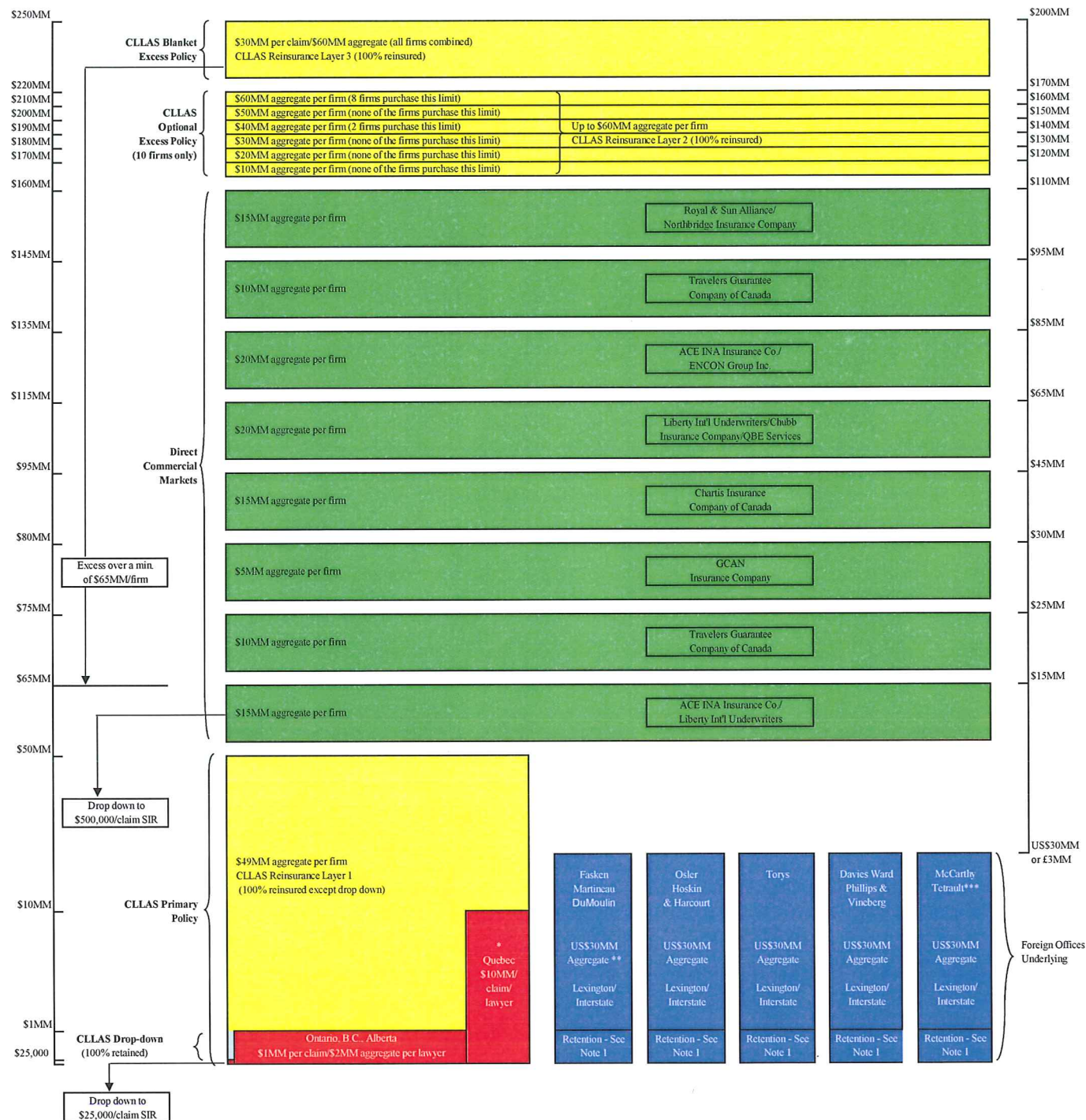
**\* NOTE 3: MILLER INSURANCE FEES (Reins. Comm.)**

The annual budget is based upon the annual fee estimated for the policy period 2011/2012.

**CLLAS LIMIT STRUCTURE**  
**JULY 1, 2012 - JULY 1, 2013**

## Canadian Exposures

## Foreign Exposures



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

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

\*\* US\$30MM limit with a UK indemnity limit of £3MM (provided by Lloyd's).

\*\*\* The period for this policy runs from September 30 to September 30.

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

U.S. - US\$100,000; U.K. - US\$75,000; elsewhere in the world - US\$50,000

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



**EXHIBIT B**

**\$49MM xs \$1MM**

London 62% Axis 3%

Munich Re

SwissRe

Beazley/Hannover

Colchester Retention

CLAS Retention

CLAS Reinsurance

Colchester Retrocession

65% 20% 10% 5%

\$4MM xs \$1MM  
\$5MM xs \$5MM  
\$10MM xs \$10MM  
\$30MM xs \$20MM

\$49MM xs \$1MM

CLAS Retention

Colchester Retention

SwissRe/ Liberty

AGG

\$7.5MM xs \$7.5MM

\$7.5MM xs \$7.5MM

AGG

Colchester Retention

CLAS Retention

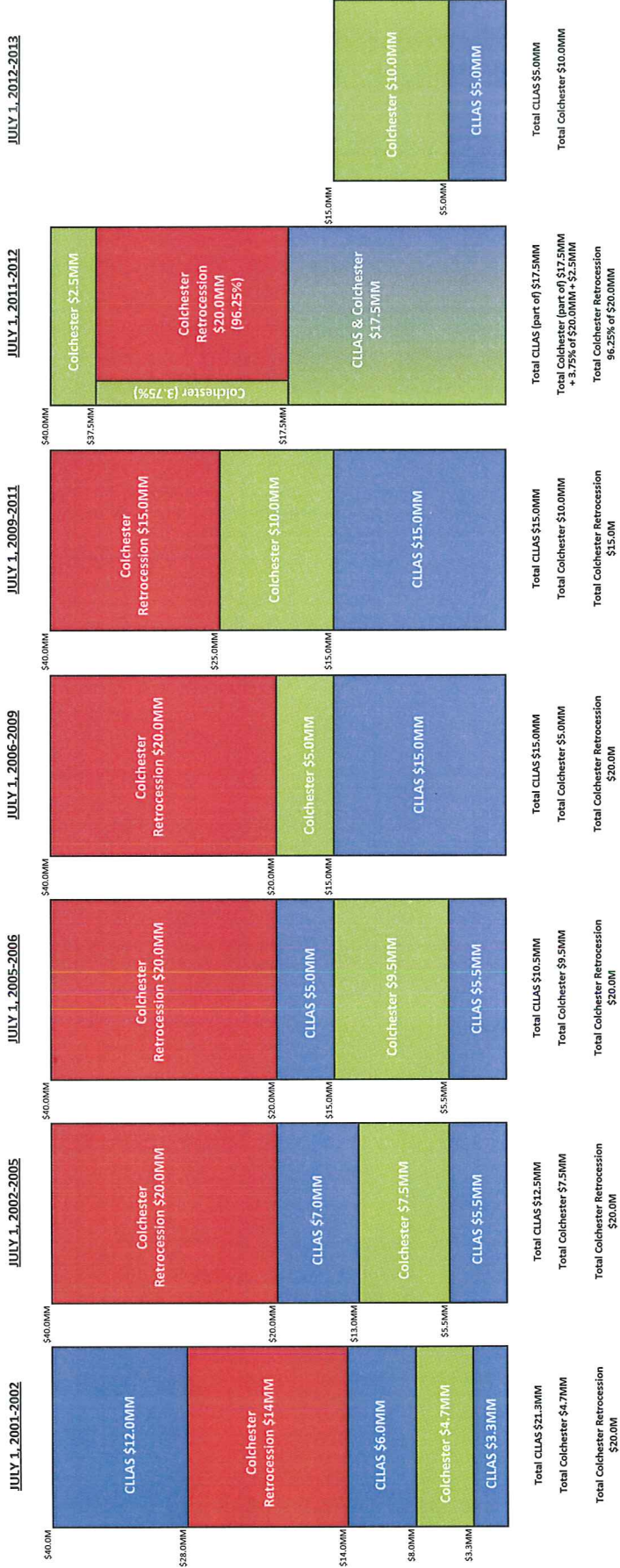
\$5MM xs \$5MM

\$10MM xs \$5MM

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY (CLLAS)				2012-2013 REINSURANCE CASH FLOW/PAYMENT SCHEDULE - INFORMATION AS AT JULY 1, 2012 \1																						Exhibit C	
		LAYER 1 \$49MM XS \$1MM		LAYER 2 UP TO \$60MM XS \$160MM										LAYER 3 \$30/60MM XS MIN \$65MM													
REINSURERS		SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	DUE JUL.15, 2012\2	DUE SEP. 1, 2012\3	DUE OCT. 1, 2012\3	DUE JAN.1, 2013\4	DUE APR. 1, 2013\3	GRAND TOTAL				
TOTAL PROPORTIONAL		100.00%	\$9,406,089	100.00%	\$0	100.00%	\$0	100.00%	\$0	100.00%	\$211,848	100.00%	\$0	100.00%	\$676,906	100.00%	\$492,992						\$10,787,835				
CLLAS PROPORTIONAL RETENTION		0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0						\$0				
PROPORTIONAL REINSURERS																											
Lloyd's		55.40%	\$5,210,974	28.00%	\$0	28.00%	\$0	28.00%	\$0	28.00%	\$59,317	28.00%	\$0	28.00%	\$189,533	49.00%	\$241,567		\$1,425,348	\$1,425,348	\$1,425,348	\$1,425,348	\$5,701,391				
A.G. Dore & Others - AGD 2526		10.20%	\$959,421	2.46%	\$0	2.46%	\$0	2.46%	\$0	2.46%	\$5,211	2.46%	\$0	2.46%	\$16,652												
Amlin - AML2001		8.57%	\$806,102																								
Antares - AUL 1274		4.23%	\$397,878																								
Argo - AMA 1200		30.00%	\$2,821,827																								
Beazley - AFB 2623																2.00%	\$9,860										
Brit - BRT 2987				5.00%	\$0	5.00%	\$0	5.00%	\$0	5.00%	\$10,592	5.00%	\$0	5.00%	\$33,845	2.50%	\$12,325										
Cadlin - SIC 2003																24.50%	\$120,783										
Faraday - FDY 435				2.01%	\$0	2.01%	\$0	2.01%	\$0	2.01%	\$4,258	2.01%	\$0	2.01%	\$13,606	3.10%	\$15,283										
Markel - MKL 3000				8.69%	\$0	8.69%	\$0	8.69%	\$0	8.69%	\$18,410	8.69%	\$0	8.69%	\$58,823	3.75%	\$18,487										
Pembroke - PEM 4000		2.40%	\$225,746	2.61%	\$0	2.61%	\$0	2.61%	\$0	2.61%	\$5,529	2.61%	\$0	2.61%	\$17,667	6.00%	\$29,580										
Sagkor - SAL 1206				7.23%	\$0	7.23%	\$0	7.23%	\$0	7.23%	\$15,317	7.23%	\$0	7.23%	\$48,940	7.15%	\$35,249										
London Companies		6.60%	\$620,802	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	\$310,401			\$310,401		\$620,802				
Allianz Global Risks		6.60%	\$620,802															\$310,401			\$310,401		620,802				
Total London Market		62.00%	\$5,831,776	28.00%	\$0	28.00%	\$0	28.00%	\$0	28.00%	\$59,317	28.00%	\$0	28.00%	\$189,533	49.00%	\$241,567	\$310,401	\$1,425,348	\$1,425,348	\$1,735,749	\$1,425,348	\$6,322,193				
Payable to Miller																		\$0	\$1,425,348	\$1,425,348	\$1,425,348	\$1,425,348	\$5,701,391				
Canadian Companies		38.00%	\$3,574,314	72.00%	\$0	72.00%	\$0	72.00%	\$0	72.00%	\$152,531	72.00%	\$0	72.00%	\$487,371	51.00%	\$251,426	\$2,232,217			\$2,233,425		\$4,465,642				
Arch Insurance Company (Canada Branch)				8.00%	\$0	8.00%	\$0	8.00%	\$0	8.00%	\$16,948	8.00%	\$0	8.00%	\$54,152			\$35,550			\$35,550		\$71,100				
AWAC (not Can. Lic.)				24.00%	\$0	24.00%	\$0	24.00%	\$0	24.00%	\$50,844	24.00%	\$0	24.00%	\$162,457			\$106,651			\$106,651		\$213,301				
AXIS Re		3.00%	\$282,183	5.00%	\$0	5.00%	\$0	5.00%	\$0	5.00%	\$10,592	5.00%	\$0	5.00%	\$33,845			\$163,310			\$163,310		\$326,620				
Colchester (not Can. Lic.)		35.00%	\$3,292,131															\$1,645,462			\$1,646,670		\$3,292,131				
Royal & Sun Alliance Insurance Co. of Canada				8.00%	\$0	8.00%	\$0	8.00%	\$0	8.00%	\$16,948	8.00%	\$0	8.00%	\$54,152			\$35,550			\$35,550		\$71,100				
Scor Reinsurance																16.00%	\$78,879			\$39,440		\$78,879					
Westport Insurance Corporation				27.00%	\$0	27.00%	\$0	27.00%	\$0	27.00%	\$57,199	27.00%	\$0	27.00%	\$182,765	35.00%	\$172,547	\$206,256			\$206,256		\$412,511				
TOTAL PROPORTIONAL REINSURERS		100.00%	\$9,406,090	100.00%	\$0	100.00%	\$0	100.00%	\$0	100.00%	\$211,848	100.00%	\$0	100.00%	\$676,904	100.00%	\$492,993	\$2,542,618	\$1,425,348	\$1,425,348	\$3,969,174	\$1,425,348	\$10,787,835				
AGGREGATE STOP-LOSS REINSURERS																											
Colchester																		\$49,329			\$49,329		\$98,658				
TOTAL REINSURANCE COST																		\$2,591,947	\$1,425,348	\$1,425,348	\$4,018,503	\$1,425,348	\$10,886,493				
PROPORTIONAL REINSURANCE																							Aggregate				
Rate per Lawyer		\$2,530.00		\$61.00		\$107.00		\$138.00		\$168.00		\$199.00		\$230.00		\$115.00							\$24.00				
Rate per Quebec Lawyer		\$1,215.00		n/a		n/a		n/a		n/a		n/a		n/a		n/a							n/a				
Total # Lawyers other than Quebec at 6/15/12		3325		0		0		0		1243		0		2766		4257							3,325.0				
Total # Quebec Lawyers at 6/15/12		756		0		0		0		0		0		0		0							756				
Total # Lawyers practising foreign law at 6/15/12		0		0		0		0		0		0		166		0							0				
Total # NLC at Lawyer Rate at 6/15/12 \5		14		0		0		0		11		0		3		14							14				
Rate per P&T Agent \6		\$633.00		\$15.00		\$27.00		\$35.00		\$42.00		\$50.00		\$58.00		\$29.00							\$6.00				
Total # P&T Agents at 6/15/12		48		0		0		0		22		0		26		48							48				
Total # NLC at P&T Rate at 6/15/12		15		0		0		0		6		0		6		15							15				
NLC = Non-lawyer Consultant																											
NOTES: \1 This is an information document, not an accounting ledger.																											
\2 Semi-annual instalment for Canadian Companies.																											
\3 Quarterly instalment for Miller. Fund should be sent to Miller, through ARS as Miller's broker, with about 2 weeks lead time.																											
\4 Semi-annual instalment for Canadian Companies and quarterly instalment for Miller. Fund should be sent to Miller, through ARS as Miller's broker, with about 2 weeks lead time.																											
\5 The rate for NLC in all provinces is the same as the rate for lawyers in provinces other than Quebec.																											
\6 Applicable in all provinces.																											

COLCHESTER REINSURANCE LTD		2012-2013 REINSURANCE CASH FLOW/PAYMENT SCHEDULE - INFORMATION AS AT JULY 1, 2012 \1																		Exhibit D
		LAYER 1 \$5MM XS \$5MM		LAYER 2 \$10MM XS \$10MM		LAYER 3 \$30MM XS \$20MM		LAYER 4 \$40MM XS \$10MM		AGGREGATE \$17.5MM XS \$7.5MM										
REINSURERS		SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM		DUE JUL.15, 2012	DUE SEP. 1, 2012	DUE OCT. 1, 2012	DUE JAN.1, 2013	DUE APR. 1, 2013	GRAND TOTAL		
TOTAL PROPORTIONAL		100.00%	\$2,395,323	96.00%	\$2,273,229	96.00%	\$3,276,252	99.00%	\$4,369,743	100.00%	\$300,000							\$12,614,547		
CLLAS PROPORTIONAL RETENTION		65.00%	\$1,556,960	65.00%	\$1,477,599	65.00%	\$2,129,564	65.00%	\$2,840,333	0.00%	\$0							\$8,004,456		
COLCHESTER PROPORTIONAL RETENTION		15.00%	\$359,298	5.00%	\$113,661	5.00%	\$163,813	5.00%	\$218,487	0.00%	\$0							\$855,259		
OTHER REINSURANCE		0.00%	\$0	16.00%	\$363,717	16.00%	\$524,200	9.00%	\$393,277	0.00%	\$0							\$1,281,194		
PROPORTIONAL REINSURERS																				
Lloyd's		10.00%	\$239,532	10.00%	\$227,323	0.00%	\$0	0.00%	\$0	20.00%	\$60,000			\$131,714	\$131,714	\$131,714	\$131,714	\$526,855		
AFB 623 / 2623		10.00%	\$239,532											\$59,883	\$59,883	\$59,883	\$59,883	\$239,532		
BRT2987				10.00%	\$227,323									\$56,831	\$56,831	\$56,831	\$56,831	\$227,323		
LIB4472										20.00%	\$60,000			\$15,000	\$15,000	\$15,000	\$15,000	\$60,000		
London Companies		10.00%	\$239,532	0.00%	\$0	10.00%	\$327,625	20.00%	\$873,949	80.00%	\$240,000			\$420,277	\$420,277	\$420,277	\$420,277	\$1,681,106		
Hannover Re		10.00%	\$239,532											\$59,883	\$59,883	\$59,883	\$59,883	\$239,532		
Munich Re - UK Branch								20.00%	\$873,949					\$218,487	\$218,487	\$218,487	\$218,487	\$873,949		
Swiss Re International SE						10.00%	\$327,625			80.00%	\$240,000			\$141,906	\$141,906	\$141,906	\$141,906	\$567,625		
Total London Market		20.00%	\$479,065	10.00%	\$227,323	10.00%	\$327,625	20.00%	\$873,949	100.00%	\$300,000			\$551,990	\$551,990	\$551,990	\$551,990	\$2,207,961		
Payable to Miller														\$551,990	\$551,990	\$551,990	\$551,990	\$2,207,961		
Canadian Companies		0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0		\$0	\$0	\$0	\$0	\$0	\$0		
None													\$0					\$0		
TOTAL PROPORTIONAL REINSURERS		20.00%	\$479,065	10.00%	\$227,323	10.00%	\$327,625	20.00%	\$873,949	100.00%	\$300,000		\$0	\$551,990	\$551,990	\$551,990	\$551,990	\$2,207,961		
PROPORTIONAL REINSURANCE																				
Rate per Lawyer		\$714.00		\$553.00		\$797.00		\$1,063.00		\$72.98										
Rate per Quebec Lawyer		\$0.00		\$553.00		\$797.00		\$1,063.00		\$72.98										
Total # Lawyers other than Quebec at 6/15/12		3325		3325		3325		3325		3325								3,325.0		
Total # Quebec Lawyers at 6/15/12		756		756		756		756		756								756		
Total # Lawyers practising foreign law at 6/15/12		0		0		0		0		0								0		
Total # NLC at Lawyer Rate at 6/15/12		14		14		14		14		14								14		
Rate per P&T Agent		\$179.00		\$138.00		\$199.00		\$266.00		\$18.24										
Total # P&T Agents at 6/15/12		48		48		48		48		48								48		
Total # NLC at P&T Rate at 6/15/12		15		15		15		15		15								15		
NLC = Non-lawyer Consultant																				
NOTE: \1 This is an information document, not an accounting ledger.																				

Aggregate Stop-loss Reinsurance Structure (Historical)



## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

REGULATORY GUIDELINES PREVIOUSLY MANDATED BY  
FINANCIAL SERVICES COMMISSION OF ONTARIOREINSURANCE CEDED  
EXCLUDING LOSS PORTFOLIO TRANSFER

JULY 1, 2012 - JULY 1, 2013

	CALENDAR YEAR 2012	RATIO OF DIRECT PREMIUM
A. 2012/2013 CONTINGENCY RESERVE ADJUSTMENT	(\$108,727)	
B. 2012/2013 PREMIUM FOR LAWYERS, P&T and NLC	\$12,810,924	
C. 2012/2013 OPTIONAL EXCESS LAYER PREMIUM FOR LAWYERS, P&T and NLC	\$982,098	
D. 2012/2013 UMBRELLA FOR LAWYERS, P&T and NLC	<u>\$544,433</u>	
E. DIRECT WRITTEN PREMIUM	<b>\$14,228,728</b>	<b>100.0%</b>
F. REGISTERED REINSURANCE		
G. PROPORTIONAL REINSURANCE	\$7,282,403	
H. AGGREGATE REINSURANCE	<u>\$0</u>	
I. TOTAL REGISTERED REINSURANCE	\$7,282,403	<b>51.2%</b>
J. UNREGISTERED REINSURANCE		
K. PROPORTIONAL REINSURANCE	\$3,505,432	
L. AGGREGATE REINSURANCE	<u>\$98,658</u>	
M. TOTAL UNREGISTERED REINSURANCE	<b>\$3,604,090</b>	<b>25.3%</b>
N. TOTAL REINSURANCE	<b>\$10,886,493</b>	<b>76.5%</b>

## Notes:

M. The FSCO guideline for unregistered reinsurance is 25% (maximum).

N. The FSCO guideline for total reinsurance is 75% (maximum).

## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

REGULATORY GUIDELINES PREVIOUSLY MANDATED BY  
FINANCIAL SERVICES COMMISSION OF ONTARIOREINSURANCE CEDED  
INCLUDING LOSS PORTFOLIO TRANSFER

JULY 1, 2012 - JULY 1, 2013

	CALENDAR YEAR 2012	RATIO OF DIRECT PREMIUM
A. 2012/2013 CONTINGENCY RESERVE ADJUSTMENT	(\$108,727)	
B. 2012/2013 PREMIUM FOR LAWYERS, P&T and NLC	\$12,810,924	
C. 2012/2013 OPTIONAL EXCESS LAYER PREMIUM FOR LAWYERS, P&T and NLC	\$982,098	
D. 2012/2013 UMBRELLA FOR LAWYERS, P&T and NLC	<u>\$544,433</u>	
E. DIRECT WRITTEN PREMIUM	<b>\$14,228,728</b>	<b>100.0%</b>
F. REGISTERED REINSURANCE		
G. PROPORTIONAL REINSURANCE	\$7,282,403	
H. AGGREGATE REINSURANCE	<u>\$0</u>	
I. TOTAL REGISTERED REINSURANCE	\$7,282,403	<b>51.2%</b>
J. UNREGISTERED REINSURANCE		
K. PROPORTIONAL REINSURANCE	\$3,505,432	
L. AGGREGATE REINSURANCE	\$98,658	
M. LOSS PORTFOLIO TRANSFER	<u>\$44,270,000</u>	
N. TOTAL UNREGISTERED REINSURANCE	<b>\$47,874,090</b>	<b>336.5%</b>
O. TOTAL REINSURANCE	<b>\$55,156,493</b>	<b>387.6%</b>

## Notes:

N. The FSCO guideline for unregistered reinsurance is 25% (maximum).

O. The FSCO guideline for total reinsurance is 75% (maximum).





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

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**Date:** September 6, 2012

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

Barry Bresner  
Daniel MacDonald  
John Esvelt  
Julia Holland  
Michael Swartz

**Copy:** Patrick Mahoney

**From:** Joe Tontini and Ryan Durrell

**Re:      Final Report on the CLLAS Renewal**  
**July 1, 2012/2013**

The purpose of this report is to provide the CLLAS Board with a final summary of the renewal highlights, including the rating and reinsurance placement for July 1, 2012/2013. For ease of reference, we have attached the following exhibits:

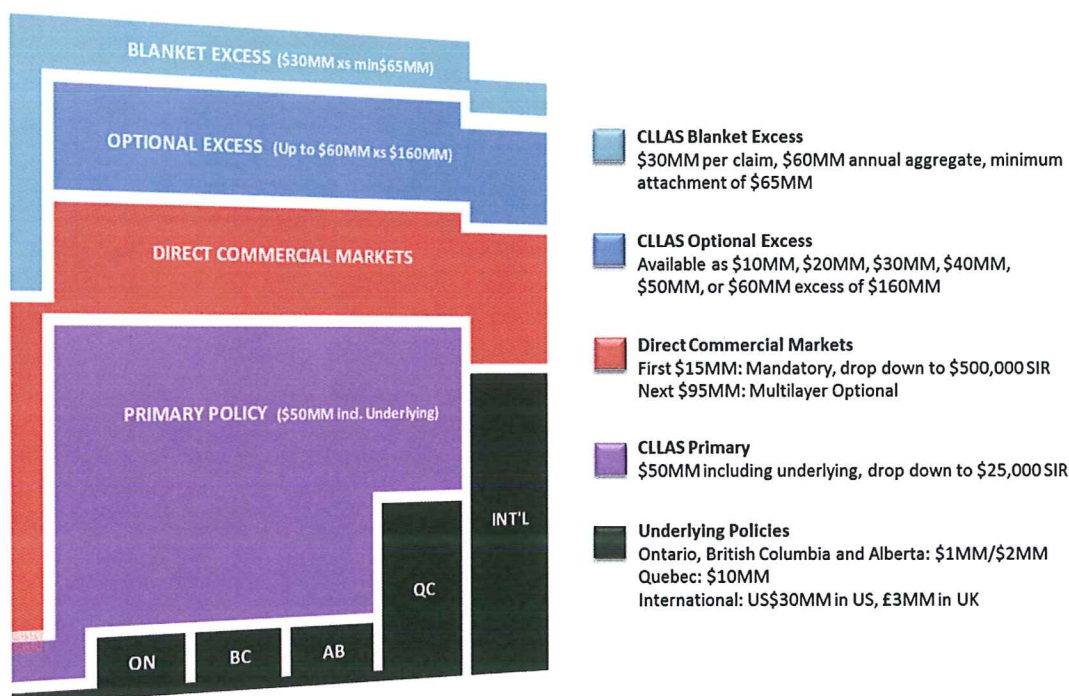
- A. CLLAS Limit Structure
- B. Reinsurance and Retrocession Structure Overview
- C. Current Rate Structure and Participation by Reinsurer – Proportional and Aggregate Stop-Loss Reinsurance
- D. Current Rate Structure and Participation by Retrocessionaire – Proportional and Aggregate Stop-Loss Retrocession
- E. Aggregate Stop-loss Reinsurance Structure (Historical)
- F. Reinsurance Guidelines Previously Mandated by FSCO (Excluding Loss Portfolio Transfer)
- G. Reinsurance Guidelines Previously Mandated by FSCO (Including Loss Portfolio Transfer)

**Highlights**

This has been an eventful year for CLLAS as July 1, 2012 marks the end of the fifth Underwriting Period. CLLAS has been in existence for 25 years and is well positioned for the future. The following highlights the material changes that were recently effected.

- CLLAS initiated a Loss Portfolio Transfer exercise to transfer CLLAS' outstanding net retained liabilities for the policy year periods since inception to the period ending June 30, 2012 inclusive, thus reducing its significant surplus requirements. CLLAS reinsured its net claims liabilities, including provision for adverse deviation, of \$38,517,000 as at June 30, 2012 to Colchester for a premium of \$44,270,000.
- The Ontario regulator's reinsurance guidelines effectively limited CLLAS' ability to undertake the Loss Portfolio Transfer to Colchester who is an unregistered reinsurer (see "FSCO Reinsurance Guidelines" section below for details). Consequently, CLLAS was seeking, and approval has been obtained, to switch its regulator from Ontario to Alberta where OSFI reinsurance guidelines are followed. Effective July 1, 2012, CLLAS is officially regulated by Alberta.
- Former member firm Blake, Cassels & Graydon LLP had decided to terminate its membership with CLLAS at the end of the fifth Underwriting Period (June 30, 2012). The remaining 11 member firms renewed for the sixth Underwriting Period.
- The CLLAS insurance structure at renewal was unchanged from last year except that the Blanket Excess cover now provides protection excess of the CLLAS International Policies. See Figure 1 below and Exhibit A.

**Figure 1**  
**CLLAS Insurance Structure as of July 1, 2012**





- The CLLAS reinsurance structure at renewal was basically unchanged from last year and is described below. The only significant change was in the CLLAS retention. CLLAS went from retaining 25% of the \$49MM xs \$1MM layer and 100% of the \$975,000 drop down difference in conditions to retaining only the drop down.

a) Reinsurance Layer 1: \$49,000,000 excess of \$1,000,000 (\$40,000,000 excess of \$10,000,000 for Quebec lawyers) – 100% reinsured.

- 65% of this layer is proportionally reinsured with Lloyd's and other reinsurers;
- 35% is reinsured with Colchester. Colchester's involvement is then layered and retroceded to various markets. A portion of Colchester's participation which is not transferred to other markets is retained by Colchester – see Exhibit B.
- CLLAS retains the entire drop down exposure below \$1,000,000.

The combined CLLAS/Colchester maximum single loss retention is \$5,125,000 compared to \$13,225,000 last year.

a) Reinsurance Layer 2: Between \$10,000,000 and \$60,000,000 excess of \$160,000,000 – 100% reinsured.

b) Reinsurance Layer 3: \$30,000,000/\$60,000,000 excess of \$65,000,000 (minimum) – 100% reinsured.

- A Lloyd's syndicate and 2 reinsurers have left the program but we were able to add 2 new Lloyd's syndicates and 1 new underwriter and keep most of the incumbent reinsurers. See the "Reinsurance Overview" section below for more details.
- Reinsurers' security ratings remain strong. Nevertheless, CLLAS maintains a rigorous security monitoring process which the Audit Committee continues to oversee.
- CLLAS members have realized overall savings of approximately \$276,000 or roughly \$68 per lawyer. Savings over the previous year does not take into consideration surplus which was distributed last year. It was felt that, in light of the change of jurisdiction and implementation of the Loss Portfolio Transfer, distribution of surplus was not prudent.
- CLLAS' reduced membership results in an increase in fixed costs per lawyer.
- Some policy changes have been implemented. The most significant is the inclusion of cyber coverage in the overall limits. More details are provided in the "Policy Wording Changes" section below.

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

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

CLLAS members were charged \$3,453 per lawyer (\$1,623 for Quebec lawyers) and \$863 per patent & trademark agent to cover the premium taxes, administration costs and expected loss costs related to the CLLAS drop down retention. Compared to last year, the rates were reduced by 1.9% for lawyers and P&T agents and 6.4% for Quebec lawyers.

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

Reinsurance Rates: \$2,530 per lawyer (\$1,215 per Quebec lawyer)/\$633 per P&T agent  
Compared to last year, the reinsurance rates were reduced by 14.23% for lawyers and P&T agents and 27.46% for Quebec lawyers.

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

Firms have the option of purchasing limits between \$10MM and \$60MM in increments of \$10MM. 2 firms purchased the limit of \$40MM while 8 others purchased the maximum limit of \$60MM. 1 firm did not purchase this policy.

CLLAS charged its members \$186 per lawyer and \$47 per patent & trademark agent for policies with a limit of \$40MM. For policies with a limit of \$60MM, CLLAS charged \$254 per lawyer and \$64 per patent & trademark agent. This represents a reduction of 15.4% over last year.

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

CLLAS Retention: Nil

Reinsurance Rates: \$61 per lawyer/\$15 per P&T agent for limit of \$10MM  
\$107 per lawyer/\$27 per P&T agent for limit of \$20MM  
\$138 per lawyer/\$35 per P&T agent for limit of \$30MM  
\$168 per lawyer/\$42 per P&T agent for limit of \$40MM  
\$199 per lawyer/\$50 per P&T agent for limit of \$50MM  
\$230 per lawyer/\$58 per P&T agent for limit of \$60MM

The above reinsurance rates represent a reduction of roughly 15% over last year.

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

This policy is shared by all CLLAS firms.

CLLAS charged its members \$127 per lawyer and \$32 per patent & trademark agent. This represents a reduction of 15.33% over last year.

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

CLLAS Retention: Nil

Reinsurance Rates: \$115 per lawyer/\$29 per P&T agent  
This represents a reduction of 14.8% over last year.

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

**Reinsurance Overview**

The following table shows this year's reinsurance allocation:

	<b><u>2012/2013</u></b>			<b><u>CLLAS Retention</u></b>
	<b><u>London</u></b>	<b><u>Domestic</u></b>	<b><u>Colchester</u></b>	
Reinsurance Layer 1	62%	3%	35%	Nil
Reinsurance Layer 2	28%	72%	Nil	Nil
Reinsurance Layer 3	49%	51%	Nil	Nil

*Note: Bermuda reinsurers are included among the domestic reinsurers.*

We were able to add 2 new Lloyd's syndicates and 1 new underwriter to the program, namely Hiscox, Liberty and Allianz. On the other hand, Sagicor (a Lloyd's syndicate), CNA and Transatlantic Re left the program.

Swiss Re continues to participate on the program this year but has moved its lines to Westport Insurance Corporation so that their Corporate Solutions clients are managed through a Corporate Solutions carrier. Westport has an AA- S&P rating and A+ from A.M. Best (the same as Swiss Re).

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

### **Reinsurance Security**

We have provided a separate update on the Reinsurance Security Report in which we have discussed the most current security ratings of each of the CLLAS reinsurers as well as reporting on the security monitoring process.

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

Last year, Colchester provided a limit of \$22,500,000 in the annual aggregate excess of \$17,500,000 in the annual aggregate in respect of CLLAS' and Colchester's retained losses in the \$49,000,000 excess of \$1,000,000 reinsurance layer and CLLAS' retained losses in the drop-down below \$1,000,000. As CLLAS' per claim retention has been significantly reduced this year, amendments to the aggregate stop-loss protection were required. Colchester, on the other hand, has sought out aggregate stop-loss protection for its own risk

Colchester provides the following aggregate stop-loss protection in 2012/13 (see Exhibits C and E):

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

Rate: \$24 per lawyer/\$6 per P&T agent

### **Changes to Reinsurance Contracts**

The reinsurance contracts have been revised to reconcile the contradiction between the Arbitration Article and the Law & Jurisdiction Article.

### **Policy Wording Changes**

The following changes have been made to the Primary Policy:

1. The policy wording is revised to clarify that the intent of the policy is to provide coverage for "cyber" exposures as they relate directly or indirectly to "Professional Services". The expired policy was silent on the subject so CLLAS wants to make it perfectly clear that coverage is intended and afforded by this policy.
2. CLLAS recently had a request to provide coverage for a professional corporation of a non-lawyer consultant. Since professional corporations of lawyers are covered, CLLAS has amended the policy to make sure that professional corporations of non-lawyer consultants are also covered.

3. A “Conformity Clause” has been added. This ensures that if the terms of the policy are in conflict with the mandatory statutory or law society requirements of any of the provinces in which the CLLAS Primary Policy responds, then the CLLAS Primary Policy will automatically recognize and respect the statutory requirements.
4. An “Economic or Financial Sanctions Exclusion” has been added. This excludes coverage which would expose CLLAS to any sanction, prohibition or restriction under any economic or financial sanctions legislation applicable to CLLAS.
5. The “Goodman and Carr LLP Lateral Hire Extension Endorsement” continues to be attached. There is no premium charged on this endorsement starting from July 1, 2012.

The following change has been made to the Blanket Excess Policy:

1. The exclusionary endorsements relating to the CLLAS International Policy exposures have been deleted. The result is that the potential difference in limits between a claim that the CLLAS Primary Policy covers and a claim that the CLLAS International Policy covers is reduced from \$50,000,000 to \$20,000,000.

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

### **FSCO Reinsurance Guidelines**

Prior to July 1, 2012, CLLAS was regulated by FSCO and was therefore bound by its guidelines of maximum 75% total reinsurance and maximum 25% unregistered reinsurance. As mentioned above, CLLAS transferred its outstanding net retained liabilities as at June 30, 2012 to Colchester who is an unregistered reinsurer. This necessitated CLLAS to move its regulatory jurisdiction to Alberta to avoid non-compliance with the FSCO reinsurance guidelines.

For illustration purpose, we have provided two exhibits which set forth the calculations based on the 2012/13 CLLAS premiums and reinsurance premiums. Exhibit F shows that excluding the Loss Portfolio Transfer premium, total reinsurance is 76.5% and unregistered reinsurance is 25.3%. Exhibit G shows that including the Loss Portfolio Transfer premium, total reinsurance is 387.6% and unregistered reinsurance is 336.5%.

### **Concluding Remarks**

The above summarizes the significant changes that have been put in place for July 1, 2012 and beyond. The reinsurance and regulatory changes will place CLLAS in a very good position to tackle the challenges and opportunities in this and future underwriting periods.

Press Release - JUNE 18, 2012

## A.M. Best Downgrades Ratings of Brit Insurance Limited; Places Under Review with Negative Implications

 [Print this article](#)

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### FOR IMMEDIATE RELEASE

LONDON, JUNE 18, 2012

**A.M. Best Europe – Rating Services Limited** has downgraded the financial strength rating (FSR) to B++ (Good) from A- (Excellent) and the issuer credit rating (ICR) to “bbb+” from “a-” of **Brit Insurance Limited** (BIL) (United Kingdom). The ratings remain under review with negative implications.

A.M. Best has also commented that the ICR of “bbb” of **Brit Insurance Holdings B.V.** (Brit Insurance) (Netherlands), the ultimate parent of the Brit Insurance group of companies, remains under review with negative implications. Additionally, A.M. Best has commented that the debt rating of “bbb-” on the GBP 135 million fixed rate subordinated notes, originally issued and guaranteed by the intermediate holding company of BIL, **Brit Insurance Holdings Ltd** (United Kingdom), and now an obligation of Brit Insurance, remains under review with negative implications.

The rating actions follow Brit Insurance’s announcement on June 18, 2012 that BIL will be acquired by RiverStone Holdings Limited, an indirect subsidiary of **Fairfax Financial Holdings Limited**, subject to regulatory approval. The transaction is expected to complete in the fourth quarter of 2012. The downgrade of BIL’s ratings reflects increased uncertainty as to whether the company’s risk-adjusted capitalisation will be maintained at the current level and further deterioration in its business profile.

As at the end of 2011, BIL’s risk-adjusted capitalisation was strong. Subsequent to year-end 2011, risk-adjusted capitalisation has not deteriorated. However, the announcement on June 18, 2012 of the sale of BIL to RiverStone Holdings Limited increases uncertainty as to whether prospective risk-adjusted capitalisation will be maintained at the current level.

On April 3, 2012, Brit Insurance announced its intention to transfer the renewal rights, operations and assets of its UK regional business to **QBE Insurance (Europe) Limited**, a transaction which significantly reduced BIL’s business profile. A.M. Best believes BIL’s business profile will be further diminished following Brit Insurance’s announcement of its intention to sell BIL to RiverStone Holdings Limited.

The ratings of BIL will remain under review with negative implications pending further discussions with management and completion of its sale to RiverStone Holdings Limited. Prior to the conclusion of the transaction, A.M. Best will closely monitor the risk-adjusted capitalisation of BIL and react as necessary.

The rating of Brit Insurance remains under review while A.M. Best continues to evaluate the impact of any possible capital restructuring on the group’s consolidated risk-adjusted capitalisation associated with the potential sale of BIL.

Positive rating actions are unlikely over the next 12-24 months. Factors that could lead to negative rating actions for BIL include deterioration in risk-adjusted capitalisation or deterioration in its reserves. Factors that could lead to negative rating actions for Brit Insurance include deterioration in risk-adjusted capitalisation.

The methodology used in determining these ratings is Best's Credit Rating Methodology, which provides a comprehensive explanation of A.M. Best's rating process and contains the different rating criteria employed in the rating process. Key criteria utilised include: "Understanding BCAR for Property/Casualty Insurers"; "Catastrophe Analysis in A.M. Best Ratings"; "Understanding Universal BCAR"; "Risk Management and the Rating Process for Insurance Companies"; "Rating Members of Insurance Groups"; and "Equity Credit for Hybrid Securities". Best's Credit Rating Methodology can be found at [www.ambest.com/ratings/methodology](http://www.ambest.com/ratings/methodology).

**In accordance with Regulation (EC) No. 1060/2009, the following is a link to required disclosures:** [A.M. Best Europe - Rating Services Limited Supplementary Disclosure](#).

**A.M. Best Europe – Rating Services Limited is a subsidiary of A.M. Best Company. Founded in 1899, A.M. Best Company is the world's oldest and most authoritative insurance rating and information source.**

[View a list of companies](#) related to this press release. The list will include Best's Ratings along with links to additional company specific information including related news and reports.

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**Appendix A**  
**CLLAS Reinsurers Monitoring Criteria**

**Level I Monitoring**

In February 2012, a complete Level I monitoring analysis was conducted on all of the CLLAS reinsurers, based on complete actuarial information. This analysis included the following:

- Current A.M. Best and S&P ratings compared to the previous year;
- Current total liability exposure (i.e. case reserves and IBNR) from each reinsurer for all years;
- Expected loss exposure from each reinsurer for the current year;
- Expected limit exposure to each reinsurer for the current year.

Other than the A.M. Best and S&P ratings, the analysis noted above is based on actuarial data and is conducted on an annual basis at the beginning of each year. Although a complete Level I analysis was not conducted at this time, we can ascertain that there would be no incumbent reinsurers added to the Level II monitoring list that were not already on the list in February 2012. For complete details on the incumbent reinsurers currently on the Level II monitoring list, please refer to the February 2012 Reinsurance Security Report.

CLLAS reinsurance security should be rated A- or better by A.M. Best and S&P except for special circumstances agreed to by the Board.

**Level II Monitoring Triggers**

Should any of the following events happen, then a Level II monitoring would take place:

- Downgrading of the security rating;
- A rating agency placing a reinsurer on a “watch” list;
- Difficulties collecting reinsurance proceeds after a claim is settled;
- Case reserves and IBNR exposure to any one reinsurer exceeding 10% of total liabilities for all years;
- Expected losses of any one reinsurer exceeding 10% of all expected losses for the current year;
- Total limits of any one reinsurer exceeding 10% of the total limits provided by CLLAS;
- Use of a reinsurer that is unregistered in Canada;
- Any other events deemed material by the Audit Committee or its advisors.



## **Level II Monitoring**

The following Level II monitoring should take place for any reinsurer that requires it due to events identified above:

- Additional information should be reviewed by the Audit Committee, including a review of:
  - ❖ Stock performance relative to the remainder of the market;
  - ❖ Early warning signals/ratios (as provided by A.M. Best or equivalent agency);
  - ❖ Balance sheet and income statement highlights (as provided by A.M. Best or equivalent agency);
- Meetings or direct correspondence with such reinsurers as necessary to discuss the financial health of the reinsurer.

The Audit Committee should make recommendations to the Board based on such reviews.

**APPENDIX B**  
**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**REINSURERS' SECURITY RATING**

Reinsurer	Registered Status	A.M. Best				S&P			
		September 5, 2012		February 8, 2012 Rating	July 27, 2011 Rating	September 5, 2012 Rating		February 8, 2012 Rating	July 27, 2011 Rating
		Rating	Change from Last Rating			Rating	Change from Last Rating		
Lloyd's	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Excellent)/Stable	A+ (Strong)/Positive	Outlook Upgraded	A+ (Strong)/Stable	A+ (Strong)/Stable
Allianz Global Risks U.S.	Registered	A+(Superior)/Stable	N/A	N/A	N/A	AA(Very Strong)/Negative	N/A	N/A	N/A
Aspen Re	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Excellent)/Stable	A (Strong)/Stable	Unchanged	A (Strong)/Stable	A (Strong)/Stable
Hannover Ruck	Registered	A+(Superior)/Stable	Rating Upgraded	A (Excellent)/Positive	A (Excellent)/Positive	AA- (Very Strong)/Stable	Unchanged	AA- (Very Strong)/Stable	AA- (Very Strong)/Stable
Brit Insurance Limited	Registered	B++(Good)/Negative	Rating Downgraded	A (Excellent)/Stable	A (Excellent)/Stable	Not Available	Not Available	Not Available	Not Available
Transatlantic Reinsurance Company (UK)	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Excellent)/Stable	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable	A+ (Strong)/Stable
Arch Insurance Company (Canada Branch)	Registered	A+ (Superior)/Stable	Unchanged	A+ (Superior)/Stable	A (Excellent)/Positive	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable	A+ (Strong)/Stable
Allied World Assurance Company Ltd.	Unregistered	A (Excellent)/Positive	Unchanged	A (Excellent)/Positive	A (Excellent)/Stable	A (Strong)/Stable	Unchanged	A (Strong)/Stable	A (Strong)/Credit Watch-Positive
CRC (Bermuda) Reinsurance Ltd.	Unregistered	A- (Excellent)/Stable	Rating Downgraded	A (Excellent)/Stable	A (Excellent)/Stable	Not Available	Not Available	Not Available	Not Available
Royal & Sun Alliance (formerly GCAN)	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Excellent)/Stable	A+ (Strong)/Stable	N/A	N/A	N/A
SCOR Canada Reinsurance Company	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Excellent)/Stable	A+ (Strong)/Stable	Rating Upgraded	A (Strong)/Positive	A (Strong)/Positive
Swiss Reinsurance Company Ltd. (Canada Branch)	Registered	A+ (Superior)/Stable	Unchanged	A+ (Superior)/Stable	A (Excellent)/Positive	AA- (Strong)/Stable	Unchanged	AA- (Strong)/Stable	A+ (Strong)/Stable
Toa Reinsurance Company of America	Registered	A+ (Superior)/Stable	Outlook Upgraded	A+ (Superior)/Negative	A (Excellent)/Stable	A+ (Strong)/Stable	Outlook Upgraded	A+ (Strong)/Negative	A+ (Strong)/Stable
Transatlantic Reinsurance Company (Parent)	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Excellent)/Stable	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable	A+ (Strong)/Stable
Transatlantic Reinsurance Company (Canada)	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Excellent)/Stable	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable	A+ (Strong)/Stable
Colchester Reinsurance Ltd.	Unregistered	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available
Munich Re	Registered	A+ (Superior)/Stable	Unchanged	A+ (Superior)/Stable	A+ (Superior)/Stable	AA-(Very Strong) Stable	Unchanged	AA-(Very Strong) Stable	AA-(Very Strong) Stable
Antares 1274	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Excellent)/Stable	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable	A+ (Strong)/Stable
Argo 1200	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Excellent)/Stable	A- (Strong)/Stable	Unchanged	A- (Strong)/Stable	A- (Strong)/Stable
Axis Reinsurance Company	Registered	A (Excellent)/Positive	Unchanged	A (Excellent)/Positive	A (Excellent)/Stable	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable	A+ (Strong)/Stable
Continental Casualty Company (CNA)	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Excellent)/Stable	A- (Strong)/Positive	Unchanged	A- (Strong)/Positive	A- (Strong)/Stable



## Company details

### **Brit Insurance Holdings B.V.**

SOM II, Claude Debussylaan 11, 1082 MC, Amsterdam, The Netherlands

Registered under No. 24464323 with the Trade Register of the Chamber of Commerce in the Netherlands.

### **Brit Insurance Limited**

Company No. 02763688

Authorised and regulated by the Financial Services Authority with No. 202898

Member of the Association of British Insurers

Registered office: 55 Bishopsgate, London, EC2N 3AS, registered in England and Wales.

### **Brit Syndicates Limited**

Company No. 0824611

Authorised and regulated by the Financial Services Authority with No. 204930

Registered office: 55 Bishopsgate, London, EC2N 3AS, registered in England and Wales.

## HOW LLOYD'S WORKS

### MARKET STRUCTURE CONTINUED

#### MANAGING AGENTS

##### MANAGING THE SYNDICATES

A managing agent is a company set up to manage one or more syndicates on behalf of the members, who provide the capital. Managing agents are responsible for employing the syndicates' underwriters, overseeing their underwriting and handling the infrastructure and day-to-day operations.

A single corporate group will often both fund and manage a syndicate, aligning management and capital provision. In other, 'unaligned' syndicates, different members (which can include both private individuals and corporate groups) who are not connected with the managing agent provide the capital. New syndicates are often established under a 'turnkey' arrangement, with an existing managing agent setting up and managing the new syndicate on behalf of a third party capital provider. In due course, the capital provider may seek approval from Lloyd's to establish their own managing agent.

#### CORPORATION OF LLOYD'S

##### SUPPORTING THE MARKET

The Corporation of Lloyd's (the Corporation) oversees the market, setting standards, approving business plans, providing services to support its activity and managing the Central Fund. It also manages Lloyd's network of international licences.

The members of the Corporation's Executive Team exercise the day-to-day powers and functions of the Council of Lloyd's (the Council) and the Franchise Board. At the end of December 2011, the Corporation and its subsidiaries had 912 employees.

As well as providing services to support the smooth running of the market, the Corporation works to raise standards and improve performance. Its work covers two main areas:

1. Overall risk and performance management of the market, including:
  - Setting the level of capital Lloyd's members must provide for their proposed underwriting.
  - Overseeing the market's business activities by setting standards and monitoring syndicates' performance in areas including underwriting, exposure management, claims and operational risk.
  - Working with the managing agents of underperforming syndicates to improve performance, intervening directly where needed.
  - Managing the market's financial and regulatory reporting, including producing its results and international regulatory returns.
2. Maintaining and developing the market's attractiveness to capital providers,

distributors and clients, while preserving its diversity and London-based model. This includes:

- Managing and developing Lloyd's global network of licences and the Lloyd's brand.
- Acting in the long-term interests of the market.
- Representing Lloyd's to worldwide governments and regulators.

##### MANAGING INSURANCE RISK

Each syndicate sets its own appetite for risk, develops a business plan, arranges its reinsurance protection and manages its exposures and claims. Through Performance Management and other Directorates, the Corporation reviews and agrees business plans, monitors compliance against Lloyd's minimum standards and monitors syndicates' performance against their plan. All syndicates can only underwrite in accordance with these agreed business plans. If they fail to do so, Lloyd's can take a range of actions, including, as a last resort, requiring a syndicate to cease underwriting.



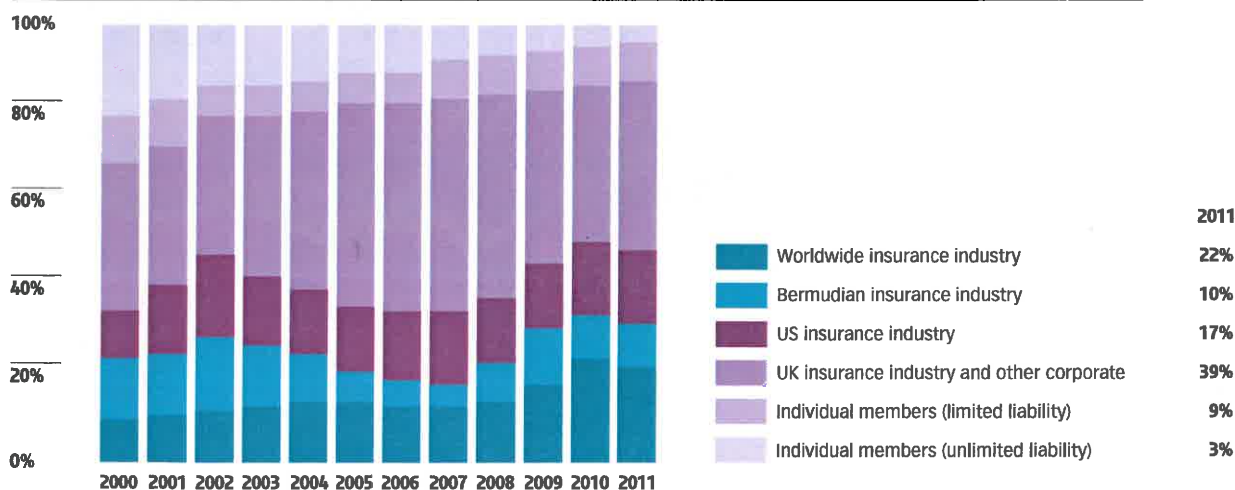
For a list of managing agents and the syndicates they manage see [page 137](#).

See [page 11](#) for more detail on the governance of Lloyd's.

For more information on managing insurance risk see [page 43-44](#).

Figure 2

#### LLOYD'S CAPACITY BY SOURCE AND LOCATION





## HOW LLOYD'S WORKS

### SECURITY AND RATINGS

# LLOYD'S FINANCIAL STRENGTH COMES FROM ITS UNIQUE CAPITAL STRUCTURE

## FINANCIAL STRENGTH

### THE CHAIN OF SECURITY

Lloyd's unique capital structure, often referred to as the Chain of Security, provides excellent financial security to policyholders and capital efficiency for members.

There are three links in the Chain of Security (see Figure 3):

- > Syndicate level assets
- > Members' funds at Lloyd's
- > Central assets

The funds in the first and second links are held in trust, primarily for the benefit of policyholders whose contracts are underwritten by the relevant member. Members underwrite for their own account and are not liable for other members' losses. The third link contains mutual assets held by the Corporation which are available, subject to Council approval, to meet any member's insurance liabilities.

The Chain of Security provides the financial strength that ultimately backs insurance policies written at Lloyd's and the common security that underpins the market's ratings and licence network.

The Corporation is responsible for overseeing both member and central capital levels to achieve a level of capitalisation that is robust.

## FIRST LINK

### SYNDICATE LEVEL ASSETS

The premiums received by a particular syndicate are kept in trust and are its first resource for paying policyholder claims. They are generally held in liquid assets to ensure liabilities can be met as they fall due. Profits are not released until future liabilities are fully provided for. Each syndicate's reserves for future liabilities are subject to annual independent audit and actuarial review.

## SECOND LINK

### MEMBERS' FUNDS AT LLOYD'S

Each member, whether corporate or individual, must provide capital to support its underwriting at Lloyd's. In accordance with FSA regulations, each syndicate produces an Individual Capital Assessment (ICA) stating how much capital it requires to cover its underlying business risks at a 99.5% confidence level.

The Corporation reviews each syndicate's ICA to assess the adequacy of the proposed capital level. When agreed, each ICA is then 'uplifted' (by 35% for 2011) to ensure enough capital is in place to support Lloyd's ratings and financial strength. This uplifted ICA is known as the syndicate's Economic Capital Assessment and drives member capital levels. This capital is held in trust as readily realisable assets and can be used to meet any Lloyd's insurance liabilities of that member, but not the liabilities of other members.

## THIRD LINK

### CENTRAL ASSETS

The Corporation's central assets are the third link of security. The Central Fund is available, at the discretion of the Council of Lloyd's, to meet any valid claim that cannot be met by the resources of any member. It is funded

by members' annual contributions and subordinated debt issued by the Corporation in 2004 and 2007. Central assets may also be supplemented by a call on members of up to 3% of overall premium limits, known as the 'callable layer'.

The Corporation regularly undertakes detailed analysis to determine the optimum level of central assets, seeking to balance the need for financial security against members' desire for cost-effective mutuality of capital. In particular, the Corporation's sophisticated modelling tests each member's underwriting portfolio against a number of scenarios and a range of forecasts of market conditions.

The Corporation's current target for unencumbered central assets is that they should be at least 250% of the Society's Individual Capital Assessment (ICA) on a business as usual basis. Members' contributions to the Central Fund remain at 0.5% of gross written premiums for 2012. The Council of Lloyd's periodically reviews the central assets target and the level of contributions in light of the current financial position and forecast needs, and will adjust the contribution levels as required.

Figure 3

### CHAIN OF SECURITY

SEVERAL ASSETS	FIRST LINK	SYNDICATE LEVEL ASSETS £41,311m	
	SECOND LINK	MEMBERS' FUNDS AT LLOYD'S £15,171m	
MUTUAL ASSETS	THIRD LINK	CENTRAL FUND £1,361m CORPORATION £129m	CALLABLE LAYER £718m
		SUBORDINATED DEBT/ SECURITIES £898m	

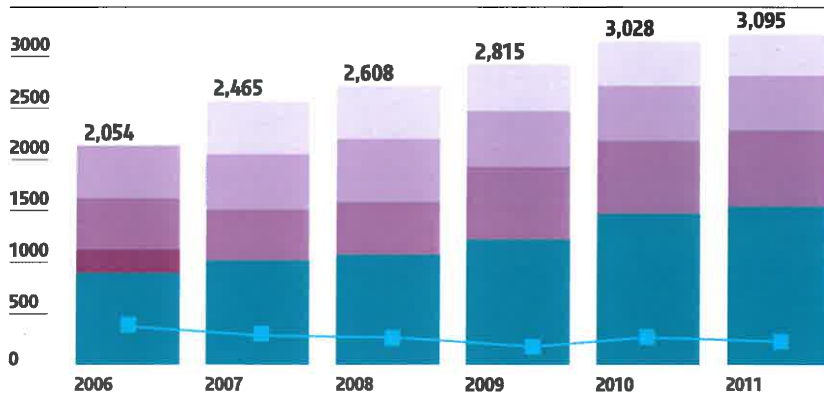
## HOW LLOYD'S WORKS

### SECURITY AND RATINGS CONTINUED

Figure 4

#### CORPORATION & CENTRAL FUND NET ASSETS FOR SOLVENCY<sup>†</sup>

£m



	2011
Corporation & Central Fund net assets	1,479
Syndicate loans	0
Callable layer	718
Subordinated debt issued 2004	509
Subordinated perpetual securities issued 2007	389
Solvency deficits	115

<sup>†</sup> The aggregate value of central assets of the Corporation for solvency purposes at 31 December 2011, excluding the subordinated debt liabilities, including the callable layer.

#### LLOYD'S ICA AND SOLVENCY

The Corporation also prepares an ICA for Lloyd's as a whole, using the FSA's six risk categories to examine the risks not included in each syndicate's ICA, such as damage to the Lloyd's building. The Corporation also calculates the statutory solvency position of the Society of Lloyd's and reports this to the FSA. At 31 December 2011, the Society had an estimated solvency surplus of £2,980m (see Figure 4).

#### LLOYD'S RATINGS

All Lloyd's syndicates benefit from Lloyd's central resources, including the Lloyd's brand, its network of global licences and the Central Fund. As all Lloyd's policies are ultimately backed by this common security, a single market rating can be applied. Lloyd's financial strength ratings apply to every policy issued by every syndicate at Lloyd's since 1993.

Three of the world's leading insurance rating agencies validate Lloyd's robust capitalisation and the financial strength of the market. In 2011, all three reaffirmed our ratings (Figure 5). In recognition of Lloyd's ongoing risk management improvements, Standard and Poor's also reaffirmed its 2010 upgrading of Lloyd's Enterprise Risk Management rating from 'adequate' to 'adequate with strong risk controls'.

"The rating reflects the strong financial profile of Lloyd's, which has successfully withstood the unprecedented catastrophe losses sustained by the insurance industry during Q111 [Quarter 1, 2011]...Lloyd's strong capital position and the conservative allocation of both several and mutual assets are also viewed as positive rating factors."

Fitch Ratings, July 2011

More information on the Chain of Security can be found on **page 9**.

Figure 5

#### LLOYD'S RATINGS

**STANDARD & POOR'S A+ (STRONG)**  
**FITCH RATINGS A+ (STRONG)**

**A<sup>+</sup>**  
**A**

**A.M. BEST A (EXCELLENT)**

As at 31 December 2011.



LLOYD'S

# LLOYD'S QUICK GUIDE

AN INTRODUCTION TO WHO  
WE ARE AND WHAT WE DO

A stylized, low-angle illustration of a building and a bridge. The building is on the left, with a series of arches and a grid of dots. The bridge is on the right, with a series of arches and a diagonal line. The entire illustration is in shades of blue and white.

MAY 2011



# LLOYD'S QUICK GUIDE

Lloyd's is the world's specialist insurance market, conducting business in over 200 countries and territories worldwide – and is often the first to insure new, unusual or complex risks. We bring together an outstanding concentration of specialist expertise and talent, backed by excellent financial ratings which cover the whole market.

<b>HISTORY</b>	
From coffee beans to complex risks	<b>02</b>
<b>HOW LLOYD'S WORKS</b>	
Market structure	<b>04</b>
<b>CHAIN OF SECURITY</b>	
Links strength with stability	<b>06</b>
<b>IN ACTION</b>	
How we're moving ahead	<b>07</b>
<b>MANAGING AGENTS</b>	
A dynamic and diverse marketplace	<b>08</b>
<b>2010 FINANCIAL HIGHLIGHTS</b>	
Our strength and ratings	<b>10</b>
<b>REACH</b>	
Where we're active around the world	<b>12</b>
<b>TODAY</b>	
Exploring our current business activities	<b>14</b>
<b>GLOBAL CONTACTS</b>	<b>16</b>

## HISTORY FROM COFFEE BEANS TO COMPLEX RISKS

Lloyd's began over 300 years ago in Edward Lloyd's coffee house – a place where shipowners could meet people with capital to insure them.

Since then, Lloyd's has grown from its marine heritage to become the world's leading market for specialist property and casualty insurance.

To this day, Lloyd's remains a place where business is conducted face-to-face. Like any dynamic, innovative market it allows those with something to sell (underwriters providing insurance coverage) to make contact with those who want to buy (brokers, working on behalf of clients who are seeking insurance). Our strength is built upon the diversity of managing agents (underwriting agents responsible for managing a syndicate) who choose to operate at Lloyd's, supported by capital from diverse sources around the world.

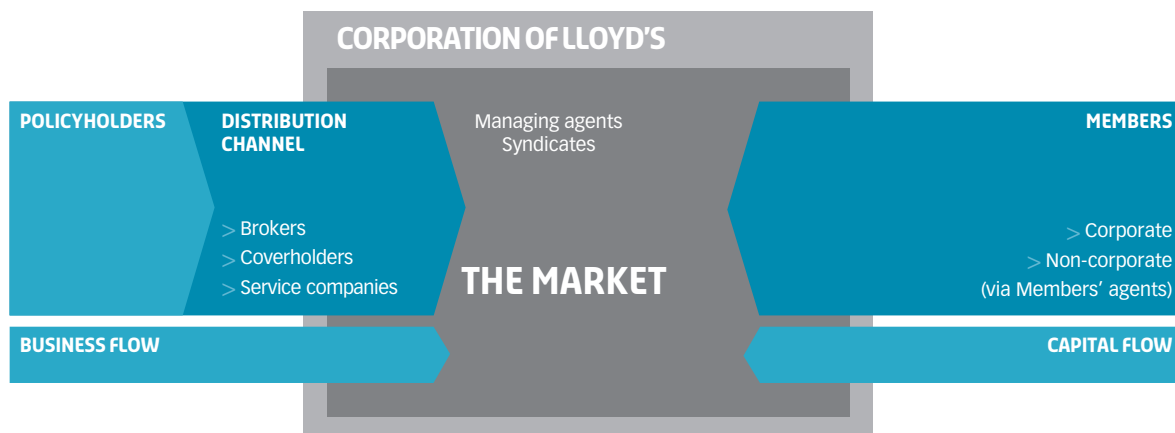
Follow the Lloyd's journey at  
[www.lloyds.com/history](http://www.lloyds.com/history)



# HOW LLOYD'S WORKS

## MARKET STRUCTURE

Lloyd's is not an insurance company. It is a market where members join together to form syndicates to insure risks. Much of Lloyd's business works by subscription, where more than one syndicate takes a share of the same risk.



### WHO'S WHO?

#### Policyholders

##### request insurance cover

Businesses, organisations, other insurers and individuals from around the world want to protect themselves against risks that could affect them. They approach a broker and explain their individual needs.

#### Brokers

##### place the risks

Most of Lloyd's business is placed with the assistance of a broker. In addition to being regulated by their national regulator, brokers must also meet Lloyd's own eligibility criteria.

#### Coverholders

##### place the risks

Coverholders are companies

authorised by a managing agent to enter into contracts of insurance and/or issue insurance documentation, on behalf of the members of a syndicate.

#### Service companies

##### place the risks

A service company is an approved coverholder which Lloyd's has classified as a 'service company' by reason of it being a wholly owned subsidiary of either a managing agent or its holding company.

#### Syndicates

##### write the insurance risks

Underwriters decide on behalf of its members which risks a syndicate will underwrite and on what terms. Much of Lloyd's business is conducted in the

Underwriting Room, where face-to-face negotiations take place with brokers regarding the risks they want to place at Lloyd's.

#### Managing agents manage the syndicates

These are companies set up to manage one or more syndicates. The managing agent employs the underwriting staff and handles the day-to-day running of a syndicate's infrastructure and operations.

#### Members

##### provide the capital

Members of Lloyd's provide the capital to support syndicates' underwriting. Members include some of the world's major insurance groups and companies listed on the London Stock

Exchange, as well as individuals and limited partnerships.

#### Corporation of Lloyd's supports the market

The Corporation oversees and supports the market and promotes Lloyd's around the world. This includes determining the capital that members must provide to support their proposed underwriting, working with the management of underperforming syndicates to improve performance, undertaking financial and regulatory reporting for the Lloyd's market, managing and developing Lloyd's global network of licences, Lloyd's brand and representing Lloyd's to governments and regulators around the world.

# CHAIN OF SECURITY LINKS STRENGTH WITH STABILITY

SEVERAL ASSETS	FIRST LINK	SYNDICATE LEVEL ASSETS £39,021m	
	SECOND LINK	MEMBERS' FUNDS AT LLOYD'S £13,832m	
MUTUAL ASSETS	THIRD LINK	CENTRAL FUND £1,285m CORPORATION £162m	CALLABLE LAYER £703m
		SUBORDINATED DEBT/ SECURITIES £930m	

Figures as at December 31 2010.

## Financial strength The Chain of Security

Lloyd's unique capital structure, often referred to as the Chain of Security, provides excellent financial security to policyholders and capital efficiency for members.

The Chain of Security provides the financial strength that ultimately backs insurance policies written at Lloyd's and the common security underpins the market's ratings and licence network.

There are three links in the Chain of Security:

- > Syndicate level assets
- > Members' funds at Lloyd's
- > Central assets

The funds in the first and second links are held in trust, primarily for the benefit of policyholders whose contracts are underwritten by the relevant member. Members underwrite for their own account and are not liable for other members' losses. The third link contains mutual assets held by the Corporation which are available, subject to Council approval, to meet any member's insurance liabilities.

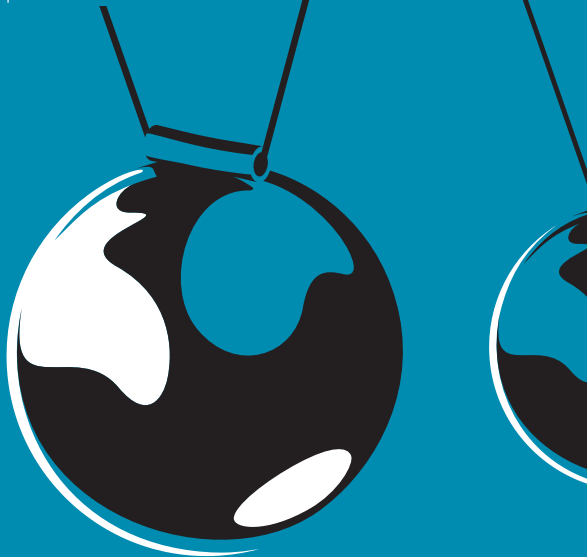
The Corporation is responsible for overseeing both member and central capital levels to achieve a level of capitalisation that is robust yet allows members the potential to earn superior returns.

# IN ACTION HOW WE'RE MOVING AHEAD

We continue to introduce ways to make Lloyd's an easier place to do business, increasing efficiency and standards of service.

Our processes may change, but mutuality of capital will remain central to Lloyd's, and is a key factor in maintaining our competitive position in the global insurance market while also underpinning our international licences and strong financial ratings.

We continue our steady expansion into international markets to build our platform for the future. A major priority has been, and continues to be, managing performance throughout the cycle. Although our resolve has been tested over the past 12 months, our disciplined approach to underwriting and our conservative investment mix have ensured that we maintain our strong competitive position.



## MANAGING AGENTS A DYNAMIC AND DIVERSE MARKETPLACE

As at 31 December 2010, the Lloyd's market consisted of 52 managing agents and 85 syndicates. In addition, a further four managing agents exclusively manage syndicates in run-off. All 56 are shown below. However, more important than the sheer scale of the market is the breadth and depth of specialist broking and underwriting expertise brought together under the Lloyd's umbrella.

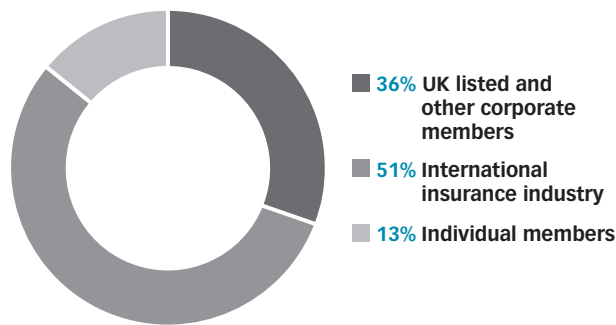


## 2010 FINANCIAL HIGHLIGHTS

### OUR STRENGTH AND RATINGS

Financial security is crucial and gives peace of mind to policyholders. Lloyd's strength and robust capitalisation is reflected in our ratings.

#### WHERE DOES OUR CAPITAL COME FROM?<sup>1</sup>



#### LLOYD'S RATINGS<sup>2</sup>

**A<sup>+</sup>**

Standard & Poor's **A+ (Strong)**<sup>3</sup>  
Fitch Ratings **A+ (Strong)**<sup>4</sup>

**A**

A.M. Best **A (Excellent)**<sup>5</sup>

All Lloyd's syndicates benefit from Lloyd's central resources, including the Lloyd's brand, its network of global licences and the Central Fund. As all Lloyd's policies are ultimately backed by this common security, a single market rating can be applied. The Lloyd's financial strength ratings apply to every policy issued by every syndicate at Lloyd's since 1993.

Three of the world's leading insurance rating agencies validate Lloyd's strengths, robust capitalisation and the financial strength of the market. In 2010, all three rating agencies reaffirmed our ratings as outlined above. In addition, Standard & Poor's has upgraded Lloyd's Enterprise Risk Management rating from 'adequate' to 'adequate with strong risk controls'. This recognises Lloyd's ongoing improvements in risk management.

**"Lloyd's occupies an excellent position in the global general insurance and reinsurance markets as a specialist writer of property and casualty risks. Its competitive strength derives from its reputation for innovation and flexibility, which is supported by the pool of underwriting expertise in London."**

**A.M. Best**  
August 2010








<sup>1-2</sup> Lloyd's Annual Report 2010.  
<sup>3</sup> Standard & Poor's affirmed its Lloyd's financial strength rating and assigned a Stable Outlook, September 2010.  
<sup>4</sup> Fitch Ratings affirmed its Lloyd's financial strength rating and assigned a Stable Outlook, December 2010.  
<sup>5</sup> A.M. Best affirmed its Lloyd's financial strength rating with a Stable Outlook, July 2010.

# REACH

## WHERE WE'RE ACTIVE AROUND THE WORLD

Lloyd's accepts business from over 200 countries and territories worldwide. Our licences in over 75 jurisdictions, supported by a network of local offices, ensure access to insurance markets large and small.

### LLOYD'S CLASS BREAKDOWN BY REGION<sup>6</sup>

	US & Canada	Other Americas	United Kingdom	Europe	Central Asia & Asia Pacific	Rest of the world	TOTAL
 REINSURANCE	30%	75%	29%	38%	46%	62%	37%
 PROPERTY	31%	7%	20%	14%	14%	8%	22%
 CASUALTY	20%	8%	22%	18%	28%	12%	20%
 MARINE	6%	4%	5%	17%	6%	7%	7%
 ENERGY	10%	4%	2%	7%	3%	3%	6%
 MOTOR	1%	1%	21%	1%	1%	2%	5%
 AVIATION	2%	1%	1%	5%	2%	6%	3%
ALL CLASSES	43%	7%	20%	16%	10%	4%	100%

### LLOYD'S IN NUMBERS

85
SYNDICATES  
of specialist underwriting experience and talent

178
BROKERS  
daily creating insurance solutions in over...

200
COUNTRIES AND TERRITORIES  
which covers...

94%
OF THE FTSE 100 and...

97%
OF DOW JONES industrial average companies all underpinned by...

323
YEARS OF UNDERWRITING EXPERIENCE

## TODAY EXPLORING OUR CURRENT BUSINESS ACTIVITIES

The Lloyd's market insures complex and specialist risks – from oil rigs to celebrity body parts. Brokers are able to find individual and innovative cover in the market, whatever their challenge may be.



### Casualty

Casualty risks are particularly specialist and complex and the US accounts for a large proportion of this business. This market includes professional indemnity, medical malpractice, accident and health, directors & officers' liability and general and employers' liability. Casualty makes up 20% of Lloyd's business.



### Property

The property sector is hugely varied, encompassing everything from supporting the building of the new World Trade Center to protecting holiday resorts against storm damage. Property makes up 22% of Lloyd's business.



### Marine

This is where the Lloyd's story began over 300 years ago. Today it is a smaller but still a significant part of our business. Most of the cover in this area is for hull, cargo, marine, liability and specie (the insurance of highly valued items such as fine art while in transit). Marine makes up 7% of Lloyd's business.



### Energy

This market is steadily evolving, from onshore and offshore property, oil rigs and refineries to emerging renewable energy ventures. Coverage relates to physical damage and liability risks. Energy makes up 6% of Lloyd's business.



### Motor

In this competitive sector, Lloyd's is primarily focused on company fleet business, niche private car and other non-standard risks. This includes high value, vintage and collectors' vehicles, high risk drivers and affinity groups. Lloyd's has insured numerous land speed record attempts and Sir Malcolm Campbell, the first man to break 300mph on land, was a Lloyd's broker. Motor makes up 5% of Lloyd's business.



### Aviation

Lloyd's is an industry leader within the global aviation market. This includes airline, general aviation, products, airports, war and terrorist coverage, and satellite business. The aviation market continues to benefit from new safety systems, increased security and improved regulation but recent performance, particularly in airline, has been disappointing. The sector remains highly competitive with significant capacity available for most risks. Aviation makes up 3% of Lloyd's business.



### Reinsurance

The reasons for reinsurance tend to fall into four categories: to protect an insurer against very large claims; to reduce exposure to 'peaks and troughs'; to obtain an international spread of risk; and to increase the capacity of the direct insurer. Reinsurance makes up 37% of Lloyd's business.



# GLOBAL CONTACTS

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**For general regulatory enquiries**  
**Lloyd's International Trading Helpdesk** +44 (0)20 7327 6677

Visit [www.lloyds.com/offices](http://www.lloyds.com/offices)  
for more information about  
our international offices.



Since merchants first met to insure their ships at Edward Lloyd's coffee shop over 300 years ago, nearly every aspect of the way we do business has changed. But one constant is the bold confidence proclaimed by our motto, reflected in both our unique appetite for risk and our worldwide reputation for settling valid claims.

For further information or reading on any of the topics included in this booklet, please refer to the *Lloyd's Annual Report 2010* at [www.lloyds.com/financialreports](http://www.lloyds.com/financialreports)

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

---

**Date:** September 6, 2012

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

Barry Bresner  
Daniel MacDonald  
John Esvelt  
Julia Holland  
Michael Swartz

**Copy:** Patrick Mahoney

**From:** Joe Tontini and Colin Egelton

**Re:** Reinsurance Security Report Update

The purpose of this report is to provide the CLLAS Audit Committee and the Board with a Reinsurance Security Report update. This update takes into consideration the most recent reinsurance placement and the fact that there was a new reinsurer added to the program: Allianz Global Risks.

This report is not intended to review existing markets in detail, however, an update is provided below. As you are aware, an in depth reinsurance security report is prepared once a year prior to the July 1 reinsurance placement. Please refer to the most recent February 2012 report for detailed information on the incumbent markets.

**Monitoring Reinsurance Security**

One of the responsibilities of the Audit Committee is to monitor CLLAS' reinsurers and to recommend changes to the Board based on any number of factors, including, but not limited to:

- Downgrading of the security rating;
- A rating agency placing a reinsurer on a "watch" list;
- Exposure to any one reinsurer exceeding an agreed percentage;
- Difficulties collecting reinsurance proceeds after a claim is settled;
- Use of unregistered (in Canada) security; and
- Any other matters that may threaten the security of a reinsurer.

There are two levels involved in the CLLAS reinsurer monitoring. Please see Appendix A for a detailed description of the CLLAS Level I and Level II Monitoring.

### **Incumbent Reinsurers Update**

Please see Appendix B for a complete list of Reinsurer Security Ratings as of September 5, 2012.

The following are the changes that have been made to the A.M. Best and S&P ratings of incumbent reinsurers since the February 2012 report:

- S&P upgraded the outlook for Lloyds from “Stable” to “Positive”;
- A.M. Best upgraded the rating of Hannover from A (Excellent)/Stable to A+ (Superior)/Stable;
- A.M. Best downgraded the rating of Brit from A(Excellent)/Stable to B++ (Good)/Negative;
  - The downgrade followed Brit Insurance’s announcement that it will be acquired by RiverStone Holdings Limited, an indirect subsidiary of Fairfax Financial Holdings Limited, subject to regulatory approval. The transaction is expected to complete in the fourth quarter of 2012. The downgrade of Brit’s ratings reflects increased uncertainty as to whether the company’s risk-adjusted capitalization will be maintained at the current level and further deterioration in its business profile;
  - The Brit portion of the CLLAS reinsurance program is placed entirely through BRT 2987. BRT 2987 is a Lloyd’s syndicate and is therefore protected by the Lloyd’s “Chain of Security”;
- A.M. Best downgraded the rating of CRC from A (Excellent)/Stable to A- (Excellent)/Stable;
  - Offsetting generally positive rating factors are ongoing competitive market conditions, variability of net investment income in recent years and general decline in underwriting results;
- S&P upgraded the rating of SCOR Canada from A(Strong)/Positive to A+ (Strong)/Stable;
- S&P upgraded the outlook for TOA Reinsurance from A+ (Strong)/Negative to A+ (Strong)/Stable;
- A.M. Best upgraded the outlook for TOA Reinsurance from A+ (Superior)/Negative to A+ (Superior)/Stable.

### **New Reinsurer**

The following are the A.M. Best and S&P ratings for the new reinsurer on the program, Allianz Global Risks U.S.:

Company	A.M. Best Rating	S&P Rating
Allianz Global Risks	A+ (Superior): Stable Outlook	AA (Very Strong): Negative Outlook

### **Reinsurers That Exited the Program Effective July 1, 2012**

The following reinsurers are no longer providing reinsurance on the CLLAS program, effective July 1, 2012, due to pricing:

#### *London*

- Liberty Syndicate (Lloyd's Syndicate No. 4472)
- Hiscox (Lloyd's Syndicate No. 33)

#### *Domestic*

- Transatlantic Re
- Continental Casualty Company (CNA)

### **Colchester Exposure**

Colchester has taken on an increased role in this year's CLLAS program. Colchester's exposure to the CLLAS program this year is 35% of the \$49M xs \$1M layer, which amounts to a maximum per claim exposure of \$17.15M. However, Colchester has retroceded significant portions of its \$45M xs \$5M exposure and \$40M xs \$10M exposure. Colchester retains 20% of the \$4M xs \$1M layer, 10% of the \$9M xs \$1M layer, and 5% of the \$49M xs \$1M layer. This leaves Colchester with a total net per claim exposure of just \$4.15M. The aggregate stop-loss retrocession protection that Colchester has put in place helps to control and minimize Colchester's overall total net exposure.

### **Level II Monitoring**

No incumbent markets currently residing in Level I monitoring experienced Level II triggers as a result of the recent reinsurance renewal. Although Brit Insurance Limited did have their rating downgraded, Brit Syndicates Limited, which is a separate entity to BIL (please see the attached company details), provides capacity to the CLLAS reinsurance program. Brit Syndicate's funds at Lloyd's support this capacity. These funds are "ring fenced" to protect policy holders and are additionally backed by the Lloyd's chain of security. Information on the Lloyd's chain of security is provided in the "Lloyd's Quick Guide" (attached) and further details are provided in the "Lloyd's Annual Report 2011" pages 8 to 10 (attached).



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

---

**To:** CLLAS Advisory Board

<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	Anne-Marie Widener
Mike Swartz	Scott Du Bois	Ken Crofoot	Eugene Cipparone
Julia Holland	James C. Tory	Nicholas Leblovic	Natasha MacParland
William Scott	Malcolm Mercer	Daniel MacDonald	Carol Lyons
John Esvelt	TBA		

**From:** Patrick Mahoney

**Re:** CLLAS Disclosure Statement

**Date:** September 7, 2012

Attached is the most recent version of the CLLAS disclosure statement that is to be provided to a client involved in litigation with a CLLAS member firm for an amount that may exceed \$1 million.

The second document attached is a blacklined version that shows changes from the prior year. As you can see, we have stripped out a lot of the detail (firm lawyer counts, limits of insurance, etc.) and simply focused on CLLAS' net retention and the involvement of Colchester. Obviously there needs to be adequate disclosure but it is not clear to us why the more extensive disclosure is required.

The Board should consider whether the narrower disclosure is appropriate.

Regards,



Patrick

## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

### DISCLOSURE STATEMENT

(Date)

(Name of Defendant Firm)

(the “CLLAS Member”)

(Name of Firm to be Retained)

(the “Retained Firm”)

(Name of Claimant)

(the “Claimant”)

The following information is provided by the Retained Firm in accordance with the provisions of Section 3 of the Conflict of Interest Policy of the Canadian Lawyers Liability Assurance Society (“CLLAS”) in connection with the Claimant’s proposal to retain the Retained Firm to represent its interests in pursuing a professional liability claim against the CLLAS Member:

1. CLLAS is a reciprocal insurance exchange licensed in Alberta and certain other Canadian jurisdictions. It commenced operations on July 1, 1987 to provide professional liability protection to its members in excess of the primary coverage (\$1,000,000 outside of Quebec and, as of July 1, 2003, \$10,000,000 in Quebec) provided by the compulsory insurance programs of the Law Societies.
2. A reciprocal insurance exchange is not an incorporated entity and differs from a typical insurance company in several important respects:
  - (a) It is a contractual arrangement among the member firms and the insurance risk is assumed by such members. In essence, reciprocal insurance exchange is a self-insurance arrangement among the member firms.
  - (b) The members must accept one another as risks and it is important that each member has good credit worthiness and represents a preferred insurance risk.
  - (c) A reciprocal is a non-profit organization.
  - (d) A reciprocal requires little capital and is founded on the mutual agreement of all members to contribute to the losses incurred by any of them.

3. CLLAS operates under five-year “Underwriting Periods” and during the current five-year period, membership in CLLAS consists of the following law firms:

Member Firm

Borden Ladner Gervais LLP  
Cassels Brock & Blackwell LLP  
Davies Ward Phillips & Vineberg LLP  
Fasken Martineau DuMoulin LLP  
Fraser Milner Casgrain LLP  
Goodmans LLP  
McCarthy Tétrault LLP  
McMillan LLP  
Osler, Hoskin & Harcourt LLP  
Torys LLP  
WeirFoulds LLP

4. Like conventional insurance companies that offer insurance to the public, CLLAS charges a premium to the member firms for the professional liability insurance coverage provided. The coverage provided by CLLAS, which is subject to comprehensive reinsurance (see paragraphs 5 and 6), is described below:
  - (a) CLLAS provides coverage to each member firm of \$50,000,000 each claim and in the annual aggregate including the primary law society coverage.
  - (b) Beyond the coverage described in (a), firms purchase not less than \$15,000,000 of excess insurance in the commercial markets. CLLAS also provides optional excess layers of coverage.
  - (c) Finally, CLLAS provides a shared “umbrella” layer to the firms collectively. This layer is excess of all other professional liability insurance coverage arranged by each firm.
5. CLLAS retains some risk which is shared among the CLLAS members. CLLAS reinsures a significant portion of the risk in the commercial reinsurance markets of the insurance coverage provided by CLLAS in respect of each claim, with CLLAS retaining \$975,000 of the insurance coverage between \$1,000,000 and \$25,000 in the event that coverage “drops down” as a result of the coverage being provided by the compulsory insurance program of the Law Societies being narrower in scope than the CLLAS policy.
6. Aggregate reinsurance protection is provided to CLLAS by Colchester Reinsurance Limited (“Colchester”) which is owned by the member firms of CLLAS or their affiliates.
7. If CLLAS were required to pay any claim involving any of the member firms, such claim would be paid first out of CLLAS’ resources, including its rights against reinsurers. If any such claim exhausted such resources, the member firms of CLLAS would be required to make up the difference. The member firms of CLLAS, therefore, also retain the security risk that a reinsurer will be unable or unwilling to pay a claim.



8. Each of the member firms in CLLAS and Colchester has a financial interest in the outcome of any professional liability claim which is brought against a member firm and which is covered by CLLAS. More specifically, if the claim of the Claimant against the CLLAS Member results in a judgment in excess of the applicable primary law society coverage (or \$25,000 in the case of the “drop down” coverage), the partners of the Retained Firm may have personal liability, along with the partners of the other member firms of CLLAS, for payment of part of the excess amount, as outlined in paragraphs 5 to 7 above.

# CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

## DISCLOSURE STATEMENT

(Date)

(Name of Defendant Firm)

(the "CLLAS Member")

(Name of Firm to be Retained)

(the "Retained Firm")

(Name of Claimant)

(the "Claimant")

The following information is provided by the Retained Firm in accordance with the provisions of Section 3 of the Conflict of Interest Policy of the Canadian Lawyers Liability Assurance Society ("CLLAS") in connection with the Claimant's proposal to retain the Retained Firm to represent its interests in pursuing a professional liability claim against the CLLAS member Member:

1. CLLAS is a reciprocal insurance exchange licensed ~~under the Insurance Act (Ontario) in Alberta and certain other Canadian jurisdictions.~~ It commenced operations on July 1, 1987 to provide professional liability protection to its members in excess of the primary coverage (\$1,000,000 outside of Quebec and, as of July 1, 2003, \$10,000,000 in Quebec) provided by the compulsory insurance programs of the Law Societies.
2. A reciprocal insurance exchange is not an incorporated entity and differs from a typical insurance company in several important respects:
  - (a) It is a contractual arrangement ~~between~~ among the member firms and the insurance risk is assumed by such members. In essence, reciprocal insurance exchange is a self-insurance arrangement among the member firms.
  - (b) The members must accept one another as risks and it is important that each member has good credit worthiness and represents a preferred insurance risk.
  - (c) A reciprocal is a non-profit organization.
  - (d) A reciprocal requires little capital and is founded on the mutual agreement of all members to contribute to the losses incurred by any of them.

3. ~~At~~CLLAS operates under five-year “Underwriting Periods” and during the present ~~time~~current five-year period, membership in CLLAS consists of the following law firms with the indicated numbers of lawyers as at June 15, 2011:

<u>Member Firm</u>	<u>Number of Lawyers</u>
<del>Blake, Cassels &amp; Graydon LLP</del>	<del>571</del>
Borden Ladner Gervais LLP	713
Cassels Brock & Blackwell LLP	177
Davies Ward Phillips & Vineberg LLP	239
Fasken Martineau DuMoulin LLP	684
Fraser Milner Casgrain LLP	496
Goodmans LLP	199
McCarthy Tétrault LLP	598
McMillan LLP	379
Osler, Hoskin & Harcourt LLP	419
Torys LLP	249
WeirFoulds LLP	84
	<u>4,808</u>

~~CLLAS operates under five-year “Underwriting Periods”. Goodman and Carr LLP, an original participant in CLLAS, withdrew on June 30, 2007 due to its dissolution. All other original participants have remained as members. One additional firm joined at the commencement of the second Underwriting Period on July 1, 1992 and another firm joined on July 1, 2003. Lang Michener LLP, the firm who joined in July 1, 2003 merged with McMillan LLP on January 1, 2011. All current member firms are committed to participate in the fifth Underwriting Period which ends on June 30, 2012.~~

4. Like conventional insurance companies that offer insurance to the public, CLLAS charges a premium to the member firms for the professional liability insurance coverage provided. The coverage provided by CLLAS, which is subject to ~~major~~comprehensive reinsurance (see paragraphs 5 and 6), is described below:
- (a) CLLAS provides coverage to each member firm of \$50,000,000 each claim and in the annual aggregate including the primary law society coverage. This coverage “drops down” to \$25,000 if the coverage provided through the compulsory insurance program of the Law Societies is narrower in scope than the CLLAS policy.
  - (b) Beyond the coverage described in (a), firms purchase not less than \$15,000,000 of excess insurance in the commercial markets. ~~CLLAS offers an optional layer of coverage to firms excess of the maximum amount (\$160,000,000) available through the commercial markets. There are limit options of between \$10,000,000 and \$60,000,000 (in increments of \$10,000,000) per claim and in the annual aggregate~~CLLAS also provides optional excess layers of coverage.
  - (c) Finally, CLLAS provides a shared “umbrella” layer of ~~\$30,000,000~~ to the firms collectively. This layer is excess of all other professional liability insurance coverage arranged by each firm.

5. ~~CLLAS retains some risk which is shared among the CLLAS members. CLLAS reinsures a significant portion of the risk in the commercial reinsurance markets all but \$12,250,000 of the insurance coverage provided by CLLAS in respect of each claim. Taking into account the contributions to CLLAS from the reinsurance contracts which are in effect, the member firms of CLLAS have personal liability for each professional liability claim of up to:~~

~~6.5. \$12,250,000 for a claim, with CLLAS retaining \$975,000 of the insurance coverage between \$1,000,000 and \$50,000,000 (\$13,225,000 if CLLAS is required to “drop 25,000 in the event that coverage “drops down” to \$25,000); plus as a result of the coverage being provided by the compulsory insurance program of the Law Societies being narrower in scope than the CLLAS policy.~~

6. Aggregate reinsurance protection is provided to CLLAS by Colchester Reinsurance Limited (“Colchester”) which is owned by the member firms of CLLAS or their affiliates.

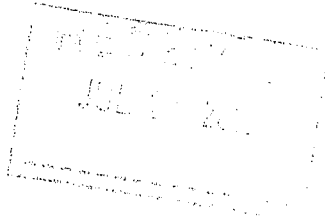
7. If CLLAS were required to pay any claim involving any of the member firms, such claim would be paid first out of CLLAS’ resources, including its rights against reinsurers. If any such claim exhausted such resources, the member firms of CLLAS would be required to make up the difference. The member firms of CLLAS, therefore, also retain the security risk that a reinsurer will be unable or unwilling to pay a claim.

8. ~~The financial interest of each~~Each of the member firms in CLLAS and Colchester means that ~~each member firm~~ has a financial interest in the outcome of any professional liability claim which is brought against a member firm and which is likely to exceed the applicable primary law society coverage (or \$25,000 in the case of the “drop down” coverage). covered by CLLAS. More specifically, if the claim of the Claimant against the CLLAS Member results in a judgment in excess of the applicable primary law society coverage (or \$25,000 in the case of the “drop down” coverage), the partners of the Retained Firm ~~will~~may have personal liability, along with the partners of the other member firms of CLLAS, for payment of part of the excess amount, as outlined in paragraphs 5 and ~~6 to 7~~ above, subject to a cap of \$13,225,000 per claim.

MARTIN, LUCAS & SEAGRAM LTD.  
INDEPENDENT INVESTMENT COUNSEL  
SUITE 620, 48 YONGE STREET  
TORONTO  
M5E 1G9

TELEPHONE: 416-363-6216  
FACSIMILE: 416-363-4538  
E-MAIL: INFO@MLSINVEST.COM

July 18, 2012



Mr. Patrick Mahoney,  
Dion, Durrell + Associates Inc.,  
2900 - 250 Yonge St.,  
Toronto, ON M5B 2L7

Dear Patrick:

**Re: Canadian Lawyers Liability Assurance Society**

Please find enclosed our quarterly investment report on CLLAS for the period ending June 30 last. We have also included an additional schedule which details the date to date gains and losses for each of the individual holdings in the Long Term Investment Fund over the second quarter.

The originals of the two separate accounts for the Short and the Long Term Investment Funds have been sent to RBC Dexia Investor Services for payment.

It was a better quarter for the domestic bond market and yields across all maturities shifted lower, due in part to increased demand from investors seeking a safe haven from the turmoil in the equity markets. As a result, the Long Term Investment Fund recorded a capital increase of approximately \$182,000.

During the quarter additions were made to the Canada and Provincial segments and the proceeds from a subsequent Canada maturity were invested in the Short Term Fund.

Please let me know if there are any questions or comments on the report.

With best regards,

Yours sincerely,

RWB/mab  
Enclosures

MARTIN, LUCAS & SEAGRAM LTD.  
INDEPENDENT INVESTMENT COUNSEL  
SUITE 620, 48 YONGE STREET  
TORONTO  
M5E 1G9

*Duplicate*

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FACSIMILE: 416-363-4538  
E-MAIL: INFO@MLSINVEST.COM

July 18, 2012

In account with

**Canadian Lawyers Liability Assurance Society**  
**- Long Term Investment Fund**

---

Valuation of Long Term Investment Fund  
at June 30, 2012

\$43,360,787

Investment Counsel Fee for the period  
April 1 to June 30, 2012  
at .0625% (1/4 of .25% per annum)

\$27,100.49

Harmonized Sales Tax (HST) at 13%

3,523.06

\$30,623.55

Please return this account when  
making payment so that it may be

MARTIN, LUCAS & SEAGRAM LTD.  
INDEPENDENT INVESTMENT COUNSEL  
SUITE 620, 48 YONGE STREET  
TORONTO  
M5E 1G9

Duplicate

TELEPHONE: 416-363-6216  
FACSIMILE: 416-363-4538  
E-MAIL: INFO@MLSINVEST.COM

July 18, 2012

In account with

**Canadian Lawyers Liability Assurance Society**  
**- Short Term Investment Fund**

---

Valuation of Short Term Investment Fund  
at June 30, 2012

\$13,593,963

Investment Counsel Fee for the period  
April 1 to June 30, 2012  
at .025% (1/4 of .10% per annum)

\$3,398.49

Harmonized Sales Tax (HST) at 13%

441.80

\$3,840.29

Please return this account when  
making payment so that it may be  
receipted and sent back to you.

HST Registration No. R103546115



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

INVESTMENT REPORT  
FOR QUARTER ENDING JUNE 30, 2012

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

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## **CLLAS**

### **CANADIAN LAWYERS LIABILITY** **ASSURANCE SOCIETY**

#### **COMMENTARY FOR THE QUARTER ENDING JUNE 30, 2012**

##### **Review of Market Yields**

Bond yields moved moderately higher early in the second quarter. However, in the wake of increasingly unsettled equity markets, the upward pressure on yields dissipated and they trended gradually lower over the balance of the period. As a result, by the end of June yields on issues due in 5 years and beyond had more than reversed the increase recorded in the first quarter. The most significant decline occurred at the longer end of the curve, where 10 year yields fell back 37 basis points. Meanwhile, yields in the 5 year term retreated 32 basis points.

Since the decline in short term yields was minimal, the slope of the yield curve flattened and the yield advantage of 10 year issues over T-Bills shrunk to .87% at June 30, compared to 1.2% at the end of March.

	<b>Jan. 1/95</b>	<b>Dec. 31/11</b>	<b>Mar. 31/12</b>	<b>Jun. 30/12</b>
3-Month Treasury Bills	6.80%	0.82%	0.91%	0.87%
5-year Canadas	8.99%	1.27%	1.57%	1.25%
10-year Canadas	9.09%	1.94%	2.11%	1.74%

During the second quarter, the valuation of the Long Term Investment Fund increased \$181,971, or 0.5% on a capital basis.

At June 30, 2012, the average term to maturity of the Long Term Investment Fund stood at 3.5 years, compared to 3.6 years three months earlier.

During the quarter, in the Long Term Investment Fund, a Canada Housing mortgage bond and mid-term provincial issue were purchased with funds transferred from the Short Term Investment Fund. Towards the end of the period a Canada bond matured and the resulting proceeds were transferred to the Short Term fund for reinvestment. Further activity involved the roll-over of maturities in the Short Term account.

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

<b><i>Distribution at June 30, 2012</i></b>	<b><i>Valuation</i></b>	<b><i>%</i></b>
Short Term Investment Fund	\$13,593,963	23.9%
Long Term Investment Fund	43,360,787	76.1%
<b>TOTAL COMBINED VALUATION</b>	<b>\$56,954,750</b>	<b>100.0%</b>

## *CLLAS*

### *CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY*

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

- Investment Performance: Summary of Capital Performance and Total Returns for the Long Term Investment Fund  
- (Returns Exclude Investment Counsel Fees)
- Total Returns vs. Benchmarks - Gross and Net of Fees
- Distribution of Securities in the Long Term Investment Fund  
by Credit Risk and by Maturity
- Compliance Statement
- Quarterly Performance Report - Gross of Fees: Long Term Investment Fund
- Bond Market Commentary and Future Policy
- Security Holdings in the Short and Long Term Investment Funds  
Listed and Valued Separately as at June 30, 2012
- Security Purchases and Sales
- Cash Reconciliations
- External Individual Credit Rating Report

# CLLAS

## LONG TERM INVESTMENT FUND

### SUMMARY OF CAPITAL PERFORMANCE SINCE THE STARTING DATE OF JANUARY 1, 1995

	Jan. 1/95	Dec. 31/11	Mar. 31/12	Jun. 30/12
<b><i>Valuation of Long Term Investment Fund</i></b>	<b>\$3,466,369</b>	<b>\$44,254,465</b>	<b>\$43,681,609</b>	<b>\$43,360,787</b>
Cumulative Capital Added (Net) since January 1, 1995		\$37,858,597	\$37,761,199	\$37,258,406

Quarterly Capital Change		+\$ 29,370	-\$475,458	+\$181,971
Quarterly Capital % Change		+ 0.1%	- 1.1%	+ 0.5%

## LONG TERM INVESTMENT FUND

### TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIODS ENDING JUNE 30, 2012 (ANNUALIZED)

	Five Years	Four Years	Three Years	Two Years	One Year	Last 3 Months
<b><i>Long Term Investment Fund</i></b>	<b>5.59%</b>	<b>5.25%</b>	<b>4.36%</b>	<b>4.37%</b>	<b>5.23%</b>	<b>1.28%</b>
DEX Canada Short Bond Index	4.80%	4.24%	3.12%	3.05%	3.50%	0.86%
DEX Provincial Short Bond Index	5.16%	4.80%	3.75%	3.68%	3.74%	0.98%

# CLLAS

## LONG TERM INVESTMENT FUND

### TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIOD ENDING JUNE 30, 2012

	Since Inception Oct. 1/08 *	Three Years*	Two Years *	One Year	Last 3 Months
<i>Long Term Investment Fund – Gross of Fees</i>	5.33%	4.36%	4.37%	5.23%	1.28%
<i>Long Term Investment Fund – Net of Fees</i>	5.05%	4.07%	4.08%	4.94%	1.21%
<b>Benchmark Portfolio **</b>	<b>5.91%</b>	<b>5.06%</b>	<b>5.27%</b>	<b>6.68%</b>	<b>1.74%</b>

\* Annualized

\*\* The Benchmark Portfolio, adopted from October 1, 2008, is based on the sum of the following total return indices:

30% DEX Short Term Federal Bond Index  
30% DEX Short Term Provincial Bond Index  
20% DEX Mid Term Federal Bond Index  
20% DEX Mid Term Provincial Bond Index

## SHORT TERM INVESTMENT FUND

### TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIOD ENDING JUNE 30, 2012

	Since Inception Oct. 1/08 *	Three Years*	Two Years *	One Year	Last 3 Months
<i>Short Term Investment Fund – Gross of Fees</i>	0.79%	0.69%	0.88%	0.91%	0.23%
<i>Short Term Investment Fund – Net of Fees</i>	0.65%	0.56%	0.76%	0.80%	0.20%
<b>Benchmark Portfolio **</b>	<b>0.71%</b>	<b>0.62%</b>	<b>0.83%</b>	<b>0.87%</b>	<b>0.23%</b>

\* Annualized

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

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

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

	Jan. 1/95	Dec. 31/11	Mar. 31/12	Jun. 30/12
<b>Bonds, Treasury Bills &amp; Cash</b> Less than 1 year term	29.0%	12.4%	11.1%	13.2%
<b>Canadas</b> Greater than 1 year term	54.7%	36.0%	39.0%	38.2%
<b>Provincials</b> Greater than 1 year term	16.3%	35.9%	35.8%	34.4%
<b>Corporates</b> Greater than 1 year term	-	15.7%	14.1%	14.2%
<b>TOTAL PORTFOLIO</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**LONG TERM INVESTMENT FUND**

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

	Jan. 1/95	Dec. 31/11	Mar. 31/12	Jun. 30/12
Under 1 year	29.0%	12.4%	11.1%	13.2%
1 - 3 years	19.8%	35.2%	38.8%	35.3%
3 - 5 years	29.3%	28.9%	29.3%	31.7%
5 - 7 years	11.4%	12.3%	9.0%	6.8%
7 - 10 years	10.5%	11.2%	11.8%	13.0%
<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>2.60</b>	<b>3.62</b>	<b>3.55</b>	<b>3.49</b>
<b>Average Duration</b>	<b>2.30</b>	<b>3.29</b>	<b>3.24</b>	<b>3.20</b>

**SHORT TERM INVESTMENT FUND**

<b>Short Term Average Duration</b>	<b>N/A</b>	<b>0.09</b>	<b>0.11</b>	<b>0.12</b>
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# CLLAS

## COMPLIANCE WITH INVESTMENT POLICY STATEMENT

AT JUNE 30, 2012

	Investment Limits	Investment Funds	Compliance
<b><i>Short Term Investment Fund</i></b>			
Maximum Term of Any Issue	1 year	0.4 years	Yes
Minimum Size	20% of Total	23.9%	Yes
Minimum Canada & Provincial Percentage	50%	50.8%	Yes
Minimum Provincial Quality	A	A Hi	Yes
Minimum Bank CD & BA Quality	R1	R1	Yes
<b><i>Long Term Investment Fund</i></b>			
Maximum Term of Any Issue	10 years	9.75 years	Yes
Minimum Cda and Cda Guarantee Percentage	40%	42.1%	Yes
Maximum Provincial Percentage	40%	40.3%	No
Minimum Provincial Quality *	A	A	Yes
Maximum Corporate Percentage	20%	17.6%	Yes
Minimum Corporate Quality *	A	A	Yes

*\* At time of purchase*

At June 30, the portfolio's provincial percentage was a fraction above the 40% maximum limit. Pending transactions will reduce the provincial percentage below the allowed maximum during the third quarter.

This will confirm that during the quarter the balance of the portfolio's components were managed in compliance with the Investment Policy Statement that became effective May 5, 2012.

At June 30, the Short Term Investment Fund represented 23.9% of the two Funds combined, which is above the 20% minimum required. At June 30, none of the bond holdings' current credit ratings was below the minimum requirement.

*"At the end of the quarter, the lowest rated bonds were:"*

Provincial Bonds: Quebec and Manitoba @ A Hi

Corporate Bonds: Canadian Utilities Inc. @ A

Enbridge Gas Distribution @ A

# ***CLLAS***

## **Martin, Lucas & Seagram Ltd. PERFORMANCE REPORT**

### **GROSS OF FEES**

#### ***CLLAS - LONG TERM INVESTMENT FUND***

*From 03-31-12 to 06-30-12*

Portfolio Value on 03-31-12	43,681,609
Accrued Interest	323,547
Contributions	803,732
Withdrawals	-1,713,883
Realized Gains	-7,673
Unrealized Gains	189,645
Interest	407,358
Dividends	0
Change in Accrued Interest	-25,039
Portfolio Value on 06-30-12	43,360,787
Accrued Interest	298,508
Average Capital	43,956,539
Total Gain before Fees	564,290
<b>IRR for 0.25 Years</b>	<b>1.28%</b>

## *CLLAS*

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

Following a period of relative calm in the security markets during the first few months of the year, the extreme volatility that characterized much of last year's market action has returned. Throughout the first quarter, there were promising signs that the U.S. economy was gaining upward momentum and financial pressures in Europe seemed to be easing, following an aggressive lending program by the European central bank. This, in turn, put upward pressure on bond yields as risk aversion abated and traders shifted their focus towards risk-on trades in the equity markets. However, growing confidence in the outlook has since been derailed by developments on several fronts during the second quarter.

Shortly after receiving a second bailout package, Greece returned as the focal point of the European sovereign debt crises. The equity markets came under sharp downward pressure following the election of anti-austerity parties that vowed to renegotiate or even renege on Greece's bailout commitments. However, due to their inability to form a viable governing coalition, another Greek election was held and, to the market's relief, parties supporting the bailout and austerity measures were able to form a governing majority. While this outcome deferred the possibility of a Greek default, at least for the near term, it failed to arrest Europe's debt crises.

Fears of contagion were then realized when Spain, the euro zone's fourth largest economy, became the fourth member to seek an emergency bailout. In order to keep its banks from failing, Spain secured loans totalling up to 100 billion euros from European rescue funds. However, this effort proved insufficient. Amid growing strains on the ability of both Spain and Italy to fund their debts, yet another emergency European summit was called. While expectations for meaningful progress were low, the euro bloc members did manage to provide some relief to their debt markets. An agreement was reached late last month to ease austerity measures, increase infrastructure spending and use bailout funds to directly support troubled banks. While this has bought the region some time, European leaders still need to work out the details of bailout conditions, bank rescues and centralized oversight of the region's banks.

While the twists and turns in Europe's debt crises were whipsawing the equity markets, these developments were very supportive of bond prices as investors sought a refuge from the uncertainty and volatility. Bonds were given a further boost as the flow of economic data turned disappointing. Unlike earlier in the year, when most economic indicators surprised on the upside, much of the data over the past few months has fallen below expectations. In the U.S., jobless claims have been drifting higher and employment gains have been disappointing. After showing strong gains earlier this year, Canadian employment growth has shrunk in the past two months. Growth in emerging markets has also shifted lower as weaker demand from the developed economies, particularly Europe, has weighed on exports. In addition to slowing export growth, China is experiencing some softening in domestic demand. This in turn has weakened commodity prices, which will weigh on Canada's growth prospects.



## *CLLAS*

In light of these developments, consensus expectations for global growth have been scaled back to around 2% for the second quarter, compared to 3.4% during the previous quarter. In response to the slowdown, the monetary authorities across many developed and developing nations have launched another round of monetary stimulus. In the U.S., the Federal Reserve has extended “operation twist”, and seems ready to implement more quantitative easing, if warranted. The U.K. and Japan have implemented similar moves and administered interest rates have been cut in a number of major economies, including Europe and China.

The heightened European uncertainty, coupled with another round of monetary support and the slowdown in global growth, has led international investors to seek a haven in lower risk assets, led by German and North American government bond issues. As a result, yields on U.S. Treasuries and Canadian government issues recently reached record low levels. This has left Treasury yields in the 10 year term at less than 1.5%, which is below the trailing inflation rate. Furthermore, based on a valuation model created by the Federal Reserve, that includes expectations for interest rates, growth and inflation, Treasuries are now at their most expensive levels ever.

As a result, fixed income investors are facing a challenging environment. Current yields, from a longer term prospective, appear unsustainably low and investors are being paid very little, given the risks posed by the degree of monetary reflation and the lack of any plan to address unsustainable budget deficits. Furthermore, despite the preponderance of negative headlines, not all the financial news during the past few months has been downbeat. Energy prices have retreated considerably from the highs reached in March, the U.S. housing market is showing signs of recovery, ultra low interest rates have moved even lower, and China’s stimulative measures may prove more aggressive than anticipated. As a result, the potential for upside economic surprises should not be ruled out and this could push yields temporarily higher. However, there is little in the current outlook to suggest that any increase would be significant or sustained, since the economic headwinds, coupled with the major forces that have driven yields down to record low levels, are not expected to reverse course over the near term. At this juncture, we believe the Fund’s duration and structure are appropriate and if yields were to be pushed higher, we would consider moderately extending the average term to capitalize on the upward sloping yield curve.

RWB/mab  
July 18, 2012

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

Martin, Lucas & Seagram Ltd.

**CLLAS - SHORT TERM INVESTMENT FUND**

**Portfolio Holdings at June 30, 2012**

<b>Quantity</b>	<b>Security</b>	<b>Unit Cost</b>	<b>Price</b>	<b>Market Value</b>	<b>Annual Income</b>
<b>CASH</b>					
	Cash Account			25,733	0
<b>MONEY MARKET ISSUES</b>					
580,000	FirstBank BA .95% due July 3, 2012	99.86	99.99	579,934	5,502
430,000	FirstBank BA 1.00% due July 3, 2012	99.83	99.99	429,951	4,293
700,000	Royal Bank BA .99% due July 3, 2012	99.92	99.99	699,920	6,925
810,000	Canada Treasury Bill .76% due July 5, 2012	99.94	99.99	809,887	6,152
190,000	Toronto Dominion Bank BA .98% due July 9, 2012	99.95	99.97	189,943	1,861
925,000	Toronto Dominion Bank BA 1.00% due July 9, 2012	99.93	99.97	924,721	9,244
425,000	CIBC BA 1.00% due July 27, 2012	99.84	99.90	424,592	4,243
495,000	CIBC BA 1.01% due July 27, 2012	99.85	99.90	494,525	4,992
1,210,000	CIBC BA 1.04% due August 2, 2012	99.74	99.89	1,208,691	12,552
600,000	Canada Treasury Bill .82% due August 2, 2012	99.86	99.92	599,526	4,913
1,100,000	Canada Treasury Bill .85% due August 2, 2012	99.80	99.92	1,099,131	9,332
1,200,000	Canada Treasury Bill .77% due August 16, 2012	99.87	99.89	1,198,656	9,228
1,000,000	Toronto Dominion Bank .98% due August 17, 2012	99.86	99.85	998,496	9,787
720,000	Bank of Nova Scotia BDN Discount Note 1.00% due August 20, 2012	99.81	99.84	718,857	7,186
1,100,000	Canada Treasury Bill .85% due August 30, 2012	99.77	99.86	1,098,416	9,329
				<hr/> 11,475,245	<hr/> 105,538
<b>PROVINCIAL BONDS</b>					
500,000	British Columbia Coupon due September 5, 2012	99.79	99.81	499,035	0
600,000	Manitoba Coupon due September 5, 2012	99.74	99.82	598,920	0

Martin, Lucas & Seagram Ltd.

***CLLAS - SHORT TERM INVESTMENT FUND***

**Portfolio Holdings at June 30, 2012**

<b>Quantity</b>	<b>Security</b>	<b>Unit Cost</b>	<b>Price</b>	<b>Market Value</b>	<b>Annual Income</b>
1,000,000	Ontario Coupon due December 2, 2012	99.55	99.50	995,030	0
				2,092,985	0
<b>TOTAL PORTFOLIO</b>				<b>13,593,963</b>	<b>105,538</b>

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
*From 04-01-12 To 06-30-12*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
<b>PURCHASES</b>					
04-04-12	04-05-12	430,000	FirstBank BA .98% due May 1, 2012	99.93	429,699.86
04-09-12	04-10-12	580,000	Royal Bank BA .96% due May 9, 2012	99.92	579,558.04
04-11-12	04-12-12	1,165,000	Canada Treasury Bill .82% due June 7, 2012	99.87	1,163,535.59
04-24-12	04-25-12	1,050,000	Royal Bank BA .97% due May 30, 2012	99.91	1,049,024.55
04-25-12	04-26-12	1,000,000	Canada Treasury Bill .90% due June 21, 2012	99.86	998,621.00
04-30-12	05-01-12	430,000	FirstBank BA 1.00% due July 3, 2012	99.83	429,259.11
05-03-12	05-04-12	1,210,000	CIBC BA 1.04% due August 2, 2012	99.74	1,206,904.82
05-04-12	05-09-12	580,000	FirstBank BA .95% due July 3, 2012	99.86	579,171.18
05-07-12	05-08-12	1,195,000	TD Bank BA 1.00% due June 4, 2012	99.93	1,194,116.90
05-09-12	05-10-12	1,100,000	Canada Treasury Bill .85% due August 2, 2012	99.80	1,097,852.80
05-15-12	05-16-12	720,000	Bank of Nova Scotia BA 1.00% due June 11, 2012	99.93	719,487.38
05-23-12	05-24-12	1,100,000	Canada Treasury Bill .85% due August 30, 2012	99.77	1,097,495.30
05-29-12	05-30-12	425,000	CIBC BA 1.00% due July 27, 2012	99.84	424,325.53
05-29-12	05-30-12	1,000,000	Toronto Dominion Bank BA .99% due June 25, 2012	99.93	999,322.39
05-31-12	06-01-12	600,000	Canada Treasury Bill .82% due August 2, 2012	99.86	599,165.40
05-31-12	06-01-12	600,000	Manitoba Coupon due September 5, 2012	99.74	598,426.00
06-01-12	06-04-12	495,000	CIBC BA 1.01% due July 27, 2012	99.85	494,275.33
06-01-12	06-04-12	700,000	Royal Bank BA .99% due July 3, 2012	99.92	699,449.80
06-06-12	06-07-12	500,000	British Columbia Coupon due September 5, 2012	99.79	498,967.00
06-06-12	06-07-12	810,000	Canada Treasury Bill .76% due July 5, 2012	99.94	809,527.77
06-08-12	06-11-12	720,000	Bank of Nova Scotia BDN Discount Note 1.00% due August 20, 2012	99.81	718,621.92

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
*From 04-01-12 To 06-30-12*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
06-14-12	06-15-12	1,200,000	Canada Treasury Bill .77% due August 16, 2012	99.87	1,198,432.80
06-14-12	06-15-12	925,000	Toronto Dominion Bank BA 1.00% due July 9, 2012	99.93	924,392.28
06-20-12	06-21-12	1,000,000	Ontario Coupon due December 2, 2012	99.55	995,455.00
06-20-12	06-21-12	190,000	Toronto Dominion Bank BA .98% due July 9, 2012	99.95	189,908.23
06-22-12	06-25-12	1,000,000	Toronto Dominion Bank .98% due August 17, 2012	99.86	998,622.00
					<b>20,693,617.98</b>
<b>SALES</b>					
04-05-12	04-05-12	400,000	CIBC BA .99% due April 5, 2012	100.00	400,000.00
04-09-12	04-09-12	580,000	Bank of Nova Scotia BDN 1.00% due April 9, 2012	100.00	580,000.00
04-12-12	04-12-12	1,200,000	Canada Treasury Bill .76% due April 12, 2012	100.00	1,200,000.00
04-25-12	04-25-12	1,050,000	Bank of Nova Scotia BA .95% due April 25, 2012	100.00	1,050,000.00
04-26-12	04-26-12	1,000,000	Canada Treasury Bill .75% due April 26, 2012	100.00	1,000,000.00
05-01-12	05-01-12	430,000	FirstBank BA .98% due May 1, 2012	100.00	430,000.00
05-04-12	05-04-12	1,000,000	FirstBank BA 1.00% due May 4, 2012	100.00	1,000,000.00
05-04-12	05-04-12	210,000	FirstBank BA 1.00% due May 4, 2012	100.00	210,000.00
05-07-12	05-07-12	1,185,000	CIBC BA .98% due May 7, 2012	100.00	1,185,000.00
05-09-12	05-09-12	580,000	Royal Bank BA .96% due May 9, 2012	100.00	580,000.00
05-10-12	05-10-12	500,000	Canada Treasury Bill .78% due May 10, 2012	100.00	500,000.00
05-10-12	05-10-12	600,000	Canada Treasury Bill .79% due May 10, 2012	100.00	600,000.00
05-16-12	05-16-12	715,000	CIBC BA 1.00% due May 16, 2012	100.00	715,000.00
05-24-12	05-24-12	1,400,000	Canada Treasury Bill .81% due May 24, 2012	100.00	1,400,000.00
05-28-12	05-28-12	865,000	CIBC BA .95% due May 28, 2012	100.00	865,000.00
05-30-12	05-30-12	1,050,000	Royal Bank BA .97% due May 30, 2012	100.00	1,050,000.00

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
*From 04-01-12 To 06-30-12*

<b>Trade Date</b>	<b>Settle Date</b>	<b>Quantity</b>	<b>Security</b>	<b>Unit Price</b>	<b>Amount</b>
06-01-12	06-01-12	1,200,000	Residue Canada Mtge & Housing Corp. due June 1, 2012	100.00	1,200,000.00
06-04-12	06-04-12	1,195,000	TD Bank BA 1.00% due June 4, 2012	100.00	1,195,000.00
06-07-12	06-07-12	1,165,000	Canada Treasury Bill .82% due June 7, 2012	100.00	1,165,000.00
06-11-12	06-11-12	720,000	Bank of Nova Scotia BA 1.00% due June 11, 2012	100.00	720,000.00
06-15-12	06-15-12	800,000	Coupon Canada Housing Trust #1 due June 15, 2012	100.00	800,000.00
06-21-12	06-21-12	1,000,000	Canada Treasury Bill .90% due June 21, 2012	100.00	1,000,000.00
06-25-12	06-25-12	1,000,000	Toronto Dominion Bank BA .99% due June 25, 2012	100.00	1,000,000.00
					<b>19,845,000.00</b>

Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - SHORT TERM INVESTMENT FUND***  
*From 04-01-12 To 06-30-12*

Cash Balance at April 1, 2012			8,847.28
ADD:	Proceeds from Sales	19,845,000.00	
	Interest on Balance	21.51	
	Transfer from Long Term Investment Fund	501,268.34	
	Bond Interest Credited (from Long Term Investment Fund)	<u>408,882.72</u>	<u>20,755,172.57</u>
			20,764,019.85
LESS:	Cost of Purchases	20,693,617.98	
	Investment Counsel Fees - Short Term Investment Fund	3,587.57	
	Investment Counsel Fees - Long Term Investment Fund	30,850.14	
	Trust Company Charges	<u>10,230.81</u>	<u>20,738,286.50</u>
<b>Cash Balance at June 30, 2012</b>			<b><u>25,733.35</u></b>

Martin, Lucas & Seagram Ltd.

**CLLAS - LONG TERM INVESTMENT FUND**

**Portfolio Holdings at June 30, 2012**

<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>					
750,000	Canada Housing Trust Sr. 18 4.55% due December 15, 2012	102.72	101.56	761,715	34,125
900,000	Canada Housing Trust Sr. 19 3.60% due June 15, 2013	99.87	102.40	921,582	32,400
900,000	Canada Housing Trust Sr. 22 3.55% due September 15, 2013	105.12	102.93	926,325	31,950
1,650,000	Canada Housing Trust Sr. 24 2.70% due December 15, 2013	100.25	102.29	1,687,802	44,550
1,500,000	Canada Housing Trust Sr. 26 2.20% due March 15, 2014	99.80	101.79	1,526,820	33,000
1,000,000	Canada Housing Trust Sr. 28 3.15% due June 15, 2014	99.95	103.82	1,038,170	31,500
1,500,000	Canada Housing Trust Sr. 29 2.75% due September 15, 2014	101.82	103.35	1,550,250	41,250
600,000	Canada Mtge & Housing 4.30% due April 1, 2015	100.95	108.10	648,582	25,800
650,000	Canada Mtge & Housing Corp. 4.10% due October 1, 2015	98.39	108.60	705,868	26,650
1,000,000	Canada 3.00% due December 1, 2015	102.41	106.09	1,060,880	30,000
1,000,000	Canada Housing Trust 2.75% Series 39 due December 15, 2015	99.35	104.47	1,044,680	27,500
1,000,000	Canada 4% due June 1, 2016	99.58	110.63	1,106,260	40,000
1,000,000	Canada Housing Trust 2.05% Series 46 due June 15, 2017	99.91	101.88	1,018,840	20,500
750,000	Canada Housing Trust Sr. 23 4.10% due December 15, 2018	104.51	113.58	851,850	30,750
1,500,000	Canada Housing Trust No. 1 Sr. 30 3.75% due March 15, 2020	103.99	112.23	1,683,450	56,250
1,000,000	Canada Housing Trust 3.35% due December 15, 2020	104.64	109.50	1,095,020	33,500
300,000	Canada Housing Trust 2.65% Series 45 due March 15, 2022	101.45	103.36	310,092	7,950
300,000	Canada Housing Trust Mortgage Bonds 2.65% Series 45 due March 15, 2022	101.65	103.36	310,092	7,950
				<hr/>	<hr/>
				18,248,277	555,625
<b>PROVINCIAL BONDS</b>					
1,250,000	Ontario 4.50% due December 2, 2012	103.37	101.40	1,267,438	56,250



**CLLAS - LONG TERM INVESTMENT FUND**

**Portfolio Holdings at June 30, 2012**

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
1,275,000	Ontario 4-3/4% due June 2, 2013	102.35	103.27	1,316,705	60,563
1,000,000	Manitoba 5.05% due December 3, 2013	101.61	105.37	1,053,710	50,500
750,000	Ontario 5% due March 8, 2014	102.63	106.16	796,200	37,500
500,000	Ontario 3.25% due September 8, 2014	99.84	104.08	520,385	16,250
800,000	Alberta 2.75% due December 1, 2014	101.64	103.54	828,352	22,000
750,000	Manitoba 4.80% due December 3, 2014	104.46	108.18	811,373	36,000
1,350,000	Ontario 4.5% due March 8, 2015	101.62	107.99	1,457,852	60,750
900,000	Ontario 3.15% due September 8, 2015	102.69	104.93	944,379	28,350
1,750,000	Ontario 4.4% due March 8, 2016	102.25	109.71	1,919,855	77,000
750,000	Ontario 3.20% due September 8, 2016	99.95	105.83	793,695	24,000
1,750,000	Ontario 4.30% due March 8, 2017	101.49	110.96	1,941,853	75,250
500,000	Alberta 1.75% due June 15, 2017	99.45	100.20	501,005	8,750
1,000,000	Ontario 4.20% due March 8, 2018	100.33	111.41	1,114,110	42,000
1,000,000	British Columbia 4.10% due December 18, 2019	103.60	112.62	1,126,200	41,000
1,000,000	British Columbia 3.70% due December 18, 2020	99.83	109.69	1,096,920	37,000
				17,490,030	673,163
<b>CORPORATE BONDS</b>					
300,000	CIBC 5.00% Senior Dep Nts due September 10, 2012	100.23	100.67	302,013	15,000
400,000	Wells Fargo Financial Canada MTN 4.40% due December 12, 2012	99.78	101.25	404,980	17,600
750,000	Toronto Dominion Bank Dep. Note 4.854% due February 13, 2013	101.35	102.14	766,043	36,405
250,000	Bank of Nova Scotia 4.56% due October 30, 2013	100.07	104.04	260,103	11,400
300,000	Wells Fargo Financial Canada MTN 4.33% due December 6, 2013	99.97	103.61	310,830	12,990

Martin, Lucas & Seagram Ltd.

**CLLAS - LONG TERM INVESTMENT FUND**

**Portfolio Holdings at June 30, 2012**

<b>Quantity</b>	<b>Security</b>	<b>Unit Cost</b>	<b>Price</b>	<b>Market Value</b>	<b>Annual Income</b>
250,000	Enbridge Gas Distribution 5.570% due January 29, 2014	107.04	106.11	265,263	13,925
250,000	Canadian Utilities Inc. 5.096% due November 18, 2014	105.56	107.73	269,325	12,740
500,000	CIBC 4.75% due December 22, 2014	101.80	106.83	534,140	23,750
300,000	GE Capital Cda Fndg 4.65% due February 11, 2015	102.20	105.88	317,640	13,950
500,000	Royal Bank 3.18% due March 16, 2015	102.15	103.46	517,315	15,900
300,000	Royal Bank 3.36% due January 11, 2016	100.54	103.66	310,974	10,080
300,000	CIBC Dep Nts 3.40% due January 14, 2016	100.67	103.77	311,319	10,200
400,000	Bank of Nova Scotia Dep. Note 3.61% due February 22, 2016	101.65	104.53	418,124	14,440
600,000	Bank of Montreal 3.103% due March 10, 2016	100.79	102.92	617,514	18,618
500,000	Bank of Montreal Dep. Note 3.49% due June 10, 2016	104.92	104.41	522,065	17,450
500,000	Royal Bank 3.66% Sr. Dep. Note due January 25, 2017	101.46	105.37	526,865	18,300
700,000	CIBC Dep Note 3.95% due July 14, 2017	102.93	106.88	748,188	27,650
200,000	Bank of Montreal 4.55% due August 1, 2017	99.94	109.89	219,780	9,100
				<hr/> 7,622,480	<hr/> 299,498
<b>TOTAL PORTFOLIO</b>				<b>43,360,787</b>	<b>1,528,286</b>

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*From 04-01-12 To 06-30-12*

<u>Trade Date</u>	<u>Settle Date</u>	<u>Quantity</u>	<u>Security</u>	<u>Unit Price</u>	<u>Amount</u>
<b>PURCHASES</b>					
05-18-12	05-24-12	300,000	Canada Housing Trust Mortgage Bonds 2.65% Series 45 due March 15, 2022	101.65	304,962.00
05-25-12	05-31-12	500,000	Alberta 1.75% due June 15, 2017	99.45	497,245.00
					<b>802,207.00</b>
<b>SALES</b>					
06-15-12	06-15-12	1,305,000	Canada Housing Trust Sr. 16 4.00% due June 15, 2012	100.00	1,305,000.00
					<b>1,305,000.00</b>

Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - LONG TERM INVESTMENT FUND***  
*From 04-01-12 To 06-30-12*

Cash Balance at April 1, 2012			0.00
ADD: Proceeds from Sales	<u>1,305,000.00</u>	<u>1,305,000.00</u>	
			1,305,000.00
LESS: Cost of Purchases	802,207.00		
Accrued Bond Interest on Purchase	1,524.66		
Transfer to Short Term Investment Fund	<u>501,268.34</u>	<u>1,305,000.00</u>	
<b>Cash Balance at June 30, 2012</b>			<b>0.00</b>

Martin, Lucas & Seagram Ltd.  
**DATE TO DATE GAINS AND LOSSES**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*From 03-31-12 to 06-30-12*

Security	03-31-12 Market Value	Additions Withdrawals	06-30-12 Market Value	06-30-12 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
<b>CASH</b>								
Cash Account	0	0	0	0				
	0		0	0				
<b>GOVERNMENT BONDS</b>								
Canada Housing Trust Sr. 16 4.00% due June 15, 2012	1,312,673	-1,331,100	0	0	-7,389	-7,673	0	0
Canada Housing Trust Sr. 18 4.55% due December 15, 2012	767,880	-17,063	761,715	770,425	0	0	-8,710	-6,165
Canada Housing Trust Sr. 19 3.60% due June 15, 2013	925,749	-16,200	921,582	898,840	0	0	22,742	-4,167
Canada Housing Trust Sr. 22 3.55% due September 15, 2013	929,727	0	926,325	946,117	0	0	-19,792	-3,402
Canada Housing Trust Sr. 24 2.70% due December 15, 2013	1,689,204	-22,275	1,687,802	1,654,203	0	0	33,599	-1,403
Canada Housing Trust Sr. 26 2.20% due March 15, 2014	1,525,620	0	1,526,820	1,497,053	0	0	29,768	1,200
Canada Housing Trust Sr. 28 3.15% due June 15, 2014	1,038,730	-15,750	1,038,170	999,460	0	0	38,710	-560
Canada Housing Trust Sr. 29 2.75% due September 15, 2014	1,547,595	0	1,550,250	1,527,285	0	0	22,965	2,655
Canada Mtge & Housing 4.30% due April 1, 2015	648,084	-12,900	648,582	605,700	0	0	42,882	498
Canada Mtge & Housing Corp. 4.10% due October 1, 2015	703,846	-13,325	705,868	639,525	0	0	66,343	2,022
Canada 3.00% due December 1, 2015	1,055,100	-15,000	1,060,880	1,024,060	0	0	36,820	5,780
Canada Housing Trust 2.75% Series 39 due December 15, 2015	1,037,350	-13,750	1,044,680	993,510	0	0	51,170	7,330
Canada 4% due June 1, 2016	1,099,860	-20,000	1,106,260	995,820	0	0	110,440	6,400
Canada Housing Trust 2.05% Series 46 due June 15, 2017	1,004,790	-4,774	1,018,840	999,120	0	0	19,720	14,050
Canada Housing Trust Sr. 23 4.10% due December 15, 2018	838,350	-15,375	851,850	783,840	0	0	68,010	13,500
Canada Housing Trust No. 1 Sr. 30 3.75% due March 15, 2020	1,645,320	0	1,683,450	1,559,825	0	0	123,626	38,130
Canada Housing Trust 3.35% due December 15, 2020	1,065,790	-16,750	1,095,020	1,046,410	0	0	48,610	29,230

Martin, Lucas & Seagram Ltd.  
**DATE TO DATE GAINS AND LOSSES**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*From 03-31-12 to 06-30-12*

Security	03-31-12 Market Value	Additions Withdrawals	06-30-12 Market Value	06-30-12 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
Canada Housing Trust 2.65% Series 45 due March 15, 2022	299,838	0	310,092	304,353	0	0	5,739	10,254
Canada Housing Trust Mortgage Bonds 2.65% Series 45 due March 15, 2022	0	306,487	310,092	304,962	0	0	5,130	5,130
	<u>19,135,506</u>		<u>18,248,277</u>	<u>17,550,507</u>	<u>-7,389</u>	<u>-7,673</u>	<u>697,770</u>	<u>120,482</u>
<b>PROVINCIAL BONDS</b>								
Ontario 4.50% due December 2, 2012	1,277,550	-28,125	1,267,438	1,292,133	0	0	-24,696	-10,113
Ontario 4-3/4% due June 2, 2013	1,326,650	-30,281	1,316,705	1,304,990	0	0	11,715	-9,945
Manitoba 5.05% due December 3, 2013	1,060,670	-25,250	1,053,710	1,016,075	0	0	37,635	-6,960
Ontario 5% due March 8, 2014	800,708	0	796,200	769,700	0	0	26,500	-4,508
Ontario 3.25% due September 8, 2014	519,905	0	520,385	499,180	0	0	21,205	480
Alberta 2.75% due December 1, 2014	825,616	-11,000	828,352	813,148	0	0	15,204	2,736
Manitoba 4.80% due December 3, 2014	812,130	-18,000	811,373	783,425	0	0	27,948	-758
Ontario 4.5% due March 8, 2015	1,457,609	0	1,457,852	1,371,933	0	0	85,919	243
Ontario 3.15% due September 8, 2015	939,573	0	944,379	924,198	0	0	20,181	4,806
Ontario 4.4% due March 8, 2016	1,911,438	0	1,919,855	1,789,410	0	0	130,445	8,418
Ontario 3.20% due September 8, 2016	786,803	0	793,695	749,618	0	0	44,078	6,893
Ontario 4.30% due March 8, 2017	1,926,698	0	1,941,853	1,776,025	0	0	165,828	15,155
Alberta 1.75% due June 15, 2017	0	497,245	501,005	497,245	0	0	3,760	3,760
Ontario 4.20% due March 8, 2018	1,100,910	0	1,114,110	1,003,315	0	0	110,795	13,200
British Columbia 4.10% due December 18, 2019	1,098,180	-20,500	1,126,200	1,036,047	0	0	90,153	28,020
British Columbia 3.70% due December 18, 2020	1,063,590	-18,500	1,096,920	998,345	0	0	98,575	33,330
	<u>16,908,028</u>		<u>17,490,030</u>	<u>16,624,787</u>	<u>0</u>	<u>0</u>	<u>865,244</u>	<u>84,758</u>
<b>CORPORATE BONDS</b>								
CIBC 5.00% Senior Dep Nts due September 10, 2012	304,791	0	302,013	300,690	0	0	1,323	-2,778
Wells Fargo Financial Canada MTN 4.40% due December 12, 2012	407,456	-8,800	404,980	399,120	0	0	5,860	-2,476
Toronto Dominion Bank Dep. Note 4.854% due February 13, 2013	772,890	0	766,043	760,125	0	0	5,918	-6,848

Martin, Lucas & Seagram Ltd.  
**DATE TO DATE GAINS AND LOSSES**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*From 03-31-12 to 06-30-12*

Security	03-31-12 Market Value	Additions Withdrawals	06-30-12 Market Value	06-30-12 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
Bank of Nova Scotia 4.56% due October 30, 2013	261,905	-5,700	260,103	250,175	0	0	9,928	-1,803
Wells Fargo Financial Canada MTN 4.33% due December 6, 2013	312,165	-6,495	310,830	299,920	0	0	10,910	-1,335
Enbridge Gas Distribution 5.570% due January 29, 2014	267,010	0	265,263	267,610	0	0	-2,348	-1,748
Canadian Utilities Inc. 5.096% due November 18, 2014	269,953	-6,370	269,325	263,910	0	0	5,415	-628
CIBC 4.75% due December 22, 2014	536,210	-11,875	534,140	508,980	0	0	25,160	-2,070
GE Capital Cda Fndg 4.65% due February 11, 2015	319,359	0	317,640	306,600	0	0	11,040	-1,719
Royal Bank 3.18% due March 16, 2015	516,650	0	517,315	510,755	0	0	6,560	665
Royal Bank 3.36% due January 11, 2016	311,214	0	310,974	301,620	0	0	9,354	-240
CIBC Dep Nts 3.40% due January 14, 2016	311,415	0	311,319	301,998	0	0	9,321	-96
Bank of Nova Scotia Dep. Note 3.61% due February 22, 2016	418,632	0	418,124	406,596	0	0	11,528	-508
Bank of Montreal 3.103% due March 10, 2016	617,370	0	617,514	604,762	0	0	12,752	144
Bank of Montreal Dep. Note 3.49% due June 10, 2016	520,645	-8,725	522,065	524,575	0	0	-2,510	1,420
Royal Bank 3.66% Sr. Dep. Note due January 25, 2017	524,720	0	526,865	507,323	0	0	19,543	2,145
CIBC Dep Note 3.95% due July 14, 2017	747,194	0	748,188	720,496	0	0	27,692	994
Bank of Montreal 4.55% due August 1, 2017	218,496	0	219,780	199,882	0	0	19,898	1,284
	<u>7,638,075</u>		<u>7,622,480</u>	<u>7,435,136</u>	<u>0</u>	<u>0</u>	<u>187,343</u>	<u>-15,595</u>
<b>TOTAL PORTFOLIO</b>	<b>43,681,609</b>		<b>43,360,787</b>	<b>41,610,430</b>	<b>-7,389</b>	<b>-7,673</b>	<b>1,750,357</b>	<b>189,645</b>

Martin, Lucas & Seagram Ltd.									
EXTERNAL INDIVIDUAL CREDIT RATING REPORT - JUNE 30, 2012									
CLLAS - SHORT TERM INVESTMENT FUND									
ALL RATINGS ARE DBRS, UNLESS NOTED									
Quantity	Security	Rating	Unit	Total	Price	Market	Pct.		
			Cost	Cost		Value	Assets		
	Cash Account			25,733		25,733	0.2		
MONEY MARKET ISSUES									
430,000	FirstBank BA 1.00%								
580,000	FirstBank BA .95%								
700,000	Royal Bank BA .99%								
810,000	Canada Treasury Bill .76%								
925,000	Toronto Dominion Bank BA 1.00%								
190,000	Toronto Dominion Bank BA .98%								
425,000	CIBC BA 1.00%								
495,000	CIBC BA 1.01%								
1,100,000	Canada Treasury Bill .85%								
600,000	Canada Treasury Bill .82%								
1,210,000	CIBC BA 1.04%								
1,200,000	Canada Treasury Bill .77%								
1,000,000	Toronto Dominion Bank .98%								
720,000	Bank of Nova Scotia BDN Discount Note 1.00%								
1,100,000	Canada Treasury Bill .85%								
				11,467,404		11,475,245	84.4		
PROVINCIAL BONDS									
500,000	British Columbia Coupon	AA	99.79	498,967	99.81	499,035	3.7		
600,000	Manitoba Coupon	A	99.74	598,426	99.82	598,920	4.4		
1,000,000	Ontario Coupon	AA	99.55	995,455	99.5	995,030	7.3		
				2,092,848		2,092,985	15.4		
TOTAL PORTFOLIO									
				13,585,986		13,593,963	100		



Martin, Lucas & Seagram Ltd.										
EXTERNAL INDIVIDUAL CREDIT RATING REPORT - JUNE 30, 2012										
CLLAS - LONG TERM INVESTMENT FUND										
ALL RATINGS ARE DBRS, UNLESS NOTED										
Quantity	Security	Rating	Unit	Total	Price	Market	Pct.	Assets		
			Cost	Cost	Value	Value				
GOVERNMENT BONDS										
750,000	Canada Housing Trust Sr. 18 4.55%	AAA	102.72	770,425	101.56	761,715	1.8			
900,000	Canada Housing Trust Sr. 19 3.60%	AAA	99.87	898,840	102.4	921,582	2.1			
900,000	Canada Housing Trust Sr. 22 3.55%	AAA	105.12	946,117	102.93	926,325	2.1			
1,650,000	Canada Housing Trust Sr. 24 2.70%	AAA	100.25	1,654,203	102.29	1,687,802	3.9			
1,500,000	Canada Housing Trust Sr. 26 2.20%	AAA	99.8	1,497,053	101.79	1,526,820	3.5			
1,000,000	Canada Housing Trust Sr. 28 3.15%	AAA	99.95	999,460	103.82	1,038,170	2.4			
1,500,000	Canada Housing Trust Sr. 29 2.75%	AAA	101.82	1,527,285	103.35	1,550,250	3.6			
600,000	Canada Mtge & Housing 4.30%	AAA	100.95	605,700	108.1	648,582	1.5			
650,000	Canada Mtge & Housing Corp. 4.10%	AAA	98.39	639,525	108.6	705,868	1.6			
1,000,000	Canada 3.00%	AAA	102.41	1,024,060	106.09	1,060,880	2.4			
1,000,000	Canada Housing Trust 2.75% Series 39	AAA	99.35	993,510	104.47	1,044,680	2.4			
1,000,000	Canada 4%	AAA	99.58	995,820	110.63	1,106,260	2.6			
1,000,000	Canada Housing Trust 2.05% Series 46	AAA	99.91	999,120	101.88	1,018,840	2.3			
750,000	Canada Housing Trust Sr. 23 4.10%	AAA	104.51	783,840	113.58	851,850	2			
1,500,000	Canada Housing Trust No. 1 Sr. 30 3.75%	AAA	103.99	1,559,825	112.23	1,683,450	3.9			
1,000,000	Canada Housing Trust 3.35%	AAA	104.64	1,046,410	109.5	1,095,020	2.5			
300,000	Canada Housing Trust 2.65% Series 45	AAA	101.45	304,353	103.36	310,092	0.7			
300,000	Canada Housing Trust Mortgage Bonds 2.65% Sr. 45	AAA	101.65	304,962	103.36	310,092	0.7			
				17,550,507		18,248,277	42.1			
PROVINCIAL BONDS										
1,250,000	Ontario 4.50%	AA	103.37	1,292,133	101.4	1,267,438	2.9			
1,275,000	Ontario 4-3/4%	AA	102.35	1,304,990	103.27	1,316,705	3			
1,000,000	Manitoba 5.05%	AA	101.61	1,016,075	105.37	1,053,710	2.4			
750,000	Ontario 5%	AA	102.63	769,700	106.16	796,200	1.8			
500,000	Ontario 3.25%	AA	99.84	499,180	104.08	520,385	1.2			
800,000	Alberta 2.75%	AAA	101.64	813,148	103.54	828,352	1.9			
750,000	Manitoba 4.80%	A	104.46	783,425	108.18	811,373	1.9			
1,350,000	Ontario 4.5%	AA	101.62	1,371,933	107.99	1,457,852	3.4			
900,000	Ontario 3.15%	AA	102.69	924,198	104.93	944,379	2.2			

