



## ADVISORY BOARD MEETING

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

Tuesday, June 19, 2018 at 8:45 a.m.  
Goodmans LLP  
34<sup>th</sup> Floor, Bay Adelaide Centre, West Tower  
333 Bay Street.  
Toronto, Ontario

---

DIAL-IN INFORMATION for those participating by phone:

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

---

## AGENDA

	<u>Responsibility</u>	<u>Est. Time</u>	<u>Tab</u>
1. Constitution of Meeting	Ken Crofoot		
2. Appointment of Secretary	Ken Crofoot		
3. Approval of the Minutes of February 22, 2018 Meeting	Ken Crofoot	5 mins	A
<i><b>Proposed Resolution: To approve the minutes.</b></i>			
4. Business Arising Out of the Minutes	Ken Crofoot		
5. Comments of the Chair	Ken Crofoot	5 mins	



	<u>Responsibility</u>	<u>Est. Time</u>	<u>Tab</u>
6. Pro-Form Insurance Services <ul style="list-style-type: none"> <li>• Excess Insurance Renewal</li> </ul>	Bob Wilson	15 mins	Hand-out
7. Reinsurance Renewal <ul style="list-style-type: none"> <li>• Status of Reinsurance Renewal</li> <li>• Surplus Position and Impact on 2018/19 Premium</li> <li>• Update on Cyber Coverage</li> </ul>	Joe Tontini/ Ryan Durrell	45 mins	B
<i><b>Proposed Resolution: To approve the 2018/19 rates, including premium credit as appropriate</b></i>			
8. Report of the General Manager's Office <ul style="list-style-type: none"> <li>• Management Financial Statements as at March 31, 2018</li> <li>• CLLAS 2018 Business Plan</li> <li>• Surplus Management Policy</li> </ul>	Patrick Mahoney	20 mins	C D E
<i><b>Proposed Resolution: To confirm the Surplus Management Policy (first approved in 2017)</b></i>			
9. Committee Reports <ul style="list-style-type: none"> <li>• Audit Committee</li> <li>• Claims Committee</li> <li>• Risk Management Committee</li> <li>• Policy Committee</li> </ul>	Gord Goodman Barry Bresner Julia Holland Donald Milner	20 mins	F
10. Other Business <ul style="list-style-type: none"> <li>• Quarterly Report of the Investment Manager</li> <li>• Updated Committee Membership</li> <li>• File Retention/Transfer of paper to electronic</li> </ul>	Patrick Mahoney Ken Crofoot	5 mins 5 mins	G H
11. Next Meeting – September 11, 2018			

**Anticipated Adjournment Time: 11:00 a.m.**

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

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

8:30 a.m.

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

**Thursday, February 22, 2018**

**Present:**

Nick Leblovic (Chair)	Davies Ward Phillips & Vineberg LLP
Melanie M. Koszegi	Davies Ward Phillips & Vineberg LLP
Barry Bresner (by phone)	Borden Ladner Gervais LLP
John Birch	Cassel Brock & Blackwell LLP
Donald Milner (by phone)	Fasken Martineau DuMoulin LLP
Ken Crofoot	Goodmans LLP
Bill Scott	McCarthy Tétrault LLP
Carol Lyons (by phone)	McMillan LLP
Julia Holland	Torys LLP
Mike Swartz (by phone)	WeirFoulds LLP
Patrick Mahoney	Office of the General Manager, CLLAS
Norma Ibbetson	Office of the General Manager, CLLAS
Ryan Durrell	Axxima

**Absent:**

David Morritt	Osler Hoskins & Harcourt LLP
---------------	------------------------------

**1. Constitution of Meeting**

Chair brought the meeting to order.

**2. Appointment of Secretary**

Norma Ibbetson acted as Secretary.

3. Approval of Minutes of the December 6, 2017 Meeting of the Advisory Board

It was moved by Ken Crofoot and seconded by Julia Holland that the minutes of the December 6, 2017 meeting of the Advisory Board be approved. The motion was carried unanimously.

4. Business Arising Out of the Minutes

There were no items arising out of the minutes which will not be covered elsewhere in the agenda.

5. Comments of the Chair

The Chair gave an overview of activities since the last Board meeting. Further details will be provided under other agenda items.

6. Report of the General Manager's Office

*Cyber Initiative*

Ryan Durrell reported to the Board. There are now six firms bound. Of the remaining four firms, two are currently insured with other carriers, but it is hoped that they will move to the CLLAS program on expiry of their current policies. The third has submitted an application to CLLAS and is working on additional underwriting questions. We are awaiting a response from the fourth firm as to whether they wish to submit an application. One of the CLLAS Associate firms has submitted an application, and the other is currently working on completing an application.

Firms have bound limits between \$10MM and \$20MM. Additional limits are being priced for at least one firm.

We had a meeting with Ascent's Chief Underwriting Officer to discuss our current three requests:

1. Claims management changes – We have asked that firms be able to choose different counsel, and we are looking to formalize a claims management protocol to lay out how the CLLAS E&O, Ascent cyber and firm crime policies will respond.
2. Wording changes – We are looking for some changes to the wordings. Ascent is considering the changes in conjunction with its new base wording, which we are in the process of reviewing.
3. Increased sublimits – We have asked for increased sublimits for Social Engineering Fraud and Computer Crime. Ascent is considering this but feels strongly that these issues should be addressed in a crime policy.

Further to our work on social engineering fraud and computer crime, the firms were asked to provide copies of their crime policies so that Axxima can review the coverages for potential gaps, and coordinate coverage between CLLAS's primary, cyber, and the crime policies.

### *Associate Firm Initiative Update*

Ryan Durrell reported to the Board that Axxima has followed up with a number of firms over the last quarter. One Ontario-based firm has been provided with a quote and continues to consider joining the program but seems reluctant to move from its current provider. We are in discussions with a second Ontario firm. We understand that this firm has had a significant loss recently. While underwriting may prove tricky, we are hopeful that the loss experience may have been disruptive enough to make this firm consider a move.

Patrick Mahoney and Ryan Durrell will be meeting with a firm in Vancouver in June and are looking to set up a meeting with a second firm while they are in Vancouver.

Michael Swartz asked that a copy of the marketing material that is provided to the potential Associate Firms be posted to the CLLAS website so that current member firms can access it for internal use.

### *Financial Statements for the Year Ended December 31, 2017*

Patrick Mahoney reported that CLLAS finished 2017 with a surplus position of \$11.5 million versus \$14.4 million at December 31, 2016. He highlighted for the Board the decrease in the written premium collected which is primarily the result of lower reinsurance costs.

CLLAS experienced an underwriting loss of just over \$1.5 million for the year. During the year, CLLAS' actuaries strengthened CLLAS' unallocated loss adjustment expense provision. This combined with the social engineering drop-down loss reported in the first quarter, explains most of the loss for the year. Additionally, CLLAS returned \$1.5 million in premium surplus to a departed subscriber, as approved by the Board at its December 2017 meeting. Operating expenses finished the year essentially on budget.

Exhibit 5 to the financial management report shows the results of various risk metrics that were established as part of the ORSA/ERM process and that are monitored on a quarterly basis. This is a snapshot of CLLAS' performance for the Board's review. The Exhibit shows results for CLLAS at December 31, 2014, 2015, 2016 and 2017. The risk limit for one of the metrics (maximum allocation to a single non-government entity) will be adjusted as part of the interim ORSA update to reflect that the Alberta Insurance Act treats investments in Schedule I banks similar to investments in government bonds.

CLLAS remains in solid financial condition. Exhibit 6 to the financial management report shows the results of two regulatory solvency tests that are monitored by CLLAS. The first is the Alberta Maintenance of Reserve and Guarantee Fund (AMRGF) test. CLLAS continues to comfortably pass this test. The second, CLLAS' MCT ratio, is also shown in the notes to the audited statements and on the annual P&C1 regulatory filing. The ratio at December 31, 2017 was 451%, well above regulatory expectations.

### *Actuarial Report*

CLLAS' actuary, Julie-Linda Laforce, presented the results of the 2017 valuation to the Audit Committee at a meeting held on February 15, 2018. The actuary's presentation was included in the Board material as an information item and the full valuation report will be posted to the

website. The presentation highlights, among other things, claim counts and the change in ultimate reserves over the past 12 months. As required by the regulator, the actuarial valuation was subject to a peer review this year. Feedback has resulted in additional commentary being included in the report. Barring any material change in CLLAS' risk profile, the next peer review will be of CLLAS' 2020 actuarial report.

#### *2018 Operating Budget*

Mr. Mahoney presented the proposed operating budget for 2018. He advised that the budget had been reviewed with the Chair and incoming Chair and reflects their input. The budget letter addresses expenses incurred in 2017 and the budget being proposed for 2018. The proposal is a decrease of 10.2% for the Management Services fixed fee, and a decrease of 3.6% for Professional Services budget lines.

**It was moved by Michael Swartz and seconded by Bill Scott that the 2018 budget be approved. The motion was carried unanimously.**

#### *Summary of CLLAS Governance Policies*

A summary of the various governance policies adopted by CLLAS was provided in the Board meeting material including a schedule of when the policies should next be reviewed.

**It was moved by Carol Lyons and seconded by Ken Crofoot that the Reinsurance Risk Management Policy be referred to the Audit Committee for review with recommendations, if any, reported to the Board for the December 2018 meeting. The motion was carried unanimously.**

#### *Interim Own Risk and Solvency Assessment ("ORSA") Update*

**It was moved by Ken Crofoot and seconded by Michael Swartz that the interim ORSA Update be adopted as presented. The motion was carried unanimously.**

## **7. Committee Reports**

#### *Report of the Audit Committee*

Mike Swartz reported on behalf of the Audit Committee. The year-end meeting with CLLAS' auditor and actuary took place on February 15, 2018. In accordance with regulatory requirements, the Actuary's Report was subject to an external peer review, and this review led to some additional commentary in the Actuary's Report. An unqualified audit opinion will be issued. The Audit Committee had an opportunity to meet with the auditor without management and no issues or concerns were identified. Copies of the Audit Findings Report and Audited Financial Statements were included in the Board meeting materials.

Mr. Swartz advised that there were some minor changes to the notes from the draft audited financial statements provided in the Board package and Mr. Mahoney summarized the changes as follows:

1. Page 3 – “Distribution of premium surplus” changed to “Refund of premium surplus”.
2. Note 5 d) – Page 12 – Second last paragraph to reference December 31, 2017 not December 31, 2016. Also, as there was no change in provisions for adverse deviation, the line “The change in the discount rate and provisions for adverse deviation assumptions” should be just “The change in the discount rate”.
3. Note 4 – Page 8 – Two numbers were flipped around in the paragraph following the chart. It should read: The difference between amortized cost and market value of the AFS investments consists of gross unrealized gains of \$ 39,896 (2016: \$98,851) and gross unrealized losses of \$ 61,665 (2016: \$37,241).
4. Note 14 – Page 21 – The note should start with "Another" instead of “A”.

The P&C1 regulatory filing will be signed and filed after today’s meeting.

**It was moved by Michael Swartz and seconded by Ken Crofoot that the Financial Statements at December 31, 2017 be adopted. The motion was carried unanimously.**

*Report of the Claims Committee*

Barry Bresner reported to the Board. The Committee is keeping close watch on a small number of claims. Leave to the SCC is being sought on a large loss. There was a settlement on a 2009/10 claim early in the new year. Two new claims arising out of the same tax shelter/charitable donation program have been reported.

Ryan Durrell provided an overview of the claims charts included in the Board materials.

*Report of the Risk Management Committee*

Julia Holland reported to the Board on a recent meeting of the Committee. The Committee discussed issuing another guideline paper but concluded that it was better to focus on hosting another risk management seminar. Firms have been asked for suggested seminar topics and good feedback was provided. Further details will follow.

*Report of the Policy Committee*

There was no report of the Committee.

**8. Other Business**

*Investment Report for Quarter Ending December 31, 2017*

The investment report was included with the Board materials as an information item.

*Transition of Chair*

Nick Leblovic spoke to the Board about his experience as the Chair of CLLAS. He expressed his gratitude for the advice and the professionalism of his colleagues around the Board table as well as CLLAS' advisors.

The incoming Chair, Ken Crofoot, paid tribute to Nick Leblovic.

*2018/19 Committee Membership*

**It was moved by Nick Leblovic and seconded by Michael Swartz that the Committee Membership be adopted as proposed. The motion was carried unanimously.**

**9. Next Meeting**

The next scheduled meeting of the Board is Tuesday, June 19, 2018 at Goodmans.

The CLLAS dinner is April 26, 2018 at the National Club.

There being no further business, the meeting was adjourned.

---

Chairman

---

Secretary





---

## PRIVATE AND CONFIDENTIAL

---

**Date:** June 12, 2018

**To:** David Morritt  
Barry Bresner  
Mike Swartz  
Julia Holland  
William Scott  
Donald Milner  
Gordon Goodman  
Ken Crofoot  
Melanie Koszegi  
Daniel MacDonald

**From:** Patrick Mahoney and Ryan Durrell

**Copy:** Joe Tontini

**Re:** **Report on the CLLAS Reinsurance Renewal Placement for July 1, 2018/2019 and Preliminary Rates for CLLAS Members**

The purpose of this report is to provide the CLLAS Board with information on the reinsurance placement for July 1, 2018/2019 and a preliminary rate indication for CLLAS members.

### CLLAS Renewal Objectives

The CLLAS renewal objectives for the period July 1, 2018/2019 are as follows:

- Obtaining an as-is renewal based on last year's rates;
- Attract new markets if necessary to maintain rates;
- Maintain existing reinsurer relationships; and
- Continue to evaluate ability to distribute surplus to members through premium credits.

### CLLAS Renewal Negotiations

Last year was the start of a new five-year underwriting period for CLLAS member firms. Due to an unexpected competing quote, CLLAS had to request a further reduction on all reinsurance layers. We were able to achieve a 20% reduction in reinsurance rates and a 25% reduction in insurance rates paid by CLLAS members with the continued deployment of CLLAS and Colchester's surplus.

This year, Ken Crofoot, Patrick Mahoney, Ryan Durrell, and Joe Tontini met with Miller Insurance Services LLP and most of the incumbent London underwriters to present our proposed renewal terms. A status quo renewal is being sought. Our main arguments for the renewal terms were that (1) loss experience since July 1, 2011, when the \$50MM primary layer was introduced, continues to emerge profitably for underwriters and (2) credibility with the CLLAS firms who have committed to remain in CLLAS for a further five years required a stable renewal.

Ken Crofoot provided a recap of last year's difficult renewal, culminating in an expression of gratitude for the partnership of the reinsurers in that process. He also gave an update on CLLAS, including insights into current issues



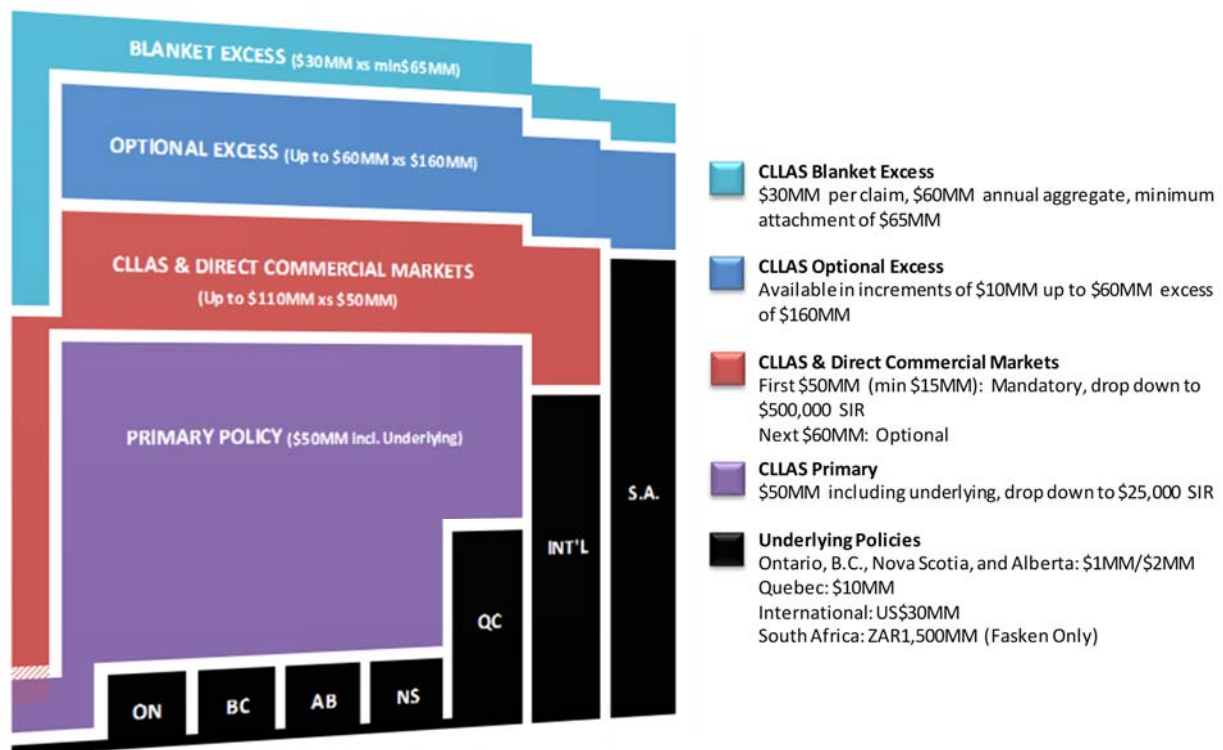
affecting the member firms, and CLLAS' current risk management initiatives. These updates were very well received by underwriters.

While markets continue to be competitive, many underwriters indicated that a pricing floor has been reached. Syndicates have been negatively impacted by increases in reinsurance costs, as well as poor loss experience across multiple lines of business, including professional liability. Rate reductions, especially in the international professional liability area are an exception rather than the norm.

That said, CLLAS' relationships with most of the markets remains positive, and indications from almost all markets are that an as-is renewal is acceptable. We continue to work with the lead Syndicate, Argo, who is still working with its actuaries to build its case for supporting the as-is renewal terms. An up-to-date report on the renewal will be provided at the Board meeting.

### CLLAS Insurance Structure

CLLAS currently offers a \$50,000,000 primary policy, of which it retains only the drop-down exposure between \$25,000 and \$1,000,000 where underlying policies do not respond. Beginning last year, CLLAS began participating in the direct commercial market layers between \$50,000,000 and \$160,000,000. CLLAS provides 5% of those layers, and fully reinsures this exposure. Above the commercial market layers are CLLAS' optional excess and blanket excess layers, which provide up to \$60,000,000 optionally before the blanket excess layer, which provides \$30,000,000 per claim with a \$60,000,000 aggregate. Again, these layers are fully reinsured. In total the CLLAS insurance structure offers limits of up to \$250,000,000, as follows:



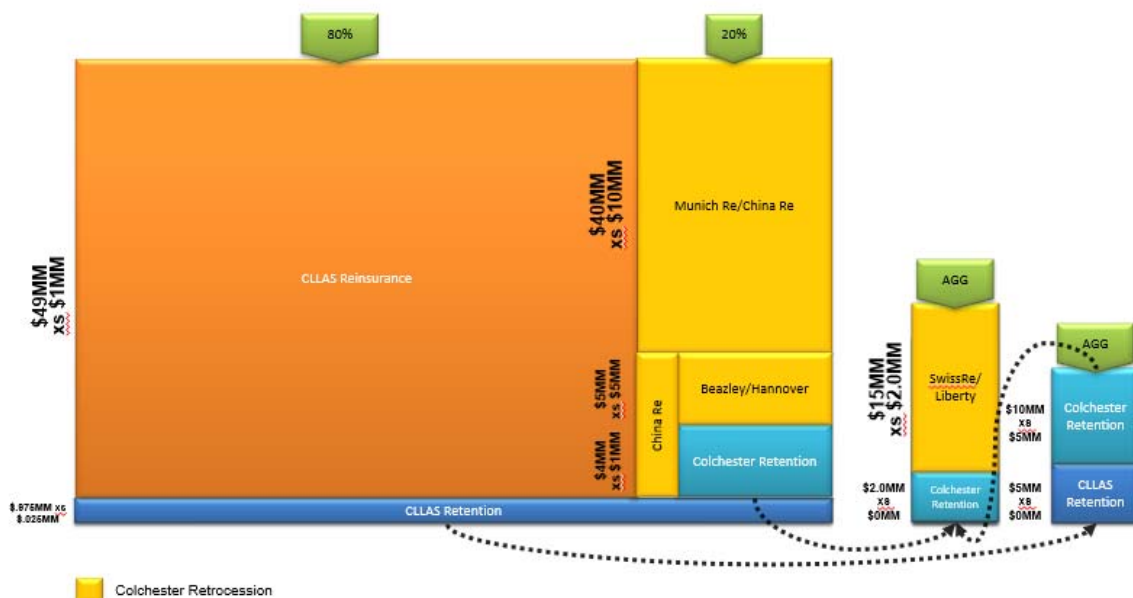


The current policies and limits issued by CLLAS are described in more detail below:

1. CLLAS Primary Policy of \$50M – A Primary Policy of \$50,000,000 each and every claim and in the annual aggregate, including costs, charges and expenses, inclusive of the minimum mandatory coverage provided by the applicable law society professional liability insurance program or by the professional liability insurance program of the governing body of a self-regulatory profession other than law and/or other applicable insurance and/or \$25,000 per claim self-insured retention. The rate for lawyers in Quebec is lower in this layer because of the higher underlying limit provided by Barreau du Quebec.
2. CLLAS First Excess Policy of Up to \$50M Excess of \$50M - CLLAS has a 5% participation on the First Excess Policy of up to \$50M excess of the CLLAS Primary \$50M and/or other specific underlying insurance arranged by certain CLLAS member firms for their offices in the U.S. and/or other international locations.
3. CLLAS Optional Second Excess Policy of Up to \$60M Excess of \$100M - CLLAS has a 5% participation on the Second Excess Policy of up to \$60M excess of \$100M. This policy follows the CLLAS First Excess Policy.
4. CLLAS Optional Third Excess Policy of Up to \$60M excess of \$160M – This is an existing layer issued 100% by CLLAS of up to \$60M excess of \$160M. This policy follows the First Excess and Optional Second Excess Policies.
5. CLLAS Blanket Excess Policy of \$30M per claim/\$60M aggregate – This policy is shared by all CLLAS member firms. This policy follows the CLLAS First Excess Policy and is excess of the CLLAS Optional First Excess policy (\$15M excess of \$50M must be purchased at a minimum) and also the Optional Second and Third Excess Policies, where purchased.

### CLLAS Reinsurance Structure

The proposed reinsurance structure for the primary policy is unchanged from the expiring structure and it is depicted below:





The reinsurance program is described in more detail below:

- a) Primary Policy Reinsurance: \$49M excess of \$1M – 100% reinsured.
  - 80% of this layer will be proportionally reinsured with Lloyd's and other reinsurers.
  - 20% will be reinsured with Colchester. Colchester's involvement will then be layered and retroceded to various markets. A portion of Colchester's participation which is not transferred to other markets will be retained by Colchester. Colchester also purchases Stop-Loss cover to manage its retained exposure.
  - CLLAS will retain the entire drop-down exposure below \$1M.
- b) First Excess Policy Reinsurance: Up to \$50M excess of \$50M – The 5% participation by CLLAS will be fully reinsured.
- c) Second Excess Policy Reinsurance: Up to \$60M Excess of \$100M – The 5% participation by CLLAS will be fully reinsured.
- d) Optional Excess Policy Reinsurance: Up to \$60M excess of \$160M – 100% reinsured.
- e) Umbrella Policy Reinsurance: \$30M/\$60M excess of \$65M (minimum) – 100% reinsured.
- f) Aggregate Stop-Loss Reinsurance: CLLAS aggregate protection of \$10M excess of \$5M in aggregate losses – 100% reinsured by Colchester.
- g) Loss Portfolio Transfer Reinsurance: Claims reserves and IBNR as at June 30, 2012 – 100% reinsured by Colchester.

### **Reinsurance Security**

All proposed markets meet CLLAS' reinsurance security requirements, as show in appendix A, which summarizes the AM Best and S&P financial strength ratings for the proposed reinsurance markets.

CLLAS performs a robust analysis of reinsurance security each fall which is reviewed by the Audit Committee, which provides management with direction for the renewal. No special direction was provided for the current renewal.

### **Premium Reductions Through CLLAS Surplus Contributions**

CLLAS' surplus remains sufficient to continue to provide a reduction consistent with last year.

### **Proposed CLLAS Structure and Rates – July 1, 2018/2019**

No changes to the CLLAS insurance or reinsurance structures are being proposed; however, discussions with underwriters were held to explore their interest in supporting additional limits excess of \$250M in future renewals. We have received some positive feedback already from a couple of markets.

Assuming reinsurance rates can be finalized on an as-is basis and based on the assumption that CLLAS will continue to provide a surplus distribution in the form of a premium credit, the rates per lawyer for CLLAS members at renewal should remain the same as last year's.



### **Proposed Policy Wording Changes at Renewal**

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

### **Conclusions**

An as-is renewal appears to be achievable this year. Member firms should be prepared for a more rational market in the years ahead.

While this preliminary report should provide firms with an update on ongoing renewal negotiations, a more definitive report, including lead reinsurance terms and conditions, will be provided at the upcoming Board meeting.

# CLLAS Reinsurance

A.M Best Ratings over a 5 year period  
June 2018

Appendix A

Reinsurers	Registered Status		2014	2015	2016	2017	2018
Lloyd's	Registered	Rating	A	A	A	A	A
		Outlook	Positive	Stable	Stable	Stable	Stable
Aspen Re	Registered	Rating	A	A	A	A	A
		Outlook	Stable	Stable	Stable	Stable	Stable
Hannover Rueck	Registered	Rating	A+	A+	A+	A+	A+
		Outlook	Stable	Stable	Stable	Stable	Stable
Transatlantic Reinsurance Company (UK)	Registered	Rating	A	A	A+	A+	A+
		Outlook	Positive	Positive	Positive	Stable	Stable
Arch Insurance Company (Canada Branch)	Registered	Rating	A+	A+	A+	A+	A+
		Outlook	Stable	Stable	Stable	Negative	Negative
Allied World Assurance Company Ltd.	Unregistered	Rating	A	A	A	A	A
		Outlook	Stable	Stable	Stable	Negative	Stable
CRC (Bermuda) Reinsurance Ltd.	Unregistered	Rating	N/A	N/A	N/A	N/A	N/A
		Outlook	N/A	N/A	N/A	N/A	N/A
RSA Insurance Group(formerly GCAN Insurance Company)	Registered	Rating	N/A	N/A	N/A	N/A	N/A
		Outlook	N/A	N/A	N/A	N/A	N/A
SCOR Canada Reinsurance Company	Registered	Rating	A	A	A	A+	A+
		Outlook	Stable	Positive	Positive	Positive	Stable
Swiss Reinsurance Company Ltd. (Canada Branch)	Registered	Rating	A+	A+	A+	A+	A+
		Outlook	Stable	Stable	Stable	Stable	Stable
Toa Reinsurance Company of America	Registered	Rating	A+	A+	A+	A	A
		Outlook	Stable	Stable	Stable	Stable	Stable
Alleghany Corporation (formerly Transatlantic Reinsurance Company) (Parent)	Registered	Rating	bbb+	bbb+	A-	A-	A-
		Outlook	N/A	Positive	Stable	Stable	Stable
Transatlantic Reinsurance Company (Canada)	Registered	Rating	A	A	A+	A+	A+
		Outlook	Positive	Positive	Stable	Stable	Stable
Colchester Reinsurance Ltd.	Unregistered	Rating	N/A	N/A	N/A	N/A	N/A
		Outlook	N/A	N/A	N/A	N/A	N/A
Munich Re	Registered	Rating	A+	A+	A+	A+	A+
		Outlook	Stable	Stable	Stable	Stable	Stable
Argo Group Operating Subsidiaries (AMA 1200 Parent)	Registered	Rating	A	A	A	A	A
		Outlook	Stable	Stable	Stable	Stable	Stable
Axis Reinsurance Company	Registered	Rating	A+	A+	A+	A+	A+
		Outlook	Stable	Stable	Stable	Stable	Stable
Continental Casualty Company (CNA)	Registered	Rating	A	A	A	A	A
		Outlook	Stable	Stable	Stable	Stable	Stable
Allianz Global Risks	Registered	Rating	A+	A+	A+	A+	A+
		Outlook	Stable	Stable	Stable	Stable	Stable
CNA Canada	Registered	Rating	N/A	A*	A*	A*	A
		Outlook	N/A	Stable*	Stable*	Stable*	Stable

\* As of March 31, 2012

Upgrade
Downgraded

# CLLAS Reinsurance

S&P Ratings over a 5 year period  
June 2018

Appendix A

Reinsurers	Registered Status		2014	2015	2016	2017	2018
Lloyd's	Registered	Rating	A+	A+	A+	A+	A+
		Outlook	Stable	Stable	Stable	Stable	Negative
Aspen Re	Registered	Rating	A	A	A	A	A
		Outlook	Stable	Stable	Stable	Stable	Negative
Hannover Rueck	Registered	Rating	AA-	AA-	AA-	AA-	AA-
		Outlook	Stable	Stable	Stable	Stable	Stable
Transatlantic Reinsurance Company (UK)	Registered	Rating	A+	A+	A+	A+	A+
		Outlook	Stable	Stable	Stable	Stable	Stable
Arch Insurance Company (Canada Branch)	Registered	Rating	A+	A+	A+	A+	A+
		Outlook	Stable	Stable	Negative	Negative	Negative
Allied World Assurance Company Ltd.	Unregistered	Rating	A	A	A	A-	A+
		Outlook	Stable	Stable	Stable	Stable	Positive
CRC (Bermuda) Reinsurance Ltd.	Unregistered	Rating	N/A	N/A	N/A	N/A	N/A
		Outlook	N/A	N/A	N/A	N/A	N/A
RSA Insurance Group(formerly GCAN Insurance Company)	Registered	Rating	A	A	A	A	A
		Outlook	Stable	Stable	Stable	Stable	Stable
SCOR Canada Reinsurance Company	Registered	Rating	A+	AA-	AA-	AA-	AA-
		Outlook	Positive	Stable	Stable	Stable	Stable
Swiss Reinsurance Company Ltd. (Canada Branch)	Registered	Rating	AA-	AA-	AA-	AA-	AA-
		Outlook	Stable	Stable	Stable	Stable	Stable
Toa Reinsurance Company of America	Registered	Rating	A+	A+	A+	A+	A+
		Outlook	Stable	Stable	Stable	Stable	Stable
Alleghany Corporation (formerly Transatlantic Reinsurance Company) (Parent)	Registered	Rating	BBB+	BBB+	BBB+	BBB+	BBB+
		Outlook	Stable	Stable	Stable	Stable	Stable
Transatlantic Reinsurance Company (Canada)	Registered	Rating	A+	A+	A+	A+	A+
		Outlook	Stable	Stable	Stable	Stable	Stable
Colchester Reinsurance Ltd.	Unregistered	Rating	N/A	N/A	N/A	N/A	N/A
		Outlook	N/A	N/A	N/A	N/A	N/A
Munich Re	Registered	Rating	AA-	AA-	AA-	AA-	AA-
		Outlook	Stable	Stable	Stable	Stable	Stable
Argo Group Operating Subsidiaries (AMA 1200 Parent)	Registered	Rating	A-	A-	A-	A-	A-
		Outlook	Stable	Stable	Stable	Stable	Stable
Axis Reinsurance Company	Registered	Rating	A+	A+	A+	A+	A+
		Outlook	Stable	Stable	Stable	Negative	Negative
Continental Casualty Company (CNA)	Registered	Rating	A	A	A	A	A
		Outlook	Stable	Stable	Stable	Stable	Stable
Allianz Global Risks	Registered	Rating	AA	AA	AA	AA	AA
		Outlook	Stable	Stable	Stable	Stable	Stable
CNA Canada	Registered	Rating	N/A	A	A	A	A
		Outlook	N/A	Stable	Stable	Stable	Stable



# MEMORANDUM

DATE: May 30, 2018  
TO: CLLAS Advisory Board  
FROM: Patrick Mahoney  
COPY:  
RE: March 31, 2018 Financial Management Report

---

CLLAS' financial management report for the quarter ended March 31, 2018 is attached. Included are the following exhibits:

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

## Financial Results

As shown on Exhibit II, CLLAS experienced an underwriting gain (premiums minus claims and expenses) of \$55,000 in the quarter. After taking into account investment income (including unrealized losses arising during the period) CLLAS' total comprehensive income was just over \$94,000. As shown on Exhibit I, CLLAS' surplus at March 31, 2018 stood at \$11.6 million.

The Budget Variance (Exhibit IV) shows that expenses for the year are about 6.1% (\$21,500) under budget for the period. This is the result of a wide number of budget items coming in at slightly less than the accrued budget amount for the first quarter.

## Risk Metrics

Exhibit V presents the results of various "risk metrics" monitored by CLLAS based on what have been identified through the ORSA process as its material risks. The Exhibit shows results for CLLAS at December 31, 2015, December 31, 2016, December 31, 2017 and March 31, 2018 against risk targets and risk limits. The results for March 31, 2018 are within CLLAS' risk tolerances. Items of note include:

Line 10: In accordance with the ORSA Update adopted at the February 2018 meeting, this metric has been refined to better reflect the risks and the Alberta *Insurance Act* rules. The Act imposes limit (greater of 5% and \$500,000) on investment in debt instruments but provides an exemption certain issuers, including Schedule I and II banks. This metric has been showing





“red” as the 5% limit was exceeded due to investments in Schedule I banks. Item 10(a) now sets a target or 7.5% and limit of 10% for investment in debt instruments issued by Schedule I and II banks, and Item 10(b) retains the original 5% limit on other debt instruments.

Line 13: The key regulatory solvency test that CLLAS is required to comply with is known as the Alberta Maintenance of Reserve and Guarantee Fund (“AMRGF”). Details of this calculation are included in Exhibit VI, with the result summarized in Line 13 of Exhibit V. CLLAS must maintain “cash and approved securities” in excess of the reserve fund plus the guarantee fund required by the Alberta regulator. Exhibit VI shows that the CLLAS held cash and approved securities well in excess of the AMRGF requirement at March 31, 2018.

Line 14: CLLAS also monitors its Minimum Capital Test ratio. At March 31, 2018, CLLAS’ MCT ratio is estimated to be 456%, up slightly from 451% at December 31, 2017. Note that mid-year MCT calculations are done on a simplified basis in the interest of efficiency; the “official” MCT calculation is done at year-end.

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

Sincerely,

Patrick Mahoney  
General Manager

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF FINANCIAL POSITION**  
**March 31, 2018**

	<b>As at March 31, 2018</b>	<b>As at March 31, 2017</b>
<b>ASSETS</b>		
Cash	2,241,900	5,409,026
Short term investments	9,731,832	11,645,006
Bonds	5,119,931	5,167,951
Interest income due and accrued	33,456	28,254
Premium receivable	-	-
Other receivable	-	28,458
Prepaid expenses	102,556	116,085
Deferred policy acquisition costs	51,655	77,110
Unearned reinsurance premium ceded	1,277,646	2,102,643
Reinsurance recoverable	4,004,677	390,517
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	95,067,000	96,448,000
	<u>117,630,654</u>	<u>121,413,051</u>
<b>LIABILITIES</b>		
Accounts payable & accrued charges	475,784	258,402
Premium taxes payable	-	-
Unearned premium	1,779,716	2,645,319
Due to reinsurers	824,516	1,249,403
Provision for unpaid claims and adjustment expenses	102,909,000	103,658,000
Premium deficiency liability	-	-
	<u>105,989,017</u>	<u>107,811,124</u>
<b>SUBSCRIBERS' EQUITY</b>		
Surplus	11,688,786	13,520,681
Accumulated Other Comprehensive Income (Loss)	(47,149)	81,246
	<u>11,641,637</u>	<u>13,601,927</u>
	<u>117,630,654</u>	<u>121,413,051</u>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**For the Period Ending March 31, 2018**

	<b>Current Year</b>		<b>Prior Year</b>	
	<b>Quarter March 31, 2018</b>	<b>Year to Date March 31, 2018</b>	<b>Quarter March 31, 2017</b>	<b>Year to Date March 31, 2017</b>
Written Premium	-	-	-	-
Gross Written Premiums	-	-	-	-
Less: Reinsurance Ceded	-	-	-	-
Net Written Premiums	-	-	-	-
Change in Unearned Premiums	496,552	496,552	536,712	536,712
Earned Premiums	496,552	496,552	536,712	536,712
Claims Paid	(56,203)	(56,203)	(50,648)	(50,648)
Change in IBNR	(68,000)	(68,000)	115,000	115,000
Change in Case Reserve	(21,000)	(21,000)	642,000	642,000
Premium Deficiency Expense	-	-	-	-
Incurred Claims	(145,203)	(145,203)	706,352	706,352
Management and operating expenses	465,299	465,299	598,104	598,104
Reinsurance fees	69,750	69,750	69,750	69,750
Premium taxes	51,655	51,655	77,110	77,110
Total Operating Expenses	586,704	586,704	744,964	744,964
<b>Underwriting Gain (Loss)</b>	55,052	55,052	(914,604)	(914,604)
Investment Income	64,773	64,773	45,055	45,055
Income on Claim Related Matters	-	-	-	-
Interest Income on Premium Tax	-	-	-	-
<b>NET GAIN/(LOSS)</b>	<b>119,825</b>	<b>119,825</b>	<b>(869,548)</b>	<b>(869,548)</b>
<b>Other comprehensive income (loss)</b>				
Unrealized gains (losses) on available for sale financial assets arising during the year	(25,381)	(25,381)	19,635	19,635
Recognition of realized (gain) loss included in income	-	-	-	-
Other comprehensive income (loss) for the year	(25,381)	(25,381)	19,635	19,635
<b>Total comprehensive income (loss)</b>	<b>94,444</b>	<b>94,444</b>	<b>(849,913)</b>	<b>(849,913)</b>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF CHANGES IN EQUITY**  
**March 31, 2018**

	<b>Minimum Surplus</b>	<b>Additional Surplus</b>	<b>Unrealized gains and losses on AFS financial assets</b>	<b>Total Equity</b>
<b>Balance, beginning of year</b>	<b>50,000</b>	<b>11,518,961</b>	<b>(21,768)</b>	<b>11,547,193</b>
Prior year adjustment		-		-
<b>Comprehensive income (loss) for the year</b>				
Net gain (loss) for the year		119,825		119,825
<b>Other comprehensive income (loss)</b>				
Change in unrealized gain on available-for-sale assets			(25,381)	(25,381)
Recognition of realized (gain) loss on available-for-sale assets			-	-
<b>Total comprehensive income (loss) for the year</b>		<b>119,825</b>	<b>(25,381)</b>	<b>94,444</b>
Distribution of premium surplus		-		-
<b>Balance at March 31, 2018</b>	<b>50,000</b>	<b>11,638,786</b>	<b>(47,149)</b>	<b>11,641,637</b>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY  
STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS  
FOR THE PERIOD ENDED March 31, 2018

	Annual Budget	Year to Date Budget	Year to Date Budget	Year to Date Actual	Fav/(Unfav) Variance
		%	\$	\$	\$
MANAGEMENT SERVICES* (See Note 1)	520,500	25%	130,125	142,322	(12,197)
PROFESSIONAL SERVICES					
Actuarial Services	70,000	21%	14,700	28,710	(14,010)
Reinsurance Matters	300,000	21%	63,000	30,174	32,826
Strategic Matters	160,000	21%	33,600	26,776	6,824
Sub-Total Professional Services	530,000		111,300	85,660	25,640
GST/HST on Consulting Fees	136,565		31,385	29,638	1,748
Total Management & Professional Services * (See Note 2)	1,187,065		272,810	257,620	15,190
OTHER EXPENSES					
Audit Expenses	113,000	25%	28,250	35,962	(7,712)
Annual Dinner	8,500	25%	2,125	-	2,125
Premium Taxes	207,000	25%	51,750	51,655	95
Chairman's Expenses	3,000	25%	750	-	750
Chairman's Honourium	150,000	100%	150,000	150,000	-
Reinsurance Expense	8,500	25%	2,125	-	2,125
D&O Insurance	20,000	25%	5,000	-	5,000
Office Expenses	25,000	25%	6,250	5,319	931
Claims: Borderaux (LawPro/LIF)	15,400	25%	3,850	750	3,100
Special Services	25,000	25%	6,250	-	6,250
Miller Insurance Fees (Reins. Comm.) (See Note 3)	279,000	25%	69,750	69,750	-
I.B.C Statistical Plan Fees	4,000	25%	1,000	480	520
Assessment Fees	3,000	25%	750	-	750
Investment counsel fees	30,000	25%	7,500	6,367	1,133
Investment - Custodial	18,000	25%	4,500	4,638	(138)
Risk Management/Loss Prevention	25,000	25%	6,250	-	6,250
License Fee	5,000	90%	4,500	4,163	337
Insurance: Sundry	-		-	-	-
Sub-total	939,400		350,600	329,084	21,516
TOTAL	2,126,465		623,410	586,704	36,706

\* NOTE 1: MANAGEMENT SERVICES

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

\* NOTE 2: PROFESSIONAL SERVICES - SEASONALLY WEIGHTED BUDGET

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

First Quarter, ending March 31st	21%
Second Quarter, ending June 30th	41%
Third Quarter, ending September 30th	17%
Fourth Quarter, ending December 31st	21%
	100%

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

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

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**SUMMARY OF RISK METRICS**  
**March 31, 2018**

Exhibit V

	<b>Risk Category</b>	<b>Risk Metric</b>	<b>December 31, 2016</b>	<b>December 31, 2017</b>	<b>March 31, 2018</b>	<b>Target</b>	<b>Limit</b>
(1a)	<b>Insurance</b>	Prior year development - Gross of reinsurance	-13%	-8%	-1%	≤ 0%	> 20%
(1b)		Prior year development - Net of reinsurance	-45%	8%	-7%	≤ 0%	> 10%
(2a)		3-year net combined ratio	91%	115%	127%		
(2b)		3-year net combined ratio before surplus adjustments via premiums	78%	91%	97%	≤ 100%	> 125%
(3)		Maximum allocation to a single jurisdiction	56%	60%	60%	n/a	> 67%
(4)	<b>Reinsurance</b>	Reinsurer credit rating	A- to A+	A- to A+	A- to A+	≥ A	< A-
(5)		Maximum concentration with a single reinsurer excl. Colchester	12.2%	12.8%	12.8%	≤ 10%	> 15%
(6)	<b>Interest Rate</b>	Interest rate risk per MCT formula at 1.25%	\$112,000	\$198,000	\$172,000	≤ \$250,000	> \$600,000
(7)	<b>Liquidity</b>	Ratio of cash and short-term investments to gross claim liabilities	16%	14%	12%	≥ 15%	< 10%
(8)		Ratio of short term funds to total short & long term funds	69%	70%	66%	≥ 40%	< 20%
(9a)	<b>Asset Default</b>	Credit rating of invested assets	AA to AAA	AA to AAA	AA to AAA	AA to AAA	< A
(9b)		Credit rating of Bankers Acceptances and Certificates of Deposit	R1 - High	R1 - High	R1 - High	R1-High	< R1-High
(10a)		Maximum allocation to a single non-government security - Schedule I/II Banks	6.7%	6.7%	5.8%	< 7.5%	> 10%
(10b)		Maximum allocation to a single non-government security - Other	2.2%	2.1%	2.4%	< 3.75%	> 5%
(11)	<b>Strategic</b>	Annual Advisory Board turnover	0	0	1	≤ 2 members	> 4 members
(12)	<b>Operational</b>	Key management/advisor turnover	0	0	0	≤ 1 per 3 years	> 1 per year
(13)	<b>Regulatory Solvency Indicators</b>	AMRGF - Excess of cash and approved securities over required reserve and guarantee fund	\$9,595,000	\$7,749,500	\$5,865,500	\$3,500,000 to \$7,000,000	< \$3,500,000
(14)		MCT	463%	451%	457%	≥ 210%	< 210%

**Notes**

(1) = Year-over-year change in ultimate losses / Prior year undiscounted unpaid claims (excl. ULAE); net development in 2017 is mainly due to one claim of \$650,000

(2a) = [3-year net incurred losses + 3-year operating expenses] / [3-year net earned premiums]; only experience after June 30, 2012 has been considered in the 2014 combined ratio to exclude the effect of the LPT transaction

(2b) = (2a), where 3-year net earned premiums reflect actuary's indicated premium rates before surplus distributions

(3) Based on insured lawyer counts

(4) Based on A.M. Best. information from report on reinsurance security (October 31, 2017). Note that in 2013 and 2014, there was only one reinsurer with credit rating of BBB+ (Alleghany Corporation, formerly Transatlantic Reinsurance Company).

(5) Based on claim liabilities exposure. Lloyds syndicates are assessed separately. 2014 information from report on reinsurance security (September 23, 2014); 2015 information from report on reinsurance security (October 30, 2015); 2016 information from report on reinsurance security (October 21, 2016); 2017 information from report on reinsurance security (October 31, 2017).

(10) Maximum allocation does not consider cash and cash equivalents.

(12) Includes principal attorney, general manager, accountant, auditor, actuary, reinsurance broker and excess insurance broker.

(14) The 2014 MCT ratio shown above calculated based on the old MCT guidelines.

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

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**For the Period Ending March 31, 2018**

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

	Current Year to Date 03/31/2018 (in \$000's)	Prior Year End 03/31/2017 (in \$000's)
<b><u>Reserve Fund</u></b>		
Premiums collected or credited having one year or less to run	(1) 7,138	10,610
Less: Amount paid to licensed reinsurers	(2) 5,075	8,347
Premiums collected with more than one year to run, less expired portion	(3) -	-
Less: Amount paid to reinsurers on premiums on line 3, less expired portion.	(4) -	-
Subtotal (lines 1, minus line 2, plus line 3, minus line 4)	(5) 2,063	2,263
Reserve Fund Required (50% of Line 5)	(6) 1,032	1,132
<b><u>Guarantee Fund</u></b>		
Total Liabilities	(7) 105,989	107,811
Less: Unearned Premiums	(8) 1,780	2,645
Less: Recoverable from licensed reinsurers	(9) 94,062	95,352
Plus: Statutory Margin	(10) 50	50
Guarantee Fund Required (Line 7 minus Lines 8 and 9 plus line 10)	(11) 10,197	9,864
<b>TOTAL RESERVE &amp; GUARANTEE FUND REQUIRED (Line 6+11)</b>	(12) 11,229	10,996
Cash & Approved Securities	(13) 17,094	22,222
Excess of Cash & Securities over Reserve & Guarantee Fund (line 13 minus line 12)	(14) 5,866	11,227



## **CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

Business Plan Projected for the  
Fiscal Years Ending December 31, 2018, 2019 and 2020

Final Report  
March 19, 2018





## Table of Contents

1. Executive Summary.....	1
2. Overview of CLLAS Operations .....	2
3. Operating Environment .....	4
4. Short-Term Opportunities and Threats .....	5
5. Short-Term Priorities and Initiatives.....	5
6. Financial Performance Measures .....	5
7. Financial Condition Measures and Regulatory Solvency Requirements.....	6
8. Financial Projections .....	7
Exhibits	



## **1. Executive Summary**

This report summarizes the business plan for the Canadian Lawyers Liability Assurance Society (“CLLAS”) for fiscal years 2018 to 2020. A copy of this report was submitted to the Alberta Superintendent of Insurance (“Superintendent”), the regulatory authority responsible for the supervision of CLLAS under the Alberta Insurance Act.

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

### **Operations and Operating Environment**

CLLAS’ core business objective is to meet the liability insurance needs of its subscribers. It provides professional liability insurance to select Canadian law firms since 1987. Professional liability claims are subject to significant volatility and are expected to trend at approximately 5% per year.

CLLAS has purchased proportional and aggregate stop loss reinsurance since its inception. In addition, CLLAS entered into a loss portfolio transfer agreement at June 30, 2012 with Colchester Reinsurance Ltd. which covers all outstanding claim obligations on policies written between July 1, 1987 and June 30, 2012. These risk management initiatives have the effect of limiting CLLAS’ loss exposure. Given CLLAS’ strong long-term relationships with its reinsurers, reinsurance rates and availability are expected to be stable.

In March 2013, the Superintendent adopted solvency, governance and other supervisory guidelines that were historically applicable only to federally-regulated insurance companies. The adoption of these guidelines has led to additional solvency and governance requirements for CLLAS. The Superintendent has discretion in the application of these guidelines for reciprocals.

### **Summary of Financial Projections for Fiscal Year 2018**

The underwriting income and investment income for fiscal year 2018 are projected at (\$564,000) and \$373,000 respectively, for a total net income of (\$191,000). The surplus at December 31, 2018 is projected at \$11,378,000. The projections assume that the premiums reflect surplus distributions of \$750,000 per year from 2018 to 2020, consistent with the surplus distribution in the 2017/2018 premium rates.

CLLAS is expected to meet the Alberta Maintenance of Reserves and Guarantee (“AMRGF”) Funds requirement with an excess margin of \$7,309,000 at December 31, 2018. The Minimum Capital Test (“MCT”) ratio at December 31, 2018 is projected at 446%, a slight decrease over the MCT ratio of 451% at December 31, 2017. The MCT ratio is expected to remain comfortably above CLLAS’ internal target and regulatory expectations of 210%.



This business plan report is organized as follows:

- Section 2: Overview of CLLAS Operations
- Section 3: Operating Environment
- Section 4: Short-Term Opportunities and Threats
- Section 5: Short-Term Priorities and Initiatives
- Section 6: Financial Performance Measures
- Section 7: Financial Condition Measures and Regulatory Solvency Requirements
- Section 8: Financial Projections

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

Mr. Patrick Mahoney  
General Manager  
Canadian Lawyers Liability Assurance Society  
36 Toronto Street, Suite 510  
Toronto, ON M5C 2C5  
Phone: 416.408.5293  
Fax: 1.855.529.9462

## 2. Overview of CLLAS Operations

CLLAS' core business objective is to meet the professional liability insurance needs of its subscribers.

### Insurance Operations

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

The insurance provided by CLLAS to each of the firms is on a claims-made basis, meaning that a claim first made during the policy period is covered provided that the act, error or omission resulting in a claim happened during the policy period or prior to the policy period (as long as the insured had not given notice to any prior insurer or under any prior insurance, had no prior insurance for the liability arising from such claim and had no reasonable expectation that such act, error or omission was a breach of professional duty or might be the basis for a claim.)

In the fiscal year ending December 31, 2017, CLLAS issued 20 insurance policies to 10 Canadian law firms and also participants on a subscription basis on a number of insurance policies issued to these 10 firms. CLLAS provides a combined maximum limit of liability insurance per occurrence of \$145,475,000 to cover the cost of damages that an insured is legally obligated to pay as a result of single or related



act, error, omission or negligent act in the performance of or failure to perform professional services by the insured or by any person for whose acts, errors, or omissions the insured is legally responsible.

The maximum limit provided by CLLAS on a per-claim basis is provided as follows:

- A \$50,000,000 limit inclusive of a minimum \$25,000 retention over the basic liability coverage available to each practicing lawyer of the firm under the basic professional liability coverage provided by the law society governing the professional activities of such lawyers;
- A limit of \$10,000,000 to \$60,000,000 in excess of \$160,000,000 of the professional liability limit purchased by any firm;
- A 5% participation in the \$30,000,000 in excess of \$50,000,000 layer purchased by any firm;
- A 5% participation in the \$110,000,000 in excess of \$50,000,000 layer purchased by any firm; and
- A \$30,000,000 umbrella limit provided on the overall exposure of all subscribers.

### **Reinsurance**

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

In addition, for its treaty underwriting year from July 1, 2017 to June 30, 2018, CLLAS purchased an annual stop-loss coverage that provides \$10,000,000 of coverage in excess of \$5,000,000. Annual stop-loss coverage limiting CLLAS' overall annual net retained losses in any one treaty year was also purchased in prior treaty years.

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

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

### **Return of Premium during 2017**

CLLAS offers professional liability insurance coverage to a select number of law firms in Canada. Blake, Cassels & Graydon LLP, withdrew from CLLAS on June 30, 2012. CLLAS' Reciprocal Insurance Exchange Agreement obligates it pay to Blakes the amount of declared credits (or alternatively obligates Blakes to pay to CLLAS the amount of declared assessments) based on Blakes' participation in the Society. Any such payment obligation is to be determined and paid subsequent to the fifth anniversary of the date



of the Subscriber's departure. On December 2017, CLLAS has paid a return of premiums of \$1,500,000 to this law firm as recommended by the actuary. Dentons LLP withdrew from CLLAS on June 30, 2017.

### **Operational Results for Fiscal Year 2017**

In 2017, CLLAS generated written premium volumes of \$7,138,000 and \$2,014,000 on gross and net of reinsurance bases respectively. \$5,125,000 of written premium volume was ceded to proportional and aggregate stop loss reinsurers.

CLLAS' net income (loss) was (\$1,321,000) and its net subscribers' equity inclusive of accumulated other comprehensive income was \$11,547,000 at December 31, 2017.

At December 31, 2017, CLLAS held \$19,978,000 in invested assets comprised of cash and fixed-income securities. CLLAS' main liability was its net provision for unpaid claims in the amount of \$7,931,000.

### **3. Operating Environment**

Professional liability losses are subject to significant volatility surrounding the timing, frequency and severity of claims, especially in higher insured layers such as the layer in excess of \$1,000,000. Claims frequency is expected to remain stable but individual claims are expected to trend up faster than inflation at a rate of approximately 5% per year.

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

#### **Reinsurance**

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

#### **Regulatory Environment**

In March 2013, the Superintendent adopted the Office of the Superintendent of Financial Institutions' ("OSFI") guidelines. These are solvency, governance and other supervisory guidelines which were historically only applicable to federally-regulated insurance companies. The Superintendent has flexibility and discretion in the application of these guidelines for reciprocals. CLLAS has been adapting its practices and policies to address the additional regulatory requirements that result from these guidelines.



#### 4. Short-Term Opportunities and Threats

CLLAS' seventh five-year underwriting period has commenced on July 1, 2017. Prior to the inception of the underwriting period, Subscribers had the opportunity to provide notice of withdrawal from CLLAS. Dentons LLP withdrew from CLLAS effective June 30, 2017 due to the international merger that took place a few years ago. CLLAS has received confirmation from all of the other current Subscribers of their commitment to participate in the seventh underwriting period. The effort to grow CLLAS' Subscriber base continues. CLLAS is engaged in discussions with a number of firms with respect to potentially becoming a Subscriber to CLLAS.

Given the loss portfolio transfer at June 30, 2012 and the low net claim retention since July 1, 2012, CLLAS' net exposure is mainly for unallocated loss adjustment expenses. The main threat for CLLAS would be a reinsurer's default on unpaid claims. However, this threat is not considered significant given that CLLAS' reinsurance partners are in sound financial condition and the vast majority of reinsurance is recoverable from reinsurers registered in Canada or secured via a reinsurance security agreement.

#### 5. Short-Term Priorities and Initiatives

During 2018, CLLAS will focus on the following initiatives in addition to the management of its usual insurance operations:

1. Development of a budget and business plan for fiscal year 2018;
2. Review and update of CLLAS' Reciprocal Insurance Exchange Agreement;
3. Consideration of additional cyber insurance protection (likely on a group purchase basis);
4. Determination of expected loss costs and premium rates for the policy year starting July 1, 2018;
5. Negotiation of reinsurance contracts and costs for the policy year starting July 1, 2018;
6. Periodic review of reinsurance concentration and risk;
7. Quarterly valuation of policy liabilities;
8. Interim update to Own risk and solvency assessment ("ORSA") and quarterly risk monitoring;
9. Review and update of its Reinsurance Risk Management Policy.

#### 6. Financial Performance Measures

CLLAS monitors its net income on a quarterly basis, with a focus on the following key elements of financial performance:

- **Claims development:** All open case files are reviewed quarterly and case reserve estimates are adjusted accordingly. The provision for Incurred but not Reported ("IBNR") claims is reviewed quarterly by CLLAS' Appointed Actuary. Claims development is compared against the actuary's prior estimates (i.e. estimates from prior actuarial valuations and estimates of expected loss costs underlying premium rates);



- **Expenses:** Expenses are tracked by category (e.g., financial services, claims administration, actuarial services, reinsurance services, audit services, etc.) and compared quarterly against the expense budget; and
- **Investment income:** Investment returns are compared against benchmarks established per the investment policy.

The quarterly financial statements also report on regulatory solvency indicators as well as key risk metrics intended to monitor risks related to insurance, investments, liquidity and strategy.

Quarterly financial statements are provided to the Advisory Board.

## 7. Financial Condition Measures and Regulatory Solvency Requirements

In accordance with its surplus policy, the level of surplus CLLAS maintains is set such that the reciprocal balances the probability of retroassessment with the efficiency of operating with as little capital as is prudent and appropriate. CLLAS regularly monitors using the following regulatory solvency measures:

### a. Alberta Maintenance of Reserve and Guarantee Funds (“AMRGF”)

This solvency requirement is determined based on premium volume and liabilities net of registered reinsurance. The Superintendent has confirmed that reinsurance with Colchester is considered to be registered as Colchester’s obligations to CLLAS are secured via a reinsurance security agreement.

CLLAS must maintain cash and securities in excess of the regulatory requirement to avoid a retroassessment of its members. At December 31, 2017, CLLAS met this requirement with an excess margin of \$7,750,000.

The AMRGF is shown in Exhibit 3.

### b. Minimum Capital Test (“MCT”)

The Superintendent requires reciprocals to make annual regulatory filings including the MCT. The MCT is a solvency test which has historically applied to incorporated insurance entities. The Superintendent is increasingly looking to apply the MCT standard to reciprocals but has indicated that it has discretion in the application of solvency requirements for reciprocals.

The MCT ratio is calculated as follows:

$$\text{MCT Ratio} = \frac{\text{Capital Available}}{\text{Minimum Capital Required}}$$



The Capital Available is generally equal to the entity's surplus excluding recoverables from unregistered reinsurers not covered by deposits in Canada or letters of credit. Reinsurance recoverable from Colchester is covered by deposits in Canada per a reinsurance security agreement, and therefore is an asset used in the calculation of the Capital Available.

The Minimum Capital Required is a function of the entity's risk profile. The Minimum Capital Required accounts for risks such as the deterioration of asset values, adverse development on unpaid claims or credit risk related to unregistered reinsurance and operational risk.

At December 31, 2017, CLLAS's MCT ratio was 451%. CLLAS' internal target MCT ratio is 210%.

The MCT is shown in Exhibit 4.

## 8. Financial Projections

The expected financial performance over fiscal years 2018 to 2020 is presented in Exhibits 1 to 4 as follows:

- Exhibit 1: Proforma Statement of Financial Position
- Exhibit 2: Proforma Statement of Income
- Exhibit 3: Proforma AMRGF Requirement
- Exhibit 4: Proforma Minimum Capital Test

These projections are based on a starting financial position at December 31, 2017 and were completed in accordance with the directives of the Superintendent issued for the completion of the 2017 P&C-1 Annual Return filed by CLLAS. We present below details of the analysis for the 2018 projection. Similar assumptions were taken to project the results for 2019 and 2020.

### Data

To develop the expected financial performance, we relied on the following information developed by CLLAS at December 31, 2017:

- The 2017 P&C-1 Annual Return and AMRGF worksheet filed by CLLAS with the Alberta Superintendent of Insurance;
- The 2017 Auditor's Report issued by Deloitte LLP;
- The Report on the Valuation of the Policy Liabilities as at December 31, 2017 issued by Ms. Julie-Linda Laforce, the Appointed Actuary for CLLAS; and
- The operating expense budget for 2018 approved by the Advisory Board.

### Projection of Premiums





Net premiums written in 2018 are expected to be \$2,034,000, up from \$2,014,000 in 2017. Renewal premiums were assumed to increase based on a trend of 4.75% in retained loss costs and inflation of 3% on operating expenses. In addition, net premiums reflect an annual surplus distribution of \$750,000, in line with the surplus distribution reflected in the 2017/2018 rates.

### **Projection of Investment Income**

The expected investment income for 2018 is \$373,000 (\$201,000 in 2017). The yield-to-maturity on invested assets at December 31, 2017 was 2.32% gross of investment management expenses and the investment yield gross of investment management expenses was projected at 2.32% for 2018.

### **Projection of Claims**

Claims were projected before and after taking into account reinsurance. These projections assume, to a large extent, that the reinsurance structure in effect at December 31, 2017 is maintained on renewal. Gross and net incurred losses for 2018 were projected in two steps:

#### **a. Settlement of claim liabilities incurred on or prior to December 31, 2017**

Paid claims during 2018 and undiscounted claim liabilities at December 31, 2018 were projected based on the Appointed Actuary's estimates at December 31, 2017 and CLLAS' historical claims settlement patterns. There is no expected gain or loss relative to the actuary's ultimate estimates at December 31, 2017.

In accordance with accepted actuarial practice in Canada, undiscounted claim liabilities were then discounted and a provision for adverse deviation ("PfAD") was added. The assumptions used in the December 31, 2017 actuarial valuation were used. PfADs are assumed to be gradually released as losses are paid.

On a gross of reinsurance basis, CLLAS' expected payments in 2018 are \$15,754,000 and the claim liabilities on a discounted basis including PfAD at December 31, 2018 are expected to be \$88,992,000.

On a net of reinsurance basis, CLLAS' expected payments in 2018 are \$234,000 and the claim liabilities on a discounted basis including PfAD at December 31, 2018 are expected to be \$6,972,000.

#### **b. Projected claims incurred after December 31, 2017 on policies in-force at December 31, 2017 and on policies expected to be renewed on July 1, 2018 under the new 2018/2019 policy year**

Ultimate gross and net incurred claims for those policies were estimated based on the projected loss cost per layer estimated by the Appointed Actuary at December 31, 2017 with a 4.75% loss severity trend. These loss costs were then applied to the estimated in-force lawyers at



December 31, 2017, since no growth at renewal was assumed for the underlying number of insured lawyers.

The expected projected loss costs per layer for the first and second half of 2018 are as listed in the following table.

**Projected Loss Costs by Reinsured Layer for Fiscal Year 2018**

<b>Reinsurance Layers</b>	<b>Estimated loss cost for 1<sup>st</sup> Half of 2018</b>	<b>Estimated loss cost for 2<sup>nd</sup> Half of 2018</b>
\$975,000 xs \$25,000	\$ 115	\$ 120
\$49,000,000 xs \$1,000,000	3,491	3,657
\$30,000,000 xs Umbrella	12	13
\$40,000,000 xs \$160,000,000	30	31
\$60,000,000 xs \$160,000,000	38	40
\$30,000,000 xs \$50,000,000	400	419
\$110,000,000 xs \$50,000,000	660	691

On a gross of reinsurance basis, CLLAS' expected payments in 2018 are \$531,000 and the claim liabilities on a discounted basis including PfAD at December 31, 2018 are expected to be \$13,401,000.

On a net of reinsurance basis, CLLAS' expected payments in 2018 are \$17,000 and the claim liabilities on a discounted basis including PfAD at December 31, 2018 are expected to be \$1,162,000.

**Total Claims**

Total net claim liabilities at December 31, 2018 were estimated at \$8,134,000, which represents an increase of \$203,000 over the December 31, 2017 net claim liabilities of \$7,931,000. Net paid losses were projected at \$251,000 during 2018.

Incurred claims for fiscal year 2018 are estimated at \$454,000 as the sum of net paid claims in the year and the change in net claim liabilities.



The net results of this analysis can be summarized as follows:

#### Summary of Outstanding Claim Liabilities Projections for December 31, 2018

Net Amounts	Occurrences on or prior to Dec. 31, 2017	Occurrences after Dec. 31, 2017	Total
(1) Net Payments during 2018	\$ 234,000	\$ 17,000	\$ 251,000
(2) Net Claim Liabilities at December 31, 2018 *	6,972,000	1,162,000	8,134,000
(3) Net Claim Liabilities at December 31, 2017 *	7,931,000	n/a	7,931,000
(4) Net Incurred Claims in 2018 [(1) + (2) – (3)]	\$ (725,000)	\$ 1,179,000	\$ 454,000

\* Liabilities on a discounted basis including PfAD.

#### Projection of Operating Expenses

Operating expenses are projected at \$1,641,000 for general management fees, \$279,000 for reinsurance fees and \$206,000 for premium taxes. Premium taxes vary by province and are expected to average 2.9% of direct written premiums. A portion of premium taxes is deferred in order for the expense to be recognized as the premium is earned. At December 31, 2018, the deferred policy acquisition cost asset is estimated at \$104,000.

#### Summary of Results

Based on the foregoing assumptions, the underwriting income and investment income for fiscal year 2018 are projected at (\$564,000) and \$373,000 respectively, for a total net negative income of (\$191,000) as shown in Exhibit 2. The surplus at December 31, 2018 is projected at \$11,356,000 as shown in Exhibit 1.

CLLAS is expected to meet the AMRGF requirement with an excess margin of \$7,309,000 at December 31, 2018, as shown in Exhibit 3.

CLLAS' MCT ratio at December 31, 2018 is projected at 446%, a slight decrease over the MCT ratio of 451% at December 31, 2017, as shown in Exhibit 4. The MCT ratio is expected to remain above CLLAS' internal target of 210%.

**Exhibit 1**  
**Canadian Lawyers Liability Assurance Society**

Proforma Statement of Financial Position

	2017 Actual	2018 Projected	2019 Projected	2020 Projected
<b>Assets</b>				
Cash	\$ 3,140,371	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000
Investments				
Short Term	11,745,460	9,448,000	9,441,000	9,421,000
Long Term	5,091,893	5,088,000	5,083,000	5,073,000
Interest Income Due and Accrued	18,532	0	0	0
Premiums Receivable	1,782,634	1,933,000	1,988,000	2,044,000
Unearned Reinsurance Premium Ceded	2,541,253	2,562,000	2,619,000	2,676,000
Prepaid Expenses	139,500	107,000	110,000	114,000
Deferred Policy Acquisition Costs	103,310	104,000	107,000	110,000
Reinsurance and Other Claims Receivable	617,756	800,000	800,000	800,000
Other Receivable	0	0	0	0
Provision for Unpaid Claims and Adjustment Expenses Recoverable from Reinsurers	96,568,000	94,259,000	93,520,000	92,509,000
<b>Total Assets</b>	<b>121,748,709</b>	<b>119,301,000</b>	<b>118,668,000</b>	<b>117,747,000</b>
<b>Liabilities</b>				
Provision for Unpaid Claims and Adjustment Expenses	104,499,000	102,393,000	101,864,000	101,031,000
Premium Deficiency Liability	0	0	0	0
Unearned Premium	3,539,875	3,579,000	3,681,000	3,785,000
Due to Reinsurers	1,649,031	1,327,000	1,357,000	1,386,000
Accounts Payable & Accrued Charges	511,038	617,000	635,000	654,000
Premium Taxes Payable	2,574	29,000	29,000	30,000
<b>Total Liabilities</b>	<b>110,201,518</b>	<b>107,945,000</b>	<b>107,566,000</b>	<b>106,886,000</b>
<b>Subscribers' Equity</b>				
Retained Earnings	11,568,960	11,378,000	11,124,000	10,883,000
Accumulated Other Comprehensive Income (Loss)	(21,769)	(22,000)	(22,000)	(22,000)
<b>Total Subscribers' Equity</b>	<b>11,547,191</b>	<b>11,356,000</b>	<b>11,102,000</b>	<b>10,861,000</b>
<b>Total Liabilities and Subscribers' Equity</b>	<b>121,748,709</b>	<b>119,301,000</b>	<b>118,668,000</b>	<b>117,747,000</b>

**Exhibit 2**  
**Canadian Lawyers Liability Assurance Society**

Proforma Statement of Income

	2017 Actual	2018 Projected	2019 Projected	2020 Projected
<b>Premiums</b>				
Gross Written Premiums	\$ 7,138,422	\$ 7,159,000	\$ 7,362,000	\$ 7,570,000
Less: Reinsurance Ceded	5,124,626	5,125,000	5,237,000	5,353,000
Net Written Premiums	2,013,796	2,034,000	2,125,000	2,217,000
Change in Net Unearned Premiums	80,765	(18,000)	(45,000)	(47,000)
Net Earned Premiums	2,094,561	2,016,000	2,080,000	2,170,000
<b>Incurred Claims</b>				
Net Claims Paid	(191,213)	251,000	296,000	339,000
Change in Net Reserves	1,478,000	203,000	210,000	178,000
Premium Deficiency Expense	0	0	0	0
Net Incurred Claims	1,286,787	454,000	506,000	517,000
<b>Operating Expenses</b>				
Management and Operating Expenses *	1,793,921	1,641,000	1,690,000	1,741,000
Reinsurance Fees	279,000	279,000	287,000	296,000
Premium Taxes	257,531	206,000	211,000	217,000
Total Operating Expenses	2,330,452	2,126,000	2,188,000	2,254,000
<b>Underwriting Gain (Loss)</b>	(1,522,678)	(564,000)	(614,000)	(601,000)
<b>Investment Income</b>	201,419	373,000	360,000	360,000
<b>Other Income</b>	0	0	0	0
<b>Comprehensive Income (Loss) for the year</b>	<b>(1,321,259)</b>	<b>(191,000)</b>	<b>(254,000)</b>	<b>(241,000)</b>
Retained Earnings, Beginning of Period	14,390,228	11,569,000	11,378,000	11,124,000
Distribution in Year**	(1,500,000)	0	0	0
<b>Retained Earnings, End of Period</b>	<b>11,568,968</b>	<b>11,378,000</b>	<b>11,124,000</b>	<b>10,883,000</b>

\* Includes investment management fees

\*\* Refund of premium surplus to Blake, Cassels & Graydon LLP due to withdrawal as of June 30, 2012

**Exhibit 3**  
**Canadian Lawyers Liability Assurance Society**

Proforma Alberta Maintenance of Reserve and Guarantee Fund Requirement

	2017 Actual	2018 Projected	2019 Projected	2020 Projected
<b>Reserve Fund</b>				
(1) Premiums Collected or Credited Having One Year or Less to Run	7,138,000	7,159,000	7,362,000	7,570,000
(2) Less: Amount Paid to Licensed Reinsurers	5,075,000	5,075,000	5,186,000	5,301,000
(3) Premiums Collected With More Than One Year to Run, Less Expired Portion	0	0	0	0
(4) Less: Amount Paid to Reinsurers on Premiums on Line 3, Less Expired Portion	0	0	0	0
(5) Subtotal [(1) - (2) + (3) - (4)]	2,063,000	2,084,000	2,176,000	2,269,000
(6) Reserve Fund Required [50% x (5)]	1,031,500	1,042,000	1,088,000	1,134,500
<b>Guarantee Fund</b>				
(7) Total Liabilities	110,202,000	107,945,000	107,566,000	106,886,000
(8) Less: Unearned Premiums	3,540,000	3,579,000	3,681,000	3,785,000
(9) Less: Recoverable from Licensed Reinsurers *	95,515,000	93,231,000	92,500,000	91,500,000
(10) Plus: Statutory Margin	50,000	50,000	50,000	50,000
(11) Guarantee Fund Required [(7) - (8) - (9) + (10)]	11,197,000	11,185,000	11,435,000	11,651,000
<b>(12) Total Reserve and Guarantee Fund Required [(6) + (11)]</b>	<b>12,228,500</b>	<b>12,227,000</b>	<b>12,523,000</b>	<b>12,785,500</b>
<b>(13) Cash &amp; Approved Securities</b>	<b>19,978,000</b>	<b>19,536,000</b>	<b>19,524,000</b>	<b>19,494,000</b>
<b>(14) Excess of Cash &amp; Securities over Reserve &amp; Guarantee Fund [(13) - (12)]</b>	<b>7,749,500</b>	<b>7,309,000</b>	<b>7,001,000</b>	<b>6,708,500</b>

\* Includes unpaid claims recoverable secured under the reinsurance security agreement with Colchester.

**Exhibit 4**  
**Canadian Lawyers Liability Assurance Society**

Proforma Minimum Capital Test

	2017 Actual	2018 Projected	2019 Projected	2020 Projected
<b>Capital Available</b>				
Total Equity	11,547,000	11,356,000	11,102,000	10,861,000
Less: Deductions from Capital Available	1,082,000	914,000	714,000	581,000
<b>(1) Capital Available</b>	<b>10,465,000</b>	<b>10,442,000</b>	<b>10,388,000</b>	<b>10,280,000</b>
<b>Capital Required</b>				
<b>Insurance Risk</b>				
Premium Liabilities	181,000	183,000	191,000	200,000
Unpaid Claims	1,054,000	1,119,000	1,174,000	1,224,000
Catastrophes	0	0	0	0
Margin Required for Reinsurance Ceded to Unregistered Insurers	162,000	158,000	153,000	147,000
Subtotal	1,397,000	1,460,000	1,518,000	1,571,000
<b>Market Risk</b>				
Interest Rate Risk	198,000	212,000	226,000	238,000
Foreign Exchange Risk	0	0	0	0
Equity Risk	0	0	0	0
Real Estate Risk	0	0	0	0
Other Market Risk Exposures	0	0	0	0
Subtotal	198,000	212,000	226,000	238,000
<b>Credit Risk</b>				
Counterparty Default Risk for Balance Sheet Assets	1,634,000	1,595,000	1,585,000	1,570,000
Counterparty Default Risk for Off-Balance Sheet Exposures	0	0	0	0
Counterparty Default Risk for Unregistered Reinsurance Collateral and SIRs	94,000	92,000	91,000	90,000
Subtotal	1,728,000	1,687,000	1,676,000	1,660,000
<b>Operational Risk</b>				
	588,000	593,000	606,000	618,000
<b>Diversification Credit</b>				
	(433,000)	(442,000)	(452,000)	(460,000)
(2) Total Capital Required at 150% MCT (Prior to Phase-In Adjustment)	3,478,000	3,510,000	3,574,000	3,627,000
(3) Total Capital Required at 100% MCT (Prior to Phase-In Adjustment) [= (2) / 1.5]	2,319,000	2,340,000	2,383,000	2,418,000
(4) Phase-In Adjustment of Capital Required	0	0	0	0
<b>(5) Total Capital Required at 100% MCT (After Phase-In Adjustment) [= (3) + (4)]</b>	<b>2,319,000</b>	<b>2,340,000</b>	<b>2,383,000</b>	<b>2,418,000</b>
<b>(6) MCT Ratio [= (1) / (5)]</b>	<b>451.3%</b>	<b>446.2%</b>	<b>435.9%</b>	<b>425.1%</b>



## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

### Surplus Management Policy

Last Updated  
June 21, 2017





---

## SURPLUS MANAGEMENT POLICY

---

Effective date: June 21, 2017

### 1. Purpose and Scope

CLLAS' surplus management policy sets out the process through which CLLAS proactively manages its surplus position through premium adjustments in order to achieve its surplus target.

The surplus management policy relies on the risk appetite and surplus target set in the Enterprise Risk Management ("ERM") policy and Own Risk and Solvency Assessment ("ORSA"). The purpose of this policy is to document the practices and responsibilities with respect to CLLAS' management of surplus.

This policy is intended to both supplement and complement existing policies and procedures of CLLAS. This policy covers all activities and items that could potentially impact the level of surplus of CLLAS.

### 2. Objectives

The primary purpose of CLLAS is to provide a risk management program, including self-insurance and risk financing, to its Subscribers. Its overriding objective is to fulfill this purpose through cost-efficient and stable premiums, while maintaining a prudent surplus level to meet its obligations.

### 3. Surplus Target

CLLAS' surplus target is a Minimum Capital Test ("MCT") ratio of 210% as adopted in the ORSA.

CLLAS is also subject to the Alberta Maintenance of Reserve and Guarantee Fund ("AMRGF") requirement in the Alberta *Insurance Act*. As part of CLLAS' ORSA, it was determined that the 210% MCT ratio target should be more than adequate to ensure that the AMRGF test is met on an on-going basis, but CLLAS acknowledges that notwithstanding anything in this policy, the Superintendent of Insurance has the authority to require additional surplus contributions forthwith should CLLAS' surplus not meet the AMRGF.



## 4. Surplus Management

CLLAS has adopted the following surplus management plan:

Surplus Level	Action
Below regulatory expectations	Advisory Board to declare a premium assessment to rebuild, at a minimum, to a surplus level meeting regulatory expectations
Between regulatory expectations and surplus target	No action
Above surplus target	Advisory Board to consider and, if appropriate, approve premium credits

The adopted surplus management plan allows for Board discretion and flexibility in determining, with the actuary's input, any premium adjustments within the principles stated above.

## 5. Roles and Responsibilities with Respect to Surplus Management

The Advisory Board is ultimately responsible for overseeing the management of CLLAS' surplus position. The Advisory Board is responsible for the following:

- Confirming this policy annually, and approving any material amendments to it;
- Annually approving premium adjustments, including premium assessments and premium credits; and
- Comprehensively reviewing the surplus target and surplus management policy at least every three years to ensure that it continues to reflect CLLAS' tolerance to risk.

The Office of the General Manager is responsible for the implementation of the Board-approved strategy and overall business performance. In particular, it is responsible for the following:

- Monitoring performance, internal controls and prudent business activities designed to ensure adequate levels of surplus;
- Monitoring the effectiveness of, and compliance with, this policy on an on-going basis;
- Notifying the Advisory Board should the surplus fall below the internal target;
- Notifying the Superintendent of Insurance should the surplus fall below the internal target or below regulatory requirements;
- Periodically performing adequate stress tests on CLLAS' surplus position; and
- Recommending changes to this policy to the Advisory Board.

The actuary is responsible for annually recommending appropriate premium adjustments in accordance with this policy.



## **6. Authority**

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

## **7. History of Modifications**

This policy was first approved by the Advisory Board on June 21, 2017.



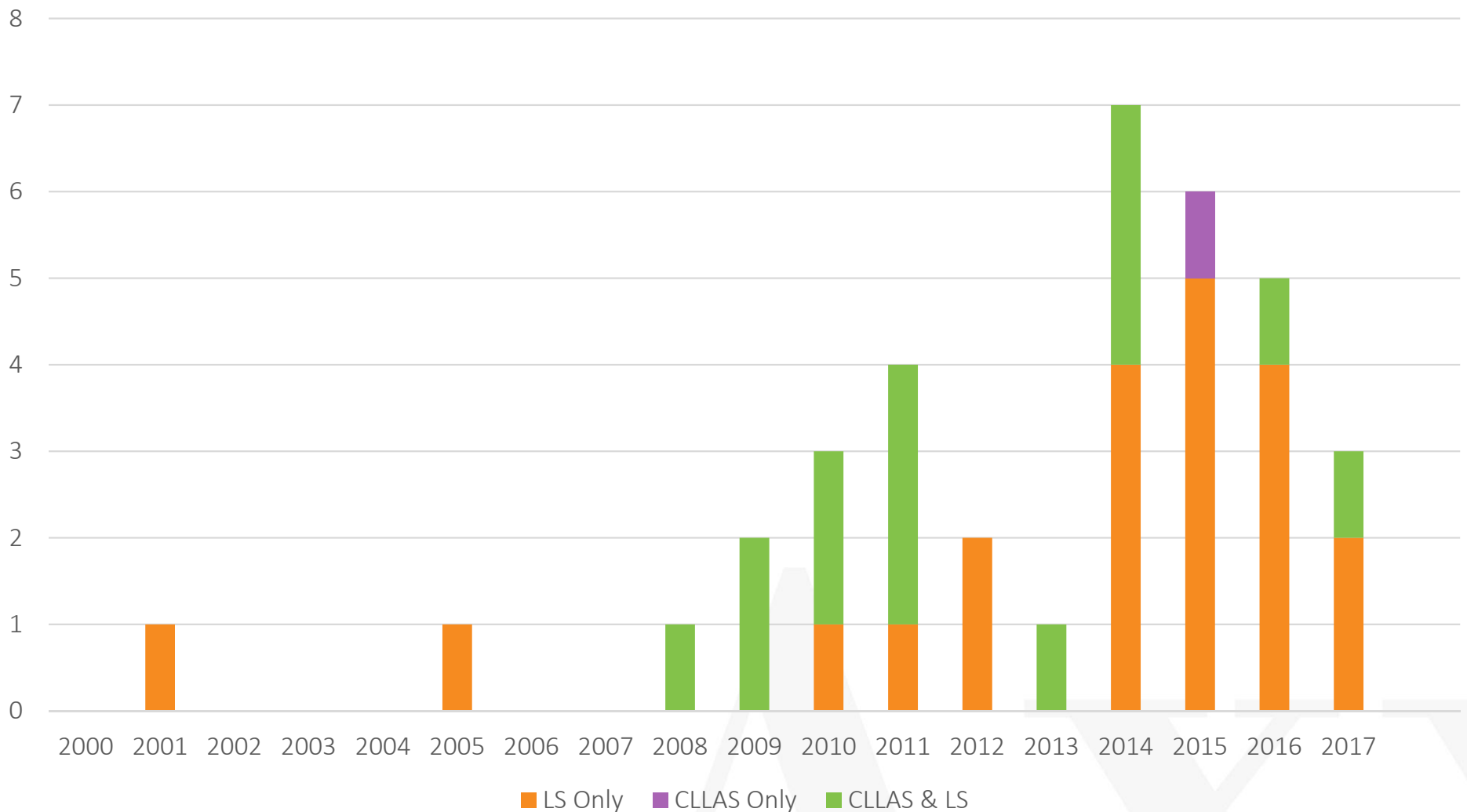
Actuaries & Insurance Management Advisors

CLLAS

Open Large Loss Claims Summary  
As at March 31, 2018

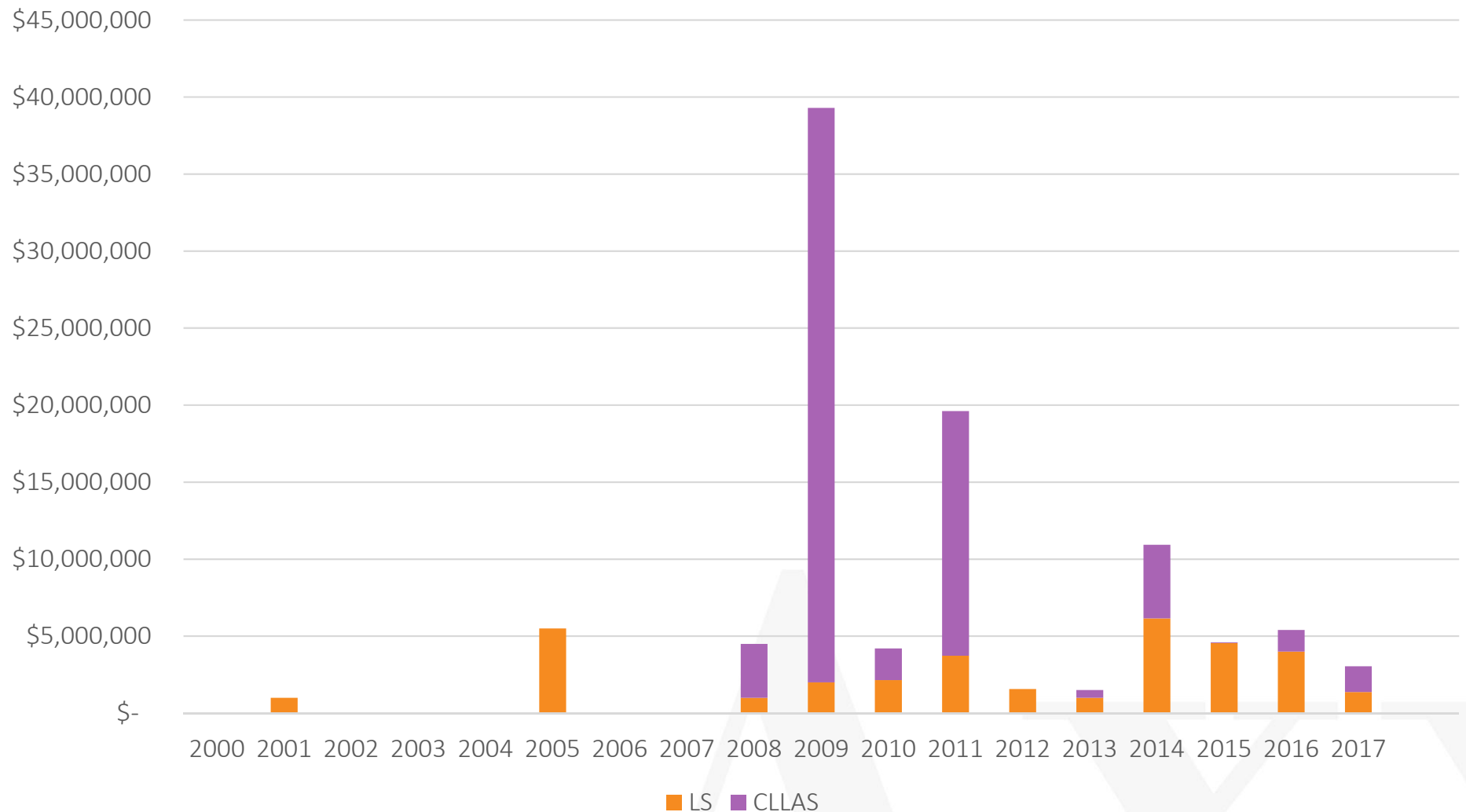
# Open Large Loss Claims

## Number of Claims by Insurer



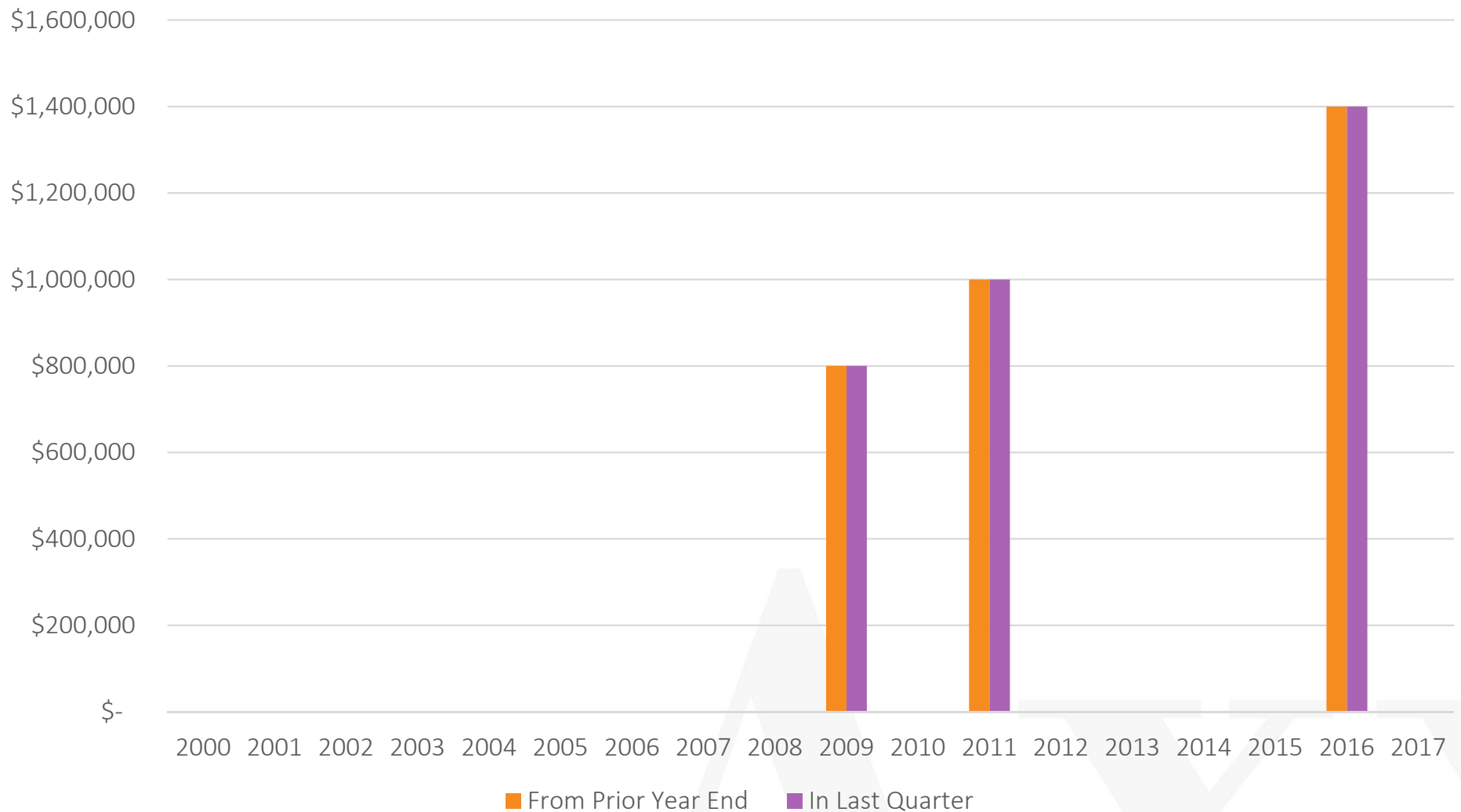
# Open Large Loss Claims

## Incurred Amounts by Insurer



# Open Large Loss Claims

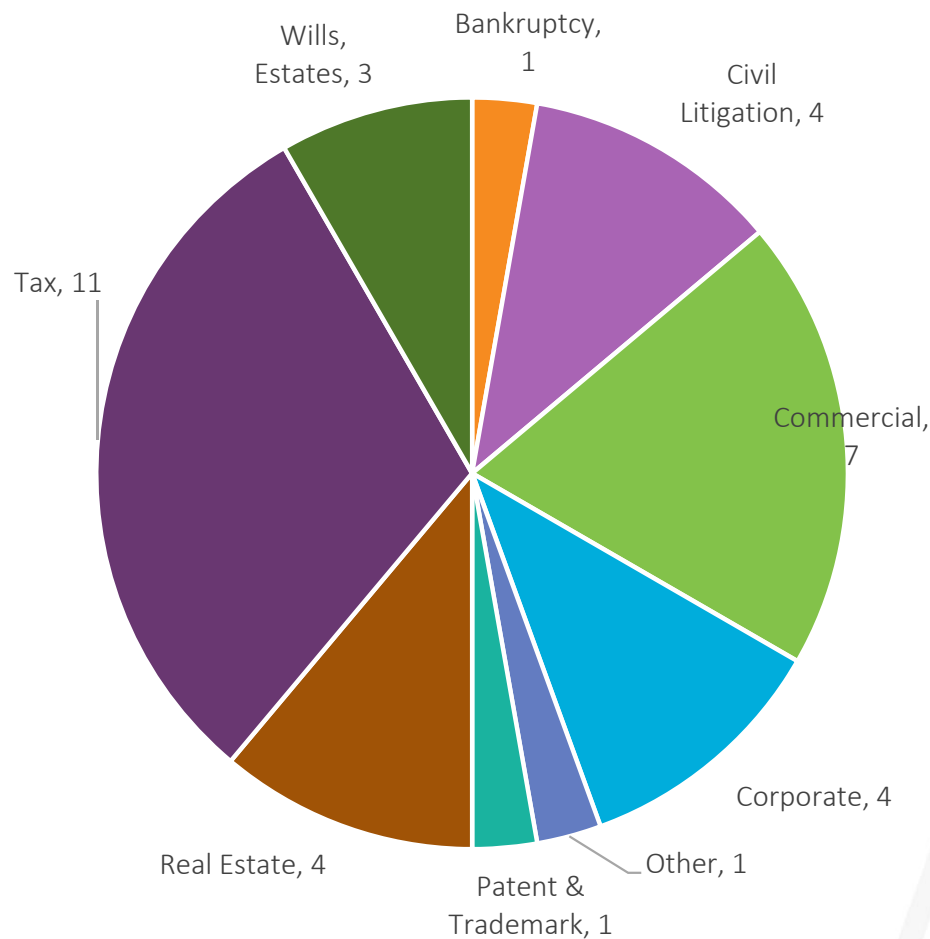
## Change in Incurred Amounts (CLLAS)



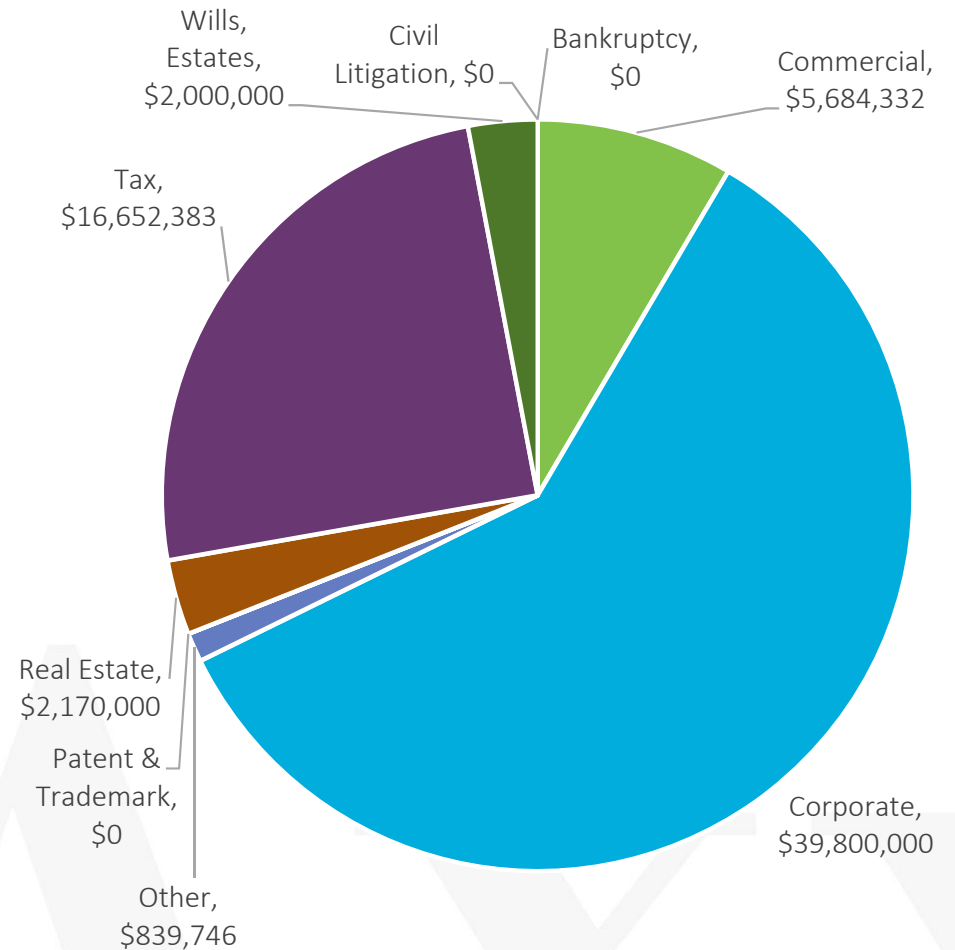
# Open Large Loss Claims

## By Area of Law

Number of Claims (CLLAS & LS)



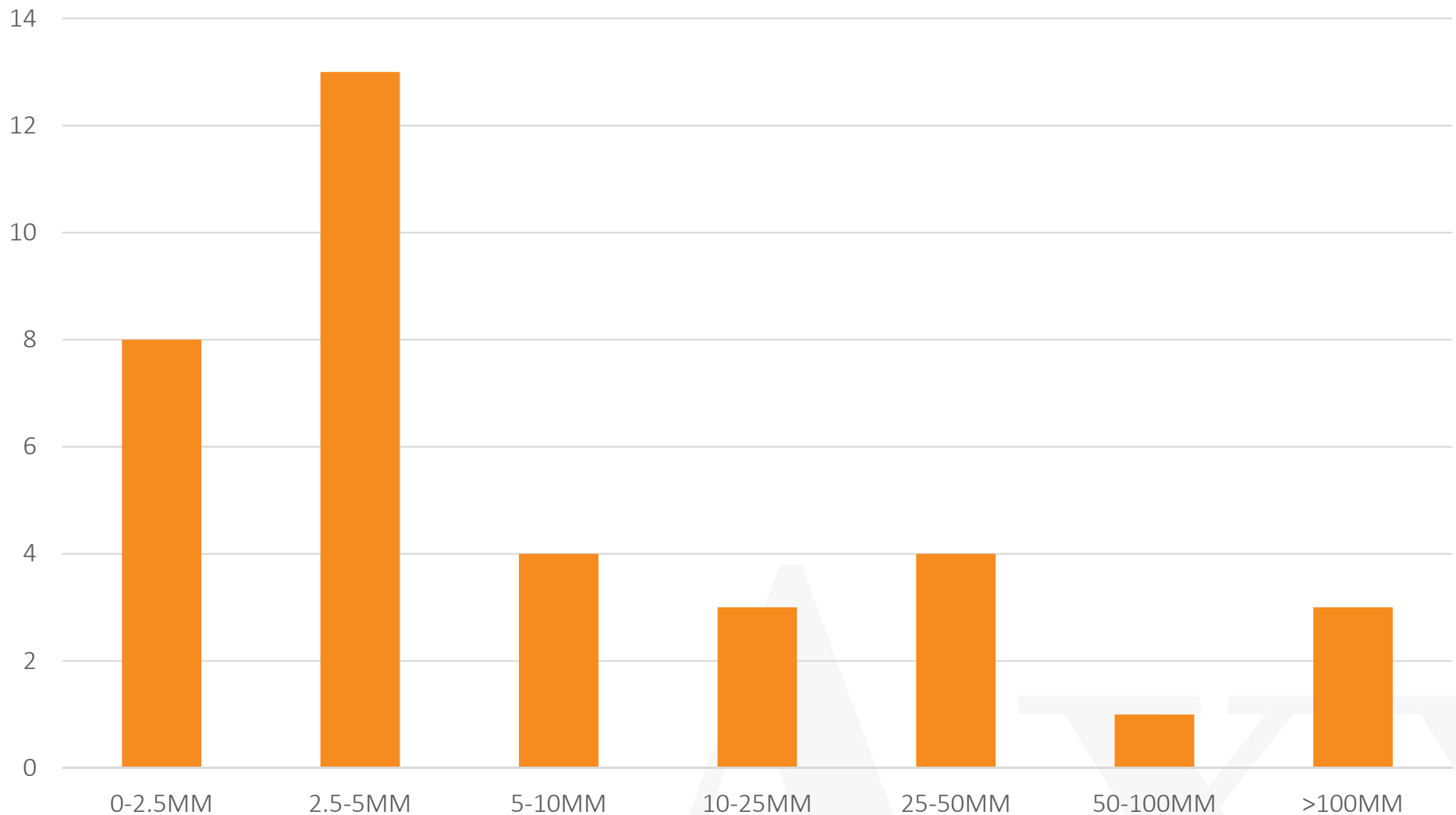
CLLAS Incurred





# Open Large Loss Claims

## Number of Claims by Best Estimate of Worst Case



# Open Large Loss Claims

## Claim Count Movement in Quarter

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

# Notes

## Slide 1

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

## Slide 2

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

## Slide 3

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

# Notes (Cont'd)

## Slide 4

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

## Slide 5

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

## Slide 6

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

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

INVESTMENT REPORT  
MARCH 31, 2018

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

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

Tel.: 416-363-6216  
Fax: 416-363-4538  
e-mail: [info@mlsinvest.com](mailto:info@mlsinvest.com)

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

**COMMENTARY FOR THE QUARTER ENDING MARCH 31, 2018**

**Review of Market Yields**

After moving higher during the first half of the quarter, Canadian bond yields reversed course in mid-February and moved erratically lower for the balance of the period. This downward shift retraced most of the increase experienced earlier. As a result, the yield on all maturities out to 10 years ended the first quarter moderately higher.

As a result of the fairly uniform shift in yields over the quarter, the slope of the yield curve was practically unchanged. At the end of March, the yield advantage of the 10-year issue over the Treasury bill was 99 basis points, compared to 98 basis points three months earlier.

	<b>Jan. 01/95</b>	<b>Sep. 30/17</b>	<b>Dec. /31/17</b>	<b>Mar. /31/18</b>
3-month Treasury Bills	6.80%	1.00%	1.06%	1.10%
5-year Canadas	8.99%	1.75%	1.86%	1.96%
10-year Canadas	9.09%	2.10%	2.04%	2.09%

During the quarter, in the Short Term Investment Fund, two maturities and two sales provided for the \$2 million withdrawal. There was also a transfer of \$55,050 to the Long Term Investment Fund. The balance of activity involved the roll-over of money market securities.

In the Long Term Investment Fund a corporate bond matured and these proceeds combined with the addition from the Short Term Fund were invested in a mid-term corporate issue.

During the first quarter, the market value of the Long Term Investment Fund holdings declined \$28,463 which represents a capital decrease of 0.56%.

At March 31, 2018, the average term to maturity of the Long Term Investment Fund stood at 4.3 years.

The table below shows the distribution of the assets held in both the Short and Long Term Investment Funds at March 31.

<b><i>Distribution at March 31, 2018</i></b>	<b><i>Valuation</i></b>	<b><i>%</i></b>
Short Term Investment Fund	\$9,735,296	65.5%
Long Term Investment Fund	\$5,118,504	34.5%
<b>TOTAL COMBINED VALUATION</b>	<b>\$14,853,800</b>	<b>100.0%</b>

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

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

- Total Returns vs. Benchmarks - Gross and Net of Fees
- Distribution of Securities in the Long Term Investment Fund  
by Credit Risk and by Maturity
- Compliance Statement
- Quarterly Performance Report - Gross of Fees: Long Term Investment Fund
- Bond Market Commentary and Future Policy
- Security Holdings in the Short and Long Term Investment Funds  
Listed and Valued Separately as at March 31, 2018
- Security Purchases and Sales
- Cash Reconciliations
- External Individual Credit Rating Report

**LONG TERM INVESTMENT FUND**

**TIME-WEIGHTED RATES OF TOTAL RETURN  
FOR PERIODS ENDING MARCH 31, 2018**

	3 Years*	2 Years*	1 Year	Last 3 months
<b><i>Long Term Investment Fund – Gross of Fees</i></b>	<b><i>0.82%</i></b>	<b><i>0.45%</i></b>	<b><i>-0.14%</i></b>	<b><i>0.06%</i></b>
<b><i>Long Term Investment Fund – Net of Fees</i></b>	<b><i>0.56%</i></b>	<b><i>0.20%</i></b>	<b><i>-0.35%</i></b>	<b><i>0.06%</i></b>
<b>Benchmark Portfolio **</b>	<b>0.83%</b>	<b>0.49%</b>	<b>-0.40%</b>	<b>0.14%</b>

\*Annualized

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

60% Canada Short Bond Index  
40% Canada Mid Bond Index

**SHORT TERM INVESTMENT FUND**

**TIME-WEIGHTED RATES OF TOTAL RETURN  
FOR PERIODS ENDING MARCH 31, 2018**

	Since Inception Oct. 01/08 *	3 Years*	2 Years *	1 Year	Last 3 Months
<b><i>Short Term Investment Fund – Gross of Fees</i></b>	<b><i>0.78%</i></b>	<b><i>.66%</i></b>	<b><i>.75%</i></b>	<b><i>.91%</i></b>	<b><i>.32%</i></b>
<b><i>Short Term Investment Fund – Net of Fees</i></b>	<b><i>0.65%</i></b>	<b><i>.53%</i></b>	<b><i>.60%</i></b>	<b><i>.73%</i></b>	<b><i>.26%</i></b>
<b>Benchmark Portfolio **</b>	<b>0.73%</b>	<b>.58%</b>	<b>.63%</b>	<b>.77%</b>	<b>.26%</b>

\* Annualized

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



**LONG TERM INVESTMENT FUND**

**DISTRIBUTION OF SECURITIES BY CREDIT RISK**

(Based on Market Values)

	Dec. 17/13	Jun. 30/17	Sep. 30/17	Dec. 31/17	Mar. 31/18
<b>Bonds, Treasury Bills &amp; Cash</b> Less than 1 year term	100.0%	19.2%	15.8%	15.8%	11.8%
<b>Canadas</b> Greater than 1 year term		18.8%	18.7%	18.7%	18.5%
<b>Provincials</b> Greater than 1 year term		32.0%	31.8%	31.9%	31.5%
<b>Corporates</b> Greater than 1 year term		30.0%	33.7%	33.6%	38.2%
<b>TOTAL PORTFOLIO</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**LONG TERM INVESTMENT FUND**

**DISTRIBUTION OF SECURITIES BY MATURITY**

(Based on Market Values)

	Jun. 30/17	Sep. 30/17	Dec. 31/17	Mar. 31/18
Under 1 year	19.2%	15.8%	15.7%	11.8%
1 - 3 years	26.8%	19.9%	19.8%	19.7%
3 - 5 years	22.2%	22.1%	26.0%	28.7%
5 - 7 years	11.1%	18.1%	14.1%	15.9%
7 - 10 years	20.7%	24.1%	24.4%	24.1%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Average Maturity (yrs)</b>	<b>4.06</b>	<b>4.53</b>	<b>4.30</b>	<b>4.31</b>
<b>Average Duration (yrs)</b>	<b>3.75</b>	<b>4.15</b>	<b>3.95</b>	<b>3.96</b>

**SHORT TERM INVESTMENT FUND**

	Jun. 30/17	Sep. 30/17	Dec. 31/17	Mar. 31/18
<b>Short Term</b> <b>Average Duration (yrs)</b>	<b>0.08</b>	<b>0.07</b>	<b>0.10</b>	<b>0.08</b>

## COMPLIANCE WITH INVESTMENT POLICY STATEMENT

AT MARCH 31, 2018

	Investment Limits	Investment Funds	Compliance
<b><i>Short Term Investment Fund</i></b>			
Maximum Term of Any Issue	1 year	0.49 years	Yes
Minimum Percentage of Total Fund (Short & Long)	40% of Total	65.5%	Yes
Minimum Canada & Provincial Percentage	50%	52.0%	Yes
Minimum Provincial Quality	A	N/A	Yes
Minimum Bank CD & BA Quality	R1 (high)	R1 (high)	Yes
<b><i>Long Term Investment Fund</i></b>			
Maximum Term of Any Issue	10 years	8.67 years	Yes
Maximum Percentage of Total Fund (Short & Long)	60% of Total	34.5%	Yes
Minimum Canada Percentage	20%	23.4%	Yes
Maximum Provincial Percentage	40%	38.4%	Yes
Minimum Canada & Provincial Percentage	60%	61.8%	Yes
Minimum Provincial Quality *	A	AA (Low)	Yes
Maximum Corporate Percentage	40%	38.2%	Yes
Minimum Corporate Quality *	A	AA (Low)	Yes

\* At time of purchase

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

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

Martin, Lucas & Seagram Ltd.  
 PERFORMANCE REPORT  
 GROSS OF FEES  
**CLLAS – LONG TERM INVESTMENT FUND**  
*(RBC Investor Services)*  
*From 12-31-17 to 03-31-18*

Portfolio Value on 12-31-17	5,091,917
Accrued Interest	18,533
Contributions	56,111
Withdrawals	-17,931
Realized Gains	-318
Unrealized Gains	-28,145
Interest	16,871
Dividends	0
Change in Accrued Interest	14,923
Portfolio Value on 03-31-18	5,118,504
Accrued Interest	33,456
Average Capital	5,115,424
Total Gains before Fees	3,331
<b>IRR for 0.25 Years</b>	<b>0.07%</b>

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

It has been a tumultuous quarter for the security markets, following a lengthy period of unusually low volatility. After posting solid gains in 2017, global equity markets continued to strengthen in January as investors responded enthusiastically to the passage of the Republican tax plan, which significantly lowered the tax burden on U.S. corporations. Meanwhile, bond prices fell back early in the New Year, after trading in a sideways pattern during the fourth quarter. However, early in February, the prolonged period of relative calm in the markets was abruptly ended by a confluence of factors that led to the biggest weekly drop in global stock prices since 2011 and a sharp uptick in bond yields.

The initial selloff in the stock and bond markets followed a U.S. employment report that was much stronger than anticipated and showed an unexpected uptick in wage inflation which had been largely missing since the recovery began. This heightened concerns that the monetary authorities would need to move more quickly than expected to raise rates in order to address an underestimation of inflationary pressures. In the U.S., 10-year Treasuries reached 2.95%, a two-year high, while the Canada 10-year issue rose to 2.38%, some 100 basis points above the lows recorded last year. While stocks managed to rebound as inflation worries receded, the recovery was not sustained and prices retreated back towards the February lows, with wide swings being recorded in both directions. Bond prices, on the other hand, turned higher as investors sought a refuge from the selloff in stocks. The major catalyst for the latest bout of volatility was the introduction of stiff tariffs on steel and aluminum by the Trump Administration. Since then, tensions on the trade front have quickly escalated, with the U.S. and China proposing tit-for-tat rounds of retaliatory tariffs on an ever widening list of products that include major exports from both countries.

The scale and speed of recent market moves has investors wondering if this is an early warning sign that a significant deterioration in the underlying fundamentals lies ahead, particularly as Trump's trade proposals, if adopted, could disrupt the global recovery. While the pace of economic activity has cooled somewhat in some regions since the start of the year, global economic activity has remained buoyant.

Turning to the domestic economic backdrop, following a strong performance last year, Canada's GDP unexpectedly eased lower in January due to sharp declines in oil production and slower real estate activity. The drag from energy has been attributed to temporary factors and aggregate growth is expected to turn positive for the quarter given ongoing strength in manufacturing, construction and a recent pickup in employment. Nevertheless, first quarter growth is now expected to fall short of the Bank of Canada's forecast of 2.5%. In its most recent statement, the Bank acknowledged that first quarter growth was weaker than expected and held its target rate steady saying that, while inflation is expected to edge higher in the short term, they see it likely returning to the 2% target over the medium term. The Bank also reiterated that, while the outlook is expected to warrant higher rates over time, some continued monetary accommodation will likely be needed and the "Governing Council will remain cautious with respect to future policy adjustments".

A cautious approach seems warranted given the variety of risks overhanging the Canadian economy. These include the vulnerability of overextended household finances to higher rates, the negative impact of new mortgage rules which have triggered a slowdown in real estate activity and the deterioration in the private sector's competitive position following the passage of U.S. tax reform. Given these headwinds, overall growth is expected to slow to just over 2% this year. Meanwhile, heightened uncertainty on the global trade front and the inability to proceed on significant pipeline projects further cloud the outlook. However, on the plus side, the tone of the NAFTA negotiations has recently improved and the parties suggest that an agreement in principle could soon be reached. Nevertheless, significant issues and legislative challenges would remain and the ultimate passage of a new trade pact would likely be delayed for some time yet.

South of the border, the U.S. economy moderated slightly in the final quarter of 2017 to an annualized pace of 2.5%. While softer consumer spending and industrial production in recent months suggest first quarter growth will remain subdued, this was not unexpected given the strength these metrics displayed last year. Looking ahead, the fundamentals for growth in 2018 remain well-supported by a strong labour market, which hit a new record in full-time employment, reduced corporate and personal tax rates, as well as interest rates that remain historically low. However, a strong economic backdrop, together with significant fiscal stimulus from the recently passed Bipartisan Budget Act, also support the case for tighter monetary policy. Indeed, the Federal Reserve went ahead with an expected increase of the fed funds rate last month and has maintained its mean forecast that calls for two additional rate hikes this year.

Looking offshore, the Eurozone experienced strong economic growth last year as an uptick in global trade boosted exports and supported business investment spending. Economic sentiment has now strengthened to its highest level in 17 years and the unemployment rate has dropped further to a 9-year low of 8.5%. Similar to the U.S., recent data suggests that there has been some moderation in consumption and industrial production since the start of this year, albeit from lofty levels. While the European Central Bank (ECB) began winding down its asset purchase program last year, the remaining labour market slack and low inflation rate will likely keep monetary policy accommodative for some time.

Turning to China, consumption and investment activity held strong and government officials now expect the economy to grow at a pace of "around 6.5%" this year. While the degree of leverage remains a concern, stringent administrative measures have so far proven effective in cooling the recent credit expansion. Meanwhile, recent moves by the U.S. have elevated trade policy risks, which may cause a downward shift in sentiment, given the country's historical reliance on trade to drive economic growth. Japan has also displayed ongoing macro-economic strength with manufacturing sentiment trending higher, strong export growth and a rebound in consumption, despite a drop in real wage growth. The Bank of Japan is likely to keep monetary conditions accommodative, despite headline inflation rising, as core inflation results have been weak in recent months. This was confirmed by the Bank's governor who recently stated that it was necessary for the central bank "to continue tenaciously with the current powerful easing for the sake of the economy".

Inclusive global growth, along with the adoption of sweeping tax cuts in the U.S. and upbeat analysts' forecasts for corporate profitability, suggest the global macro backdrop remains sound. However, the recent pivot by the U.S. administration toward protectionist policies has the potential to undercut the positive macro fundamentals. Fortunately, the trade skirmish has been mostly verbal to date and the Trump administration's proposed tariffs must pass a 60-day public comment period, which provides an open window for talks. Both countries have indicated a willingness to negotiate and China's president recently announced plans to expand imports and improve the legal protection of foreign firms' intellectual property. However similar promises have been made in the past with limited effect. If negotiations fail and the proposed tariffs are implemented, the direct costs to both economies are thought to be relatively small. However, given the complex linkages in the global economy, the indirect costs cannot be quantified and the negative impact on both business and investor confidence elevates the risks to the global expansion.

Looking ahead, we believe the markets will continue to be buffeted by elevated uncertainty across a number of fronts. Investors' preoccupation with the daily ebb and flow of news on global trade developments is expected to drive swings in risk-on and risk-off trades, which will fuel volatility in the fixed income markets. Mixed trends in the macro-backdrop further cloud the short term outlook for bond prices. Recent indicators show that growth in Canada and U.S. cooled somewhat during the first quarter and both central banks seem most likely to hold rates steady at their next scheduled meetings. While this alleviates some upside pressure on yields over the very near term, cyclical price pressures are becoming more evident and the monetary authorities have indicated that the gradual pace of rate increases will continue. In light of these factors and our base case expectation that the global expansion will remain on track, we expect bond yields will resume trading in a gradual upward trend. Nevertheless, as mentioned in our previous report, elevated debt levels have increased the economies' sensitivity to higher rates and secular forces from demographics and technology are expected to weigh on cyclical inflationary pressures. As a result, we believe the upside potential for yields is more muted than in previous expansionary cycles.

At this juncture, we think a cautious approach remains warranted and believe it is prudent to maintain the Long Term Fund's laddered maturity structure and duration of just under 4 years. In the period ahead, we will continue to look for favourable opportunities to improve future returns through the expansion of the Long Term Fund and a corresponding reduction in the Short Term Fund.

RWB/de

---

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

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

**Portfolio Holdings at March 31, 2018**

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
<b>CASH</b>					
	Cash Account			781	0
<b>MONEY MARKET ISSUES</b>					
655,000	Bank of Nova Scotia BA 1.444% due April 2, 2018	99.92	99.98	654,890	9,450
655,000	CIBC BA 1.452% due April 16, 2018	99.86	99.92	654,506	9,497
1,800,000	Canada Treasury Bill 1.13% due April 19, 2018	99.74	99.94	1,798,891	20,287
775,000	FirstBank BA 1.449% due April 20, 2018	99.89	99.91	774,285	11,217
860,000	CIBC BA 1.498% due April 26, 2018	99.64	99.88	858,991	12,837
305,000	FirstBank BA 1.474% due April 27, 2018	99.88	99.88	304,629	4,490
1,495,000	Canada Treasury Bill 1.150% due May 3, 2018	99.74	99.90	1,493,438	17,147
815,000	Toronto Dominion Bank BA 1.420% due May 3, 2018	99.77	99.85	813,801	11,546
615,000	CIBC BA 1.439% due May 7, 2018	99.72	99.84	613,988	8,824
1,520,000	Canada Treasury Bill 1.111% due May 17, 2018	99.75	99.85	1,517,778	16,844
250,000	Canada Treasury Bill 1.060% due June 28, 2018	99.72	99.73	249,316	2,643
				<u>9,734,515</u>	<u>124,784</u>
<b>TOTAL PORTFOLIO</b>				<b>9,735,296</b>	<b>124,784</b>

Disclosures:

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

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
**(RBC Investor Services)**  
*From 01-01-18 To 03-31-18*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
<b>PURCHASES</b>					
01-02-18	01-02-18	1,075,000	Toronto Dominion Bank BA 1.361% due March 5, 2018	99.77	1,072,559.75
01-11-18	01-12-18	895,000	Royal Bank BA due February 12, 2018	99.88	893,929.58
01-17-18	01-18-18	465,000	Royal Bank BA 1.470% due March 12, 2018	99.79	464,009.55
01-22-18	01-23-18	1,135,000	Bank of Nova Scotia BDN Dis. Note 1.430% due February 26, 2018	99.87	1,133,490.45
01-24-18	01-25-18	1,800,000	Canada Treasury Bill 1.13% due April 19, 2018	99.74	1,795,330.80
01-26-18	01-29-18	860,000	CIBC BA 1.498% due April 26, 2018	99.64	856,938.40
02-07-18	02-08-18	1,495,000	Canada Treasury Bill 1.150% due May 3, 2018	99.74	1,491,053.20
02-09-18	02-12-18	900,000	Bank of Nova Scotia BA 1.400% due March 12, 2018	99.89	899,034.30
02-20-18	02-21-18	350,000	CIBC BA 1.439% due May 7, 2018	99.71	348,967.50
02-21-18	02-22-18	1,520,000	Canada Treasury Bill 1.111% due May 17, 2018	99.75	1,516,124.00
02-21-18	02-22-18	260,000	Toronto Dominion Bank BA 1.408% due March 1, 2018	99.97	259,929.80
03-02-18	03-05-18	265,000	CIBC BA 1.439% due May 7, 2018	99.74	264,315.77
03-02-18	03-05-18	815,000	Toronto Dominion Bank BA 1.420% due May 3, 2018	99.77	813,133.65
03-09-18	03-12-18	655,000	Bank of Nova Scotia BA 1.444% due April 2, 2018	99.92	654,456.35
03-09-18	03-12-18	655,000	CIBC BA 1.452% due April 16, 2018	99.86	654,089.55
03-22-18	03-23-18	250,000	Canada Treasury Bill 1.060% due June 28, 2018	99.72	249,297.75
03-22-18	03-23-18	775,000	FirstBank BA 1.449% due April 20, 2018	99.89	774,138.98
03-28-18	03-29-18	305,000	FirstBank BA 1.474% due April 27, 2018	99.88	304,643.15
					<b>14,445,442.53</b>
<b>SALES</b>					
01-03-18	01-03-18	1,075,000	Toronto Dominion Bank BA 1.182% due January 3, 2018	100.00	1,075,000.00



Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
**(RBC Investor Services)**  
*From 01-01-18 To 03-31-18*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
01-12-18	01-12-18	895,000	CIBC BA 1.156% due January 12, 2018	100.00	895,000.00
01-18-18	01-18-18	460,000	FirstBank BA 1.217% due January 18, 2018	100.00	460,000.00
01-23-18	01-23-18	1,135,000	Bank of Nova Scotia BA 1.289% due January 23, 2018	100.00	1,135,000.00
01-25-18	01-25-18	1,800,000	Canada Treasury Bill .80% due January 25, 2018	100.00	1,800,000.00
01-29-18	01-29-18	860,000	CIBC BA 1.179% due January 29, 2018	100.00	860,000.00
02-08-18	02-08-18	1,485,000	Canada Treasury Bill 0.82% due February 8, 2018	100.00	1,485,000.00
02-12-18	02-12-18	895,000	Royal Bank BA due February 12, 2018	100.00	895,000.00
02-21-18	02-21-18	350,000	Royal Bank BA 1.288% due February 21, 2018	100.00	350,000.00
02-22-18	02-22-18	1,780,000	Canada Treasury Bill .82% due February 22, 2018	100.00	1,780,000.00
02-26-18	02-26-18	1,135,000	Bank of Nova Scotia BDN Dis. Note 1.430% due February 26, 2018	100.00	1,135,000.00
02-28-18	02-28-18	610,000	CIBC BA 1.25% due February 28, 2018	100.00	610,000.00
03-01-18	03-01-18	260,000	Toronto Dominion Bank BA 1.408% due March 1, 2018	100.00	260,000.00
03-05-18	03-05-18	1,075,000	Toronto Dominion Bank BA 1.361% due March 5, 2018	100.00	1,075,000.00
03-12-18	03-12-18	900,000	Bank of Nova Scotia BA 1.400% due March 12, 2018	100.00	900,000.00
03-12-18	03-12-18	465,000	Royal Bank BA 1.470% due March 12, 2018	100.00	465,000.00
03-22-18	03-22-18	1,010,000	Canada Treasury Bill .99% due March 22, 2018	100.00	1,010,000.00
03-29-18	03-29-18	300,000	Royal Bank BA 1.36% due March 29, 2018	100.00	300,000.00
					<b>16,490,000.00</b>

Martin, Lucas & Seagram Ltd.  
**ESTIMATED REALIZED GAINS AND LOSSES**  
***CLLAS - SHORT TERM INVESTMENT FUND***  
***(RBC Investor Services)***  
*From 01-01-18 Through 03-31-18*

<b>Date</b>	<b>Quantity</b>	<b>Security</b>	<b>Cost Basis</b>	<b>Proceeds</b>	<b>Gain or Loss</b>
-------------	-----------------	-----------------	-----------------------	-----------------	---------------------

Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
**(RBC Investor Services)**  
*From 01-01-18 to 03-31-18*

Cash Balance at December 31, 2017		<u>12,263.52</u>
ADD: Proceeds from Sales	16,490,000.00	
Bond Interest Credited (from Long Term Investment Fund)	16,870.65	
Interest on cash balance	<u>62.34</u>	<u>16,506,932.99</u>
LESS: Capital Withdrawal	-2,000,000.00	
Transfer to Long Term Investment Fund	<u>-55,050.00</u>	<u>-2,055,050.00</u>
LESS: Cost of Purchases	-14,445,442.53	
Q4 2017 Investment Counsel Fees - Short Term Investment Fund	-3,321.68	
Q4 2017 Investment Counsel Fees - Long Term Investment Fund	-3,596.16	
Trust Company Charges	<u>-4,637.91</u>	<u>-14,456,998.28</u>
<b>Cash Balance at March 31, 2018</b>		<b><u><u>7,148.23</u></u></b>
Cash Flow:		
	Q1 2018 Fees Payable (Short Term Fund)	-2,752.02
	Q1 2018 Fees Payable (Long Term Fund)	<u>-3,614.95</u>
		<u>781.26</u>

Martin, Lucas & Seagram Ltd.							
EXTERNAL INDIVIDUAL CREDIT RATING REPORT - MARCH 31, 2018							
CLLAS - SHORT TERM INVESTMENT FUND							
			Unit	Total		Market	%
Quantity	Security	Rating	Cost	Cost	Price	Value	Assets
655,000	Bank of Nova Scotia BA 1.444%	R-1 (high)	99.92	654,456	99.98	654,890	6.7%
	due April 2, 2018						
1,800,000	Canada Treasury Bill 1.13%	R-1 (high)	99.74	1,795,331	99.94	1,798,891	18.5%
	due April 19, 2018						
1,520,000	Canada Treasury Bill 1.111%	R-1 (high)	99.75	1,516,124	99.85	1,517,778	15.6%
	due May 17, 2018						
250,000	Canada Treasury Bill 1.060%	R-1 (high)	99.72	249,298	99.73	249,316	2.6%
	due June 28, 2018						
1,495,000	Canada Treasury Bill 1.150%	R-1 (high)	99.74	1,491,053	99.90	1,493,438	15.3%
	due May 3, 2018						
655,000	CIBC BA 1.452%	R-1 (high)	99.86	654,090	99.92	654,506	6.7%
	due April 16, 2018						
860,000	CIBC BA 1.498%	R-1 (high)	99.64	856,938	99.88	858,991	8.8%
	due April 26, 2018						
615,000	CIBC BA 1.500%	R-1 (high)	99.74	613,283	99.84	613,988	6.3%
	due May 7, 2018						
775,000	FirstBank BA 1.449%	R-1 (high)	99.89	774,139	99.91	774,285	8.0%
	due April 20, 2018						
305,000	FirstBank BA 1.474%	R-1 (high)	99.88	304,643	99.88	304,629	3.1%
	due April 27, 2018						
815,000	Toronto Dominion Bank BA 1.420%	R-1 (high)	99.77	813,134	99.85	813,801	8.4%
	due May 3, 2018						
				9,722,489		9,734,515	100%

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

**Portfolio Holdings at March 31, 2018**

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
<b>GOVERNMENT BONDS</b>					
250,000	Canada Housing Trust 1.75% due June 15, 2018	100.11	100.09	250,218	4,375
250,000	Canada Housing Trust 1.95% due June 15, 2019	100.10	100.25	250,623	4,875
200,000	Canada Housing Trust 2.4% Series 48 due December 15, 2022	100.37	100.60	201,204	4,800
200,000	Canada Housing Trust 2.35% due September 15, 2023	105.62	100.11	200,214	4,700
300,000	Canada Housing Trust Ser. 70 2.25% due December 15, 2025	100.98	98.58	295,752	6,750
				1,198,010	25,500
<b>PROVINCIAL BONDS</b>					
350,000	Ontario 2.1% due September 8, 2018	99.57	100.26	350,914	7,350
250,000	British Columbia 3.25% due December 18, 2021	102.30	103.53	258,820	8,125
250,000	Ontario 3.15% due June 2, 2022	99.04	103.17	257,928	7,875
350,000	Ontario 2.85% due June 2, 2023	103.15	101.96	356,853	9,975
400,000	Ontario 2.60% due June 2, 2025	101.08	99.72	398,884	10,400
350,000	British Columbia 2.3% due June 18, 2026	104.40	97.57	341,499	8,050
				1,964,897	51,775
<b>CORPORATE BONDS</b>					
200,000	Wells Fargo Canada 2.944% due July 25, 2019	100.02	100.88	201,760	5,888
300,000	Bank of Montreal 2.84% due June 4, 2020	101.77	100.85	302,538	8,520
250,000	Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	104.57	100.38	250,948	6,408
200,000	Bank of Montreal 3.4% due April 23, 2021	100.65	102.39	204,772	6,800
150,000	Royal Bank 1.968% due March 2, 2022	100.05	97.39	146,079	2,952
250,000	National Bank of Canada 2.105% due March 18, 2022	102.04	97.94	244,860	5,263

Martin, Lucas & Seagram Ltd.

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

**Portfolio Holdings at March 31, 2018**

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
150,000	Wells Fargo 3.46% due January 24, 2023	102.36	102.60	153,906	5,190
250,000	Toronto Dominion Bank Dep. Note 3.226% due July 24, 2024	102.02	102.34	255,839	8,065
200,000	Bank of Nova Scotia Dep. Notes 2.62% due December 2, 2026	99.23	97.45	194,896	5,240
				1,955,598	54,325
<b>TOTAL PORTFOLIO</b>				<b>5,118,504</b>	<b>131,600</b>

Disclosures:

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

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*(RBC Investor Services)*  
*From 01-01-18 To 03-31-18*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
<b>PURCHASES</b>					
03-09-18	03-13-18	250,000	Toronto Dominion Bank Dep. Note 3.226% due July 24, 2024	102.02	255,050.00
					<b>255,050.00</b>
<b>SALES</b>					
03-12-18	03-12-18	200,000	Royal Bank Dep. Note 2.26% due March 12, 2018	100.00	200,000.00
					<b>200,000.00</b>

Martin, Lucas & Seagram Ltd.  
**ESTIMATED REALIZED GAINS AND LOSSES**  
**CLLAS - LONG TERM INVESTMENT FUND**  
**(RBC Investor Services)**  
*From 01-01-18 Through 03-31-18*

<u>Date</u>	<u>Quantity</u>	<u>Security</u>	<u>Cost Basis</u>	<u>Proceeds</u>	<u>Gain or Loss</u>
03-12-18	200,000	Royal Bank Dep. Note 2.26% due March 12, 2018	198,560.00	200,000.00	1,440.00
TOTAL GAINS					
TOTAL LOSSES					
			<b>198,560.00</b>	<b>200,000.00</b>	<b>1,440.00</b>



Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*From 01-01-18 to 03-31-18*

Cash Balance at December 31, 2017		<u>0.00</u>
ADD: Transfer from Short Term Investment Fund	55,050.00	<u>55,050.00</u>
ADD: Proceeds from Sales	200,000.00	
Bond Interest Credited (to Long Term Investment Fund)	16,870.65	
Transfer to Short Term Investment Fund	<u>-15,810.05</u>	<u>201,060.60</u>
LESS: Cost of Purchases	-255,050.00	
Accrued Interest Debited (from Long Term Investment Fund)	<u>-1,060.60</u>	<u>-256,110.60</u>
<b>Cash Balance at March 31, 2018</b>		<u><u><b>0.00</b></u></u>

Martin, Lucas & Seagram Ltd.									
EXTERNAL INDIVIDUAL CREDIT RATING REPORT - MAR 31, 2018									
CLLAS - LONG TERM INVESTMENT FUND									
					Unit	Total		Market	Pct.
Quantity	CUSIP	Security		Rating	Cost	Cost	Price	Value	Assets
GOVERNMENT BONDS									
250,000	13509PDT7	Canada Housing Trust 1.75%	due June 15, 2018	AAA	100.11	250,275	100.09	250,218	4.9%
250,000	13509PEG4	Canada Housing Trust 1.95%	due June 15, 2019	AAA	100.10	250,238	100.25	250,623	4.9%
200,000	13509PDL4	Canada Housing Trust 2.4% Series 48	due December 15, 2022	AAA	100.37	200,740	100.60	201,204	3.9%
200,000	13509PDV2	Canada Housing Trust 2.35%	due September 15, 2023	AAA	105.62	211,240	100.11	200,214	3.9%
300,000	13509PFD0	Canada Housing Trust Ser. 70 2.25%	due December 15, 2025	AAA	100.98	302,940	98.58	295,752	5.8%
						1,215,433		1,198,011	23.4%
PROVINCIAL BONDS									
350,000	68323ABR4	Ontario 2.1%	due September 8, 2018	AA (low)	99.57	348,495	100.26	350,914	6.9%
250,000	110709BJ0	British Columbia 3.25%	due December 18, 2021	AA (high)	102.30	255,750	103.53	258,820	5.1%
250,000	68323AAW4	Ontario 3.15%	due June 2, 2022	AA (low)	99.04	247,600	103.17	257,928	5.0%
350,000	68323ABN3	Ontario 2.85%	due June 2, 2023	AA (low)	103.15	361,025	101.96	356,853	7.0%
400,000	68323ACX0	Ontario 2.60%	due June 2, 2025	AA (low)	101.08	404,305	99.72	398,884	7.8%
350,000	11070TAJ7	British Columbia 2.3%	due June 18, 2026	AA (high)	104.40	365,400	97.57	341,499	6.7%
						1,982,575		1,964,897	38.4%
CORPORATE BONDS									
300,000	06367VCT0	Bank of Montreal 2.84%	due June 4, 2020	AA	101.77	305,307	100.85	302,538	5.9%
200,000	06367VJN6	Bank of Montreal 3.4%	due April 23, 2021	AA	100.65	201,300	102.39	204,772	4.0%
200,000	064151QE6	Bank of Nova Scotia Dep. Note 2.62%	due December 2, 2026	AA	99.23	198,460	97.45	194,896	3.8%
250,000	633067C27	National Bank of Canada 2.105%	due March 18, 2022	AA (low)	102.04	255,100	97.94	244,860	4.8%
150,000	780086KD5	Royal Bank 1.968%	due Mar 2, 2022	AA	100.05	150,075	97.39	146,079	2.9%
250,000	891145S47	Toronto Dominion Bank Dep. Note 2.563%	due June 24, 2020	AA	104.57	261,425	100.38	250,948	4.9%
250,000	891145T79	Toronto Dominion Bank Dep. Note 3.226%	due July 24, 2024	AA	102.02	255,050	102.34	255,839	5.0%
150,000	94975ZBN5	Wells Fargo 3.46%	due January 24, 2023	AA (low)	102.36	153,542	102.60	153,906	3.0%
200,000	94975ZBM7	Wells Fargo Canada 2.944%	due July 25, 2019	AA (low)	100.02	200,040	100.88	201,760	3.9%
						1,980,299		1,955,597	38.2%
TOTAL PORTFOLIO									
						5,178,306		5,118,504	100.0%

Martin, Lucas & Seagram Ltd.  
**DATE TO DATE GAINS AND LOSSES**  
**CLLAS - LONG TERM INVESTMENT FUND**  
**(RBC Investor Services)**  
*From 12-31-17 to 03-31-18*

Security	12-31-17 Market Value	Additions Withdrawals	03-31-18 Market Value	03-31-18 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
<b>CASH</b>								
Cash Account	0	0	0	0				
<b>GOVERNMENT BONDS</b>								
Canada Housing Trust 1.75% due June 15, 2018	250,538	0	250,218	250,275	0	0	-58	-320
Canada Housing Trust 1.95% due June 15, 2019	250,878	0	250,623	250,238	0	0	385	-255
Canada Housing Trust 2.4% Series 48 due December 15, 2022	202,352	0	201,204	200,740	0	0	464	-1,148
Canada Housing Trust 2.35% due September 15, 2023	201,562	-2,350	200,214	211,240	0	0	-11,026	-1,348
Canada Housing Trust Ser. 70 2.25% due December 15, 2025	297,822	0	295,752	302,940	0	0	-7,188	-2,070
<b>GOVERNMENT BONDS Total</b>	<u>1,203,151</u>		<u>1,198,010</u>	<u>1,215,433</u>	<u>0</u>	<u>0</u>	<u>-17,423</u>	<u>-5,141</u>
<b>PROVINCIAL BONDS</b>								
Ontario 2.1% due September 8, 2018	351,470	-3,675	350,914	348,495	0	0	2,419	-557
British Columbia 3.25% due December 18, 2021	260,843	0	258,820	255,750	0	0	3,070	-2,023
Ontario 3.15% due June 2, 2022	259,995	0	257,928	247,600	0	0	10,328	-2,068
Ontario 2.85% due June 2, 2023	359,489	0	356,853	361,025	0	0	-4,172	-2,636
Ontario 2.60% due June 2, 2025	402,400	0	398,884	404,305	0	0	-5,421	-3,516
British Columbia 2.3% due June 18, 2026	344,204	0	341,499	365,400	0	0	-23,902	-2,706
<b>PROVINCIAL BONDS Total</b>	<u>1,978,400</u>		<u>1,964,897</u>	<u>1,982,575</u>	<u>0</u>	<u>0</u>	<u>-17,679</u>	<u>-13,504</u>
<b>CORPORATE BONDS</b>								
Royal Bank Dep. Note 2.26% due March 12, 2018	200,318	-202,260	0	0	1,440	-318	0	0
Wells Fargo Canada 2.944% due July 25, 2019	202,590	-2,944	201,760	200,040	0	0	1,720	-830
Bank of Montreal 2.84% due June 4, 2020	304,167	0	302,538	305,307	0	0	-2,769	-1,629
Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	251,923	0	250,948	261,425	0	0	-10,478	-975
Bank of Montreal 3.4% due April 23, 2021	206,270	0	204,772	201,300	0	0	3,472	-1,498
Royal Bank 1.968% due March 2, 2022	146,957	-1,476	146,079	150,075	0	0	-3,996	-878
National Bank of Canada 2.105% due March 18, 2022	246,235	-2,631	244,860	255,100	0	0	-10,240	-1,375
Wells Fargo 3.46% due January 24, 2023	155,757	-2,595	153,906	153,542	0	0	365	-1,851
Toronto Dominion Bank Dep. Note 3.226% due July 24, 2024	0	256,111	255,839	255,050	0	0	789	789
Bank of Nova Scotia Dep. Notes 2.62% due December 2, 2026	196,150	0	194,896	198,460	0	0	-3,564	-1,254
<b>CORPORATE BONDS Total</b>	<u>1,910,366</u>		<u>1,955,598</u>	<u>1,980,299</u>	<u>1,440</u>	<u>-318</u>	<u>-24,701</u>	<u>-9,500</u>

Martin, Lucas & Seagram Ltd.  
**DATE TO DATE GAINS AND LOSSES**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*(RBC Investor Services)*  
*From 12-31-17 to 03-31-18*

Security	12-31-17 Market Value	Additions Withdrawals	03-31-18 Market Value	03-31-18 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
<b>TOTAL PORTFOLIO</b>	<b>5,091,917</b>		<b>5,118,504</b>	<b>5,178,306</b>	<b>1,440</b>	<b>-318</b>	<b>-59,802</b>	<b>-28,145</b>
TOTAL DATE TO DATE GAIN OR LOSS								-28,463
<b>% CHANGE DURING PERIOD</b>								<b>-0.56</b>

## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

### COMMITTEES FOR 2018/19

- |    |                        |  |
|----|------------------------|--|
| 1. | <b>Audit*</b>          | Gordon Goodman ( <b>Chair</b> )<br>Carol Lyons<br>Michael Swartz                             |
| 2. | <b>Claims**</b>        | Barry Bresner ( <b>Chair</b> )<br>David Morritt<br>William Scott<br>James Tory<br>John Birch |
| 3. | <b>Policy</b>          | Donald Milner ( <b>Chair</b> )<br>Natasha MacParland<br>Bruce Blain                          |
| 4. | <b>Risk Management</b> | Julia Holland ( <b>Chair</b> )<br>Dan MacDonald<br>Eugene Cipparone<br>Melanie Koszegi       |

\* Members of Audit Committee also serve on the Reinsurance/Insurance Security Committee.

\*\* Members of ad-hoc claims committee to deal with file 2010-059 are Don Milner, Dan MacDonald and Jim Tory

\*\*\* Members of ad-hoc cyber committee are Barry Bresner, Don Milner, Bill Scott

May 29 2018