



ADVISORY BOARD MEETING

Board Member

David Morritt
Robert Love
Mike Swartz
Julia Holland
William Scott

Alternate

Lyndon Barnes
Kate Menear
Paul Wilson
James C. Tory
David E. Woolcombe

Board Member

Donald Milner
Gordon Goodman
Ken Crofoot
Melanie Koszegi
Margaret McNee

Alternate

S. Bruce Blain
John Birch
Eugene Cipparone
Natasha MacParland
TBA

Tuesday, December 10, 2019 at 8:30 a.m.
Goodmans LLP
34th 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 September 10, 2019 Meeting <i>Proposed Resolution: To approve the minutes.</i>	Ken Crofoot	5 mins	3.0
4. Business Arising Out of the Minutes	Ken Crofoot		
5. Comments of Chair	Ken Crofoot	5 mins	



	<u>Responsibility</u>	<u>Est. Time</u>	<u>Tab</u>
6. Market Update and Reinsurance Renewal Planning	Ryan Durrell	10 mins	
7. IFRS17 (Risk Adjustment) <i>(Julie-Linda Laforce will conference into the meeting)</i>	Julie-Linda LaForce	30 mins	7.0
8. Report of the General Manager's Office	Patrick Mahoney	30 mins	
8.1 Management Financial Statements as at September 30, 2019			8.1
8.2 Subscribers Accounts at June 30, 2019			8.2
8.3 Confirmation of Reinsurance Risk Management Policy			8.3
8.4 Confirmation of ORSA – including ERM policy			8.4
<i>Proposed Resolution: To confirm the Reinsurance Risk Management Policy</i>			
<i>Proposed Resolution: To adopt the ORSA Report and approve the ERM policy</i>			
9. Committee Reports		20 mins	
9.1 Audit Committee	Gord Goodman		
9.1.1 Reinsurance Security Update			
9.2 Claims Committee	Bill Scott		9.2
9.3 Risk Management Committee	Julia Holland		
9.4 Policy Committee	Donald Milner		
9.4.1 Outside Counsel Guidelines			
o Client Indemnities			
10. Other Business			
10.1 Quarterly Report of the Investment Manager	Patrick Mahoney	5 mins	10.1
10.2 Investment Policy			10.2
10.3 Annual Dinner – change of date to April 30, 2020	Ken Crofoot		
<i>Proposed Resolution: To confirm the Investment Policy</i>			
11. Next Meeting - Tuesday, February 25, 2020 at 8:30 a.m.			

Anticipated Adjournment Time: 10:45 a.m.

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

Minutes of a Meeting of the Advisory Board

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

Tuesday, September 10, 2019

Present:

Ken Crofoot (Chair)	Goodmans LLP
Robert Love	Borden Ladner Gervais LLP
Gordon Goodman	Cassels Brock & Blackwell LLP
Donald Milner (via phone)	Fasken Martineau DuMoulin LLP
Bill Scott	McCarthy Tétrault
Margaret McNee (via phone)	McMillan LLP
Julia Holland	Torys LLP
Patrick Mahoney	Office of the General Manager, CLLAS
Norma Ibbetson	Office of the General Manager, CLLAS

Absent:

David Morritt	Osler, Hoskin & Harcourt LLP
Melanie M. Koszegi	Davies Ward Phillips & Vineberg LLP
Mike Swartz	WeirFoulds LLP

1. Constitution of Meeting

The Chair brought the meeting to order.

2. Appointment of Secretary

Norma Ibbetson acted as Secretary.

3. Approval of Minutes of the June 25, 2019 Meeting of the Advisory Board

It was moved by Gordon Goodman and seconded by Bill Scott that the minutes of the June 25, 2019 meeting of the Advisory Board be approved. The motion was carried unanimously.

4. Business Arising Out of the Minutes

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

5. Comments of the Chair

David Woollcombe has agreed to join the Risk Management Committee.

No additional comments of the Chair.

6. Reinsurance Renewal – Final Report/ Associate Firm Update

Patrick Mahoney reviewed the final terms of the July 1, 2019 reinsurance renewal with the Board, including the memorandum of September 3, 2019 that was in the Board package. As indicated at the June Board meeting, the primary objective for the July 1 renewal was to achieve the best renewal terms possible given the current market conditions. This was done.

Due to the hardening market, especially at Lloyd's, we lost two syndicates from the program – this resulted in a reduced Lloyd's participation on reinsurance layer 1. We also lost some of the support from Swiss Re on layer 4 resulting in an increase in Lloyd's participation in this layer over last year. The premium per non-Quebec lawyers for the \$49MM xs \$1 MM layer (including the drop-down piece) at July 1, 2019 was \$2,327, a 20% increase from last year as approved by the Board at the June Board meeting. While the reinsurance rates for this layer went up 17%, it was agreed that the premium should be increased by 20% to continue to permit utilizing the surplus as required over time to smooth out premium fluctuations. The structure of the program is unchanged from last year.

There were no policy wording changes.

Market conditions for next year's renewal will be driven primarily by three factors: the status of Lloyd's efforts to address its issues through the business plan reviews and approvals, reinsurance rates Lloyd's syndicates and other insurers are able to obtain at January 1, 2020, and the state of domestic (i.e. non-Lloyd's/London markets). Barring any further negative claims development CLLAS should be well posed to remain competitive.

Miller Insurance

Patrick Mahoney spoke to the Board about the upcoming move for the CLLAS London team specifically Mark Popple, Graeme Lynch, Melanie Mode and Milly Gray from their current home at Miller to a new brokerage, Bretton Woods,. A few years ago, Miller was acquired by Willis, a large brokerage firm which shortly thereafter merged with Towers Watson. Much of the "back office" administrative work has been insourced to a Willis facility in Ipswich and this has created difficulties in processing administrative tasks like collection on claim payments.

Axxima has vetted the new brokerage and believes that this change in Lloyds brokerage will not be an impediment to CLLAS' business and may in fact be of assistance. Bretton Woods is in discussions with Miller and it is expected that a deal will be concluded in the immediate future. A services agreement with Bretton Woods will be signed once the deal is completed.

7. Report of the General Manager's Office

Financial Statements for the Period Ending June 30, 2019

Mr. Mahoney presented CLLAS' financial management report as at June 30, 2019.

As shown on Exhibit II, CLLAS experienced an underwriting gain (premiums minus claims and expenses) for the first six months of the year of \$23,765. After taking into account investment income (including unrealized losses arising during the period) the gain was increased to \$356,620. The Budget Variance (Exhibit IV) shows that expenses for the year are tracking under budget at roughly 10% with Axxima fees well under their budget lines.

At June 30, 2019, CLLAS had surplus of slightly under \$12.6 million. At June 30, 2019, CLLAS had cash and approved securities well in excess of the minimum AMRGF requirement mandated by Alberta insurance law. CLLAS' MCT ratio at the same date was estimated to be 690%. The considerable increase over recent results are attributable to the reduction in gross case reserves resulting from recent clam file settlements.

There was some discussion about the delay in implementation of IFRS 17 and its impact on the budget. CLLAS' management continues to file updates with the regulators and there will be a further education session for the Audit Committee. The impact on management fees will be concentrated in the year prior to the effective date of IFRS 17 given the need to produce the financials on the old and new basis.

ORSA Update

Steps to complete ORSA for 2019 were included in the June Board meeting material. CLLAS adopted its first Own Risk and Solvency Assessment (ORSA) in February 2016. At that time, a series of metrics to monitor material risks were adopted. These metrics have since been presented in an exhibit attached to the management financial statement which are presented to the Board on a quarterly basis.

As CLLAS is currently undergoing its second ORSA, we have reviewed the current risk metrics exhibit and in the September 3, 2019 Board memorandum have proposed a number of modifications aimed at enhancing the usefulness of the report to the Audit Committee and Board. An updated report will be presented, and the Board will be asked to adopt the new ORSA at their December Board meeting.

Management proposes to implement the new metrics, on the basis that they can be reviewed and refined in the future as feedback warrants.

Overview of CLLAS Governance Policies

Included in the Board package was a summary of the governance policies adopted over the past few years including the status of these policies together with the anticipated dates for on-going review and approval.

8. Committee Reports

Report of the Audit Committee

There was no report of the Audit Committee

Report of the Claims Committee

Bill Scott reported to the Board. The Committee had met since the last meeting and there are no active claims requiring immediate attention. Included in the material are some charts summarizing CLLAS' claims activity at June 30, 2019.

Report of the Risk Management Committee

Julia Holland reported to the Board. John Walker is reviewing the questions in advance of re-audits of the firms and will be meeting with the Committee sometime in October. It is anticipated some audits will be well underway in advance of the Spring CLLAS reinsurance renewal.

Report of the Policy Committee

Donald Milner reported to the Board. No new issues at the time under consideration by the Committee but Mr. Milner tabled a question with respect to a Social Engineering coverage and the limits of \$250,000/\$500,000 under the cyber policy. All of the firms have a sub-limit under the cyber policy. Third party coverage is available under the CLLAS policy. Some coverage may be available under a firm's crime policy. Axxima is currently looking at availability for additional limits for Social Engineering claims at the request of a CLLAS firm and the Board as asked for that discussion to be shared with all the CLLAS firms when available. Firms also expressed interest in the claims protocol being drafted in the event more than one policy would respond to a claim and how that would work.

9. Other Business

Quarterly Report of the Investment Manager

This is an information item for the Board.

Annual Dinner

The annual dinner will be held on Thursday, April 23, 2020. Location to be advised.

There was no further business.

10. Proposed Meeting Dates in 2019

- Tuesday, February 25, 2020
- Tuesday, June 23, 2020
- Tuesday, September 22, 2020
- Tuesday, December 8, 2020

Date of the AGM is to be advised.

11. Next Meeting

The next regularly scheduled meeting of the Board will be on December 10, 2019.

There being no further business, the meeting was terminated.

Chairman

Secretary



Actuaries & Insurance Management Advisors

Canadian Lawyers Liability Assurance Society

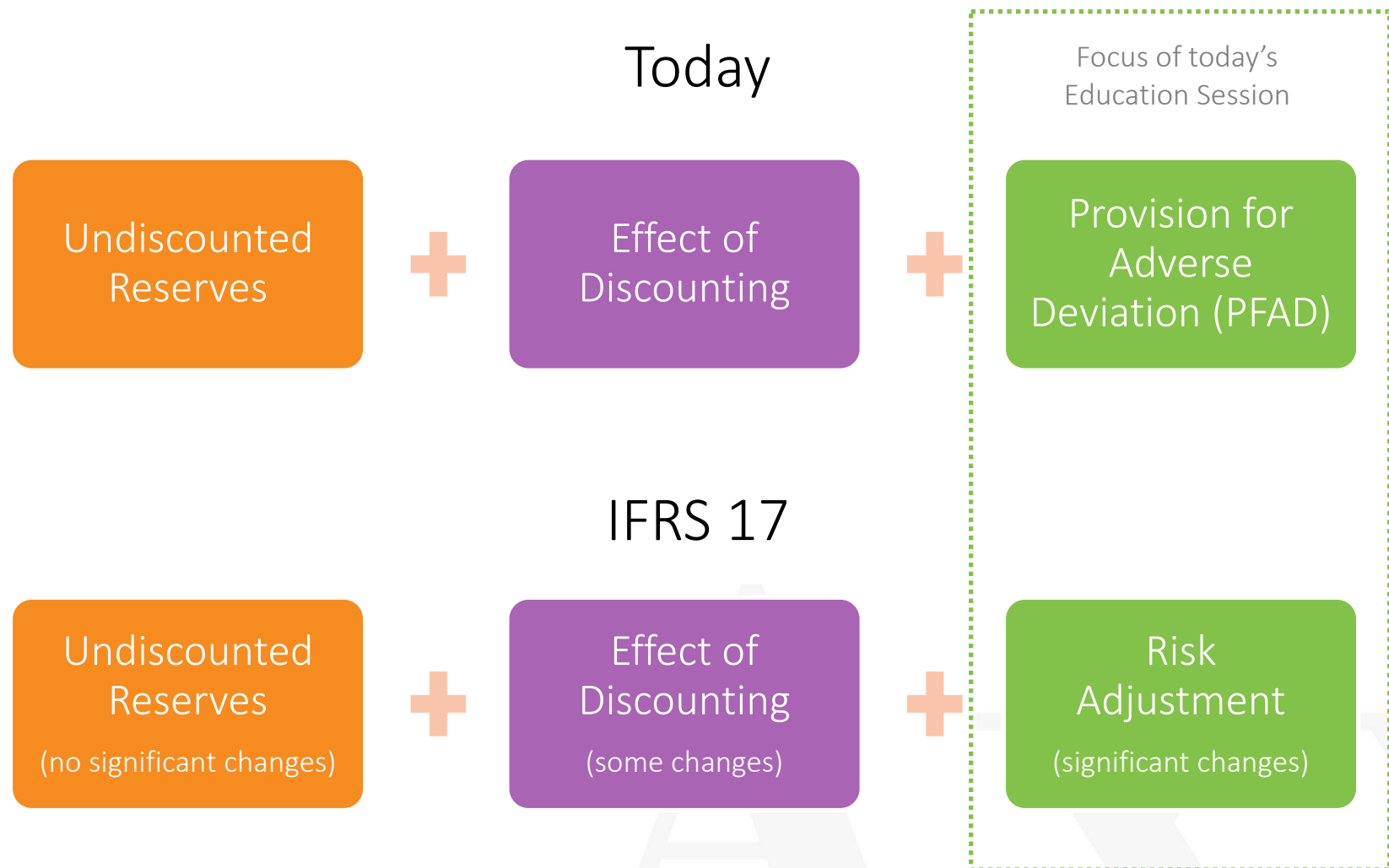
IFRS 17 Education Session #2 (abridged)— Risk Adjustment

December 10, 2019

Background – IFRS 17

- New financial reporting standard for insurance and reinsurance contracts (i.e. premiums and claims) effective Jan 1, 2022
- Significant changes to financial statements
 - Changes in terminology
 - Changes in presentation
 - Changes in measurement
 - Extensive disclosures
- IFRS 17 implementation requires Board involvement for several accounting policy decisions
- Standard is not final yet and changes or deferrals are still a possibility

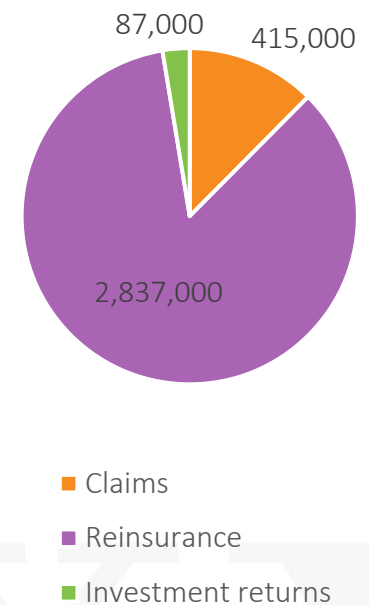
Background – Insurance Liabilities



PFAD vs. Risk Adjustment

- The IFRS 17 risk adjustment will conceptually replace the PFAD

Today	IFRS 17
PFAD for claims (\$415,000)	Will be replaced by the risk adjustment and <u>will be determined by the Board</u>
PFAD for reinsurance (\$2,837,000)	No longer an explicit provision added to the liabilities (will be implicitly included in actuary's valuation)
PFAD for investment returns (\$87,000)	



Risk Adjustment

- It is based on the Board's view, no longer on the actuary's view
- It represents the compensation the CLLAS requires for bearing the uncertainty about the amount and timing of the cash flows
- The actuary will be responsible for applying the Board's decision to the liabilities which will appear in the financial statements

Impact of Risk Adjustment

- Example with December 31, 2018 Liabilities:

Balance Sheet ¹ (in \$'000s)	Actual (10% PFAD)	6% Risk Adjustment	3% Risk Adjustment	0% Risk Adjustment
Assets	25,757	25,757	25,757	25,757
Liabilities				
Unpaid claims	7,074	7,220 ³	7,220	7,220
PFAD ² / Risk adj.	415	433	217	0
Other liabilities	5,935	5,935	5,935	5,935
Total	13,424	13,588	13,372	13,155
Equity	12,334	12,169	12,386	12,602

1 Simplified IFRS 17 presentation showing net unpaid claims, and assuming the PAA simplified approach for unearned premiums.

2 PFAD for adverse claims development reflected in PFAD line; other PFAD included in unpaid claims.

3 Lower discount rate expected under IFRS 17, which will increase unpaid claims.

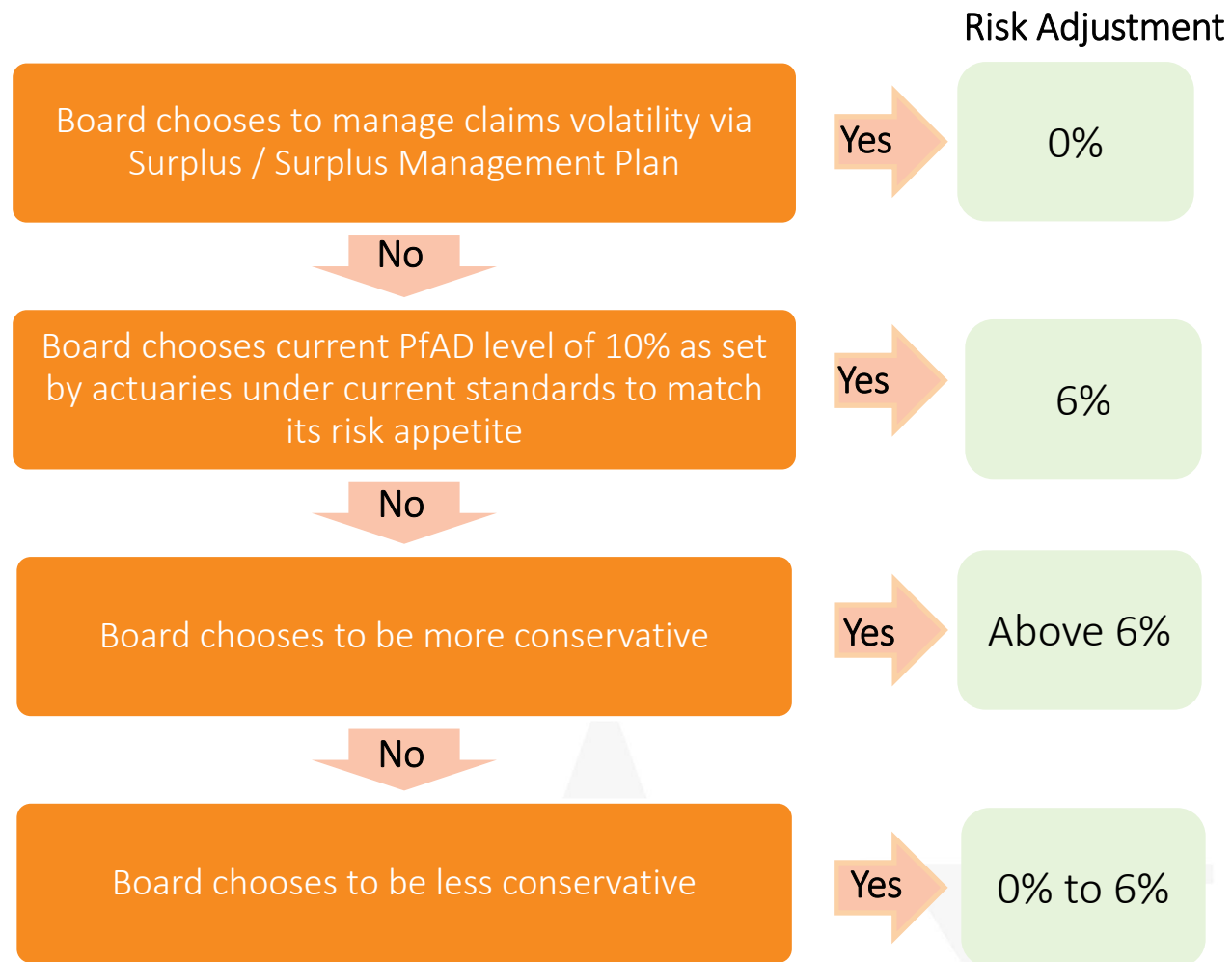
Estimated Probability

December 31, 2018	Option A	Option B	Option C	Rating Policy **
Risk adjustment (%)	6%	3%	0%	Less than 0%
Risk adjustment (in \$'000s)	433	217	0	Less than 0
Estimated confidence level*	65% to 70%	60% to 65%	50% to 60%	Lower than 50%

* Preliminary estimate – modelling will need to be completed by actuary

** Contingency margin of 0% per Rate Setting policy and frequent surplus distributions

Proposed Board Decision Process



Key Takeaways

- The overall risk adjustment will be determined by the Board
- The actuary will apply the risk adjustment to the liabilities
- To maintain the status quo, the CLLAS would need to adopt a 6% risk adjustment
- CLLAS, as a reciprocal, can adopt a 0% risk adjustment
- If risk appetite remains the same, a reduction or increase in risk adjustment from the current level of PFAD should trigger a revision of the internal target and capital plan, if deemed material
- The level of confidence adopted by the Board will be disclosed in the financial notes



Discussion



MEMORANDUM

DATE: November 15, 2019
TO: CLLAS Advisory Board
FROM: Patrick Mahoney
COPY:
RE: September 30, 2019 Financial Management Report

CLLAS' financial management report for the six months ended September 30, 2019 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 \$1.2 million for the first nine months, with a total comprehensive gain (after taking into account realized and unrealized gains/losses on the investment portfolio) for the period of \$1.35 million. Notwithstanding the posting of a reserve on a drop-down claim, claims development over the period has been favourable.

As shown on Exhibit I, CLLAS' surplus at September 30, 2019 stood at just under \$13.7 million.

The Budget Variance (Exhibit IV) shows that expenses were about \$143,000, or 8.3%, under budget for the first nine months. Axxima fees are well under budget and no costs have been incurred to date on the special services (typically attributable to the retention of external legal counsel) or risk management lines.

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 the year-end results for 2017 and 2018, and the September 30, 2019 result, against risk targets and risk limits. Most of the metrics at September 30, 2019 are within CLLAS' risk targets. Those that exceed the targets are discussed below.



- Line 4: As has been discussed as part of CLLAS' Reinsurance Security Report, a couple of CLLAS reinsurers have A- ratings with AM Best and/or S&P.
- Line 5: Again as noted as part of CLLAS' Reinsurance Security Report, the Argo Syndicate (Lloyds) reinsures 19.6% of CLLAS' total liabilities. This is an increase from the previous year's number of 12.7% and exceeds CLLAS' risk limit. The increase is not due to an increase in Argo's participation and in fact the dollar value of CLLAS' liabilities with Argo has reduced from \$12.6 million to \$11.6 million. The reason for the increase in percentage terms is the overall reduction in CLLAS' total liabilities due to the closing of some significant claims over the past year. Still, this is a situation that bears monitoring and appropriate moves to continue diversifying CLLAS' reinsurance support should be made when market conditions permit.
- Line 10a: CLLAS exceeds its risk target for its exposure to a Schedule I bank. This is not a concern.
- Line 12: CLLAS exceeded its target in turnover of key advisors due to the change in lead audit partner for the 2019 year-end. The lead audit partner changed again in the first quarter of 2019, although the new lead has been involved in the CLLAS audit in the past, so no issues are anticipated. The list of key advisors is shown in note (12). As previously indicated, the way this risk metric is defined makes it somewhat difficult to assess and this is being addressed as part of the ORSA process currently underway.
- Line 13: The key regulatory solvency test that CLLAS is required to comply with is known as AMRGF. Details of this calculation are shown in Exhibit VI, with the result summarized in Exhibit V. CLLAS must maintain "cash and approved securities" in excess of the reserve fund plus the guarantee fund required by the Alberta regulator. Exhibit VI shows that the CLLAS held cash and approved securities well in excess of the AMRGF requirement at September 30, 2019.
- Line 14: CLLAS also monitors its Minimum Capital Test ratio. At September 30, 2019, CLLAS' MCT ratio was 669%. This is an increase over recent results and is attributable to the reduction in gross case reserves resulting from recent claim file settlements. The result is well above CLLAS' internal target of 210%. 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 statements or the risk metrics.

Sincerely,

Patrick Mahoney, General Manager

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

FINANCIAL MANAGEMENT REPORT

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

QUARTERLY FINANCIAL MANAGEMENT REPORT

September 30, 2019

CONTENTS

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

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF FINANCIAL POSITION
September 30, 2019

	As at September 30, 2019	As at September 30, 2018
ASSETS		
Cash	8,864,056	6,436,447
Short term investments	7,253,877	8,994,047
Bonds	6,067,961	5,052,584
Interest income due and accrued	43,811	37,150
Premium receivable	4,639,230	3,635,432
Prepaid expenses	216,288	210,577
Deferred policy acquisition costs	201,201	159,873
Unearned reinsurance premium ceded	5,459,715	4,126,706
Reinsurance recoverable	214,744	471,588
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	55,510,000	93,898,566
	<u>88,470,883</u>	<u>123,022,970</u>
LIABILITIES		
Accounts payable & accrued charges	418,365	185,451
Premium taxes payable	144,689	93,403
Unearned premium	6,953,598	5,527,752
Due to reinsurers	4,702,429	3,726,284
Provision for unpaid claims and adjustment expenses	62,564,000	101,677,722
	<u>74,783,081</u>	<u>111,210,612</u>
SUBSCRIBERS' EQUITY		
Surplus	13,577,583	11,921,813
Accumulated Other Comprehensive Income (Loss)	110,219	(109,455)
	<u>13,687,802</u>	<u>11,812,358</u>
	<u>88,470,883</u>	<u>123,022,970</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF COMPREHENSIVE INCOME
For the Period Ending September 30, 2019

	Current Year		Prior Year	
	Quarter September 30, 2019	Year to Date September 30, 2019	Quarter September 30, 2018	Year to Date September 30, 2018
Written Premium	9,288,383	9,288,383	7,390,585	7,390,585
Gross Written Premiums	9,288,383	9,288,383	7,390,585	7,390,585
Less: Reinsurance Ceded	7,292,904	7,292,904	5,517,391	5,517,391
Net Written Premiums	1,995,479	1,995,479	1,873,194	1,873,194
Change in Unearned Premiums	(1,493,883)	(564,985)	(1,401,046)	(402,424)
Earned Premiums	501,596	1,430,495	472,147	1,470,770
Claims Paid	(1,146,107)	(645,901)	(56,208)	(168,207)
Change in IBNR	(44,000)	(219,000)	(178,000)	(128,000)
Change in Case Reserve	347,000	(216,000)	(2,844)	(23,844)
Incurred Claims	(843,107)	(1,080,901)	(237,052)	(320,051)
Management and operating expenses	292,925	1,189,771	309,198	1,289,772
Reinsurance fees	71,875	211,375	69,750	209,250
Premium taxes	67,067	173,649	53,291	156,601
Total Operating Expenses	431,867	1,574,795	432,240	1,655,623
Underwriting Gain (Loss)	912,835	936,600	276,960	135,197
Investment Income	97,608	273,237	80,958	217,655
NET GAIN/(LOSS)	<u>1,010,444</u>	<u>1,209,837</u>	<u>357,919</u>	<u>352,852</u>
Other comprehensive income (loss)				
Unrealized gains (losses) on available for sale financial assets arising during the year	(12,417)	144,809	(47,356)	(87,687)
Other comprehensive income (loss) for the year	(12,417)	144,809	(47,356)	(87,687)
Total comprehensive income (loss)	<u>998,026</u>	<u>1,354,646</u>	<u>310,563</u>	<u>265,165</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF CHANGES IN EQUITY
September 30, 2019

	Minimum Surplus	Additional Surplus	Unrealized gains and losses on AFS financial assets	Total Equity
Balance, beginning of year	50,000	12,317,745	(34,590)	12,333,155
Prior year adjustment		-		-
Comprehensive income (loss) for the year				
Net gain (loss) for the year		1,209,837		1,209,837
Other comprehensive income (loss)				
Change in unrealized gain on available-for-sale assets			144,809	144,809
Total comprehensive income (loss) for the year		1,209,837	144,808	1,354,646
Distribution of premium surplus		-		-
Balance at September 30, 2019	50,000	13,527,583	110,219	13,687,801

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS
FOR THE PERIOD ENDED September 30, 2019

	Annual Budget	Year to Date Budget %	Year to Date Budget \$	Year to Date Actual \$	Fav/(Unfav) Variance \$
MANAGEMENT SERVICES* (See Note 1)	501,500	75%	376,125	357,028	19,097
PROFESSIONAL SERVICES					
Actuarial Services	90,000	79%	71,100	83,996	(12,896)
Reinsurance Matters	300,000	79%	237,000	214,336	22,664
Strategic Matters	160,000	79%	126,400	58,571	67,829
Sub-Total Professional Services	550,000		434,500	356,904	77,596
GST/HST on Consulting Fees	136,695		105,381	92,811	12,570
Total Management & Professional Services * (See Note 2)	1,188,195		916,006	806,743	109,263
OTHER EXPENSES					
Audit Expenses	117,000	75%	87,750	87,660	90
Annual Dinner	7,500	100%	7,500	4,731	2,769
Premium Taxes	224,000	75%	168,000	173,649	(5,649)
Chairman's Expenses	3,000	75%	2,250	-	2,250
Chairman's Honourium	150,000	100%	150,000	150,000	-
Reinsurance Expense	8,500	100%	8,500	7,800	700
D&O Insurance	20,000	100%	20,000	18,036	1,964
Office Expenses	25,000	75%	18,750	17,374	1,376
Office Expenses - Scanning Offsite Files	38,000	100%	38,000	45,025	(7,025)
Claims: Borderaux (LawPro/LIF)	16,800	91%	15,300	13,875	1,425
Special Services	25,000	75%	18,750	-	18,750
Miller Insurance Fees (Reins. Comm.) (See Note 3)	286,000	75%	214,500	211,375	3,125
I.B.C Statistical Plan Fees	3,000	75%	2,250	929	1,321
Assessment Fees	3,000	75%	2,250	2,000	250
Investment counsel fees	27,000	75%	20,250	18,959	1,291
Investment - Custodial	16,000	75%	12,000	12,475	(475)
Risk Management/Loss Prevention	15,000	75%	11,250	-	11,250
License Fee	5,000	90%	4,500	4,163	337
Sub-total	989,800		801,800	768,052	33,748
TOTAL	2,177,995		1,717,806	1,574,795	143,011

*** NOTE 1: MANAGEMENT SERVICES**

The actual budget of \$604,00 has been reduced to \$501,500 as a result of Commissions on CLLAS associate program.

*** NOTE 2: PROFESSIONAL SERVICES - SEASONALLY WEIGHTED BUDGET**

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

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

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

The annual budget is based upon the annual fee actual for the policy year 2018/2019 and estimated for the policy period 2019/2020.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
SUMMARY OF RISK METRICS
September 30, 2019

Exhibit V

	Risk Category	Risk Metric	December 31, 2017	December 31, 2018	September 30, 2019	Target	Limit
(1a)	Insurance	Prior year development - Gross of reinsurance	-8%	15%	-11%	≤ 0%	> 20%
(1b)		Prior year development - Net of reinsurance	8%	-31%	-77%	≤ 0%	> 10%
(2a)		3-year net combined ratio	115%	114%	122%		
(2b)		3-year net combined ratio before surplus adjustments via premiums	91%	86%	73%	≤ 100%	> 125%
(3)		Maximum allocation to a single jurisdiction	60%	59%	58%	n/a	> 67%
(4)	Reinsurance	Reinsurer credit rating	A- to A+	A- to A+	A- to A+	≥ A	< A-
(5)		Maximum concentration with a single reinsurer excl. Colchester	12.8%	12.7%	19.6%	≤ 10%	> 15%
(6)	Interest Rate	Interest rate risk per MCT formula at 1.25%	\$198,000	\$124,000	\$123,000	≤ \$250,000	> \$600,000
(7)	Liquidity	Ratio of cash and short-term investments to gross claim liabilities	14%	13%	26%	≥ 15%	< 10%
(8)		Ratio of short term funds to total short & long term funds	70%	55%	54%	≥ 40%	< 20%
(9a)	Asset Default	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%	7.6%	9.4%	< 7.5%	> 10%
(10b)		Maximum allocation to a single non-government security - Other	2.1%	2.7%	2.7%	< 3.75%	> 5%
(11)	Strategic	Annual Advisory Board turnover	0	2	1	≤ 2 members	> 4 members
(12)	Operational	Calendar year key management/advisor turnover	0	2	1	≤ 1 per 3 years	> 1 per year
(13)	Regulatory Solvency Indicators	AMRGF - Excess of cash and approved securities over required reserve and guarantee fund	\$7,749,500	\$6,765,000	\$8,718,500	\$3,500,000 to \$7,000,000	< \$3,500,000
(14)		MCT	451%	521%	669%	≥ 210%	< 210%

Notes

(1) = Year-over-year change in ultimate losses / Prior year undiscounted unpaid claims (excl. ULAE)

(2a) = [3-year net incurred losses + 3-year operating expenses] / [3-year net earned premiums]

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

(3) Based on insured lawyer counts

(4) Based on A.M. Best. information from report on reinsurance security (October 31, 2018).

(5) Based on claim liabilities exposure. Lloyds syndicates are assessed separately. 2017 information from report on reinsurance security (October 31, 2017); 2018 information from report on reinsurance security (October 31, 2018); 2019 information from report on reinsurance security (October 23, 2019).

(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.

Color Code
Meets Target
Between Target and Limit
Exceeds Limit

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
For the Period Ending September 30, 2019

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

	Current Year to Date 9/30/2019 (in \$000's)	Prior Year End 09/30/2018 (in \$000's)
<u>Reserve Fund</u>		
Premiums collected or credited having one year or less to run	(1) 9,288	7,391
Less: Amount paid to licensed reinsurers	(2) 7,233	5,517
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) 2,055	1,874
Reserve Fund Required (50% of Line 5)	(6) 1,028	937
<u>Guarantee Fund</u>		
Total Liabilities	(7) 74,783	111,211
Less: Unearned Premiums	(8) 6,954	5,528
Less: Recoverable from licensed reinsurers	(9) 55,439	92,899
Plus: Statutory Margin	(10) 50	50
Guarantee Fund Required (Line 7 minus Lines 8 and 9 plus line 10)	(11) 12,440	12,834
TOTAL RESERVE & GUARANTEE FUND REQUIRED (Line 6+11)	(12) 13,468	13,771
Cash & Approved Securities	(13) 22,186	20,483
Excess of Cash & Securities over Reserve & Guarantee Fund (line 13 minus line 12)	(14) 8,719	6,712



MEMORANDUM

DATE: November 29, 2019
TO: CLLAS Advisory Board
FROM: Patrick Mahoney
COPY:
RE: CLLAS Subscribers' Accounts as at June 30, 2019

You will find attached to this memo the Subscribers' Accounts for the year ended June 30, 2019.

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

CLLAS SUBSCRIBERS' ACCOUNTS

STATEMENT OF FINANCIAL POSITION AND STATEMENT OF OPERATIONS BY UNDERWRITING PERIOD
FOR THE YEAR ENDED JUNE 30, 2019

LAW FIRMS:

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

UNDERWRITING PERIODS:

- 1 1987/1988 to 1991/1992
- 2 1992/1993 to 1996/1997
- 3 1997/1998 to 2001/2002
- 4 2002/2003 to 2006/2007
- 5 2007/2008 to 2011/2012
- 6 2012/2013 to 2016/2017
- 7 2017/2018 to 2021/2022

CLLAS SUBSCRIBERS' ACCOUNTS
UNDERWRITING PERIODS CONSOLIDATED
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 2019

SUBSCRIBER	1	2	3	4	5	7	8	9	10	11	12	13	Total
ASSETS													
Net Asset Account	890,808	2,735,918	1,631,607	757,572	2,430,976	1,160,859	2,435,768	1,717,811	2,177,910	1,480,809	476,896	1,051,379	18,948,313
Accrued Interest	851	3,332	2,203	931	2,377	1,328	2,926	1,930	2,523	1,736	561	1,251	21,949
Reinsurance Receivable	14,132	89,418	66,249	22,584	66,308	29,811	64,319	42,738	52,340	36,876	12,667	28,257	525,701
Prepaid Expenses	0	15,697	12,394	3,423	0	4,676	11,917	6,459	9,581	7,116	2,286	5,696	79,246
Total Assets	905,792	2,844,365	1,712,453	784,510	2,499,661	1,196,673	2,514,931	1,768,938	2,242,355	1,526,537	492,411	1,086,583	19,575,209
LIABILITIES													
Undiscounted Case Reserves	0	4,907	3,654	1,227	3,654	1,643	3,438	2,233	2,852	2,125	708	1,558	28,000
Undiscounted IBNR	51,455	734,788	562,500	187,252	284,313	244,585	544,841	324,872	446,277	327,457	115,876	250,784	4,075,000
Impact of Discounting and Provision for Adverse Deviation	54,818	470,301	358,024	119,942	204,811	156,452	349,442	212,547	284,691	205,393	72,870	158,708	2,648,000
Accrued Expenses	0	25,550	22,432	7,353	0	7,659	21,468	10,084	15,716	11,309	4,071	8,788	134,432
Total Liabilities	106,273	1,235,547	946,610	315,775	492,778	410,339	919,190	549,737	749,535	546,284	193,526	419,838	6,885,432
SUBSCRIBERS' EQUITY													
Total Subscribers' Equity	799,518	1,608,818	765,843	468,735	2,006,883	786,334	1,595,741	1,219,201	1,492,820	980,253	298,885	666,745	12,689,777
Total Liabilities and Equity	905,792	2,844,365	1,712,453	784,510	2,499,661	1,196,673	2,514,931	1,768,938	2,242,355	1,526,537	492,411	1,086,583	19,575,209

CLLAS SUBSCRIBERS' ACCOUNTS
UNDERWRITING PERIODS CONSOLIDATED
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2019

Exhibit 1
Page 2

SUBSCRIBER	1	2	3	4	5	7	8	9	10	11	12	13	Total
Direct Written Premium	-	1,383,088	1,265,465	409,223	-	419,223	1,185,149	551,365	865,498	626,504	205,009	480,060	7,390,584
Retroassessment	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross Written Premium	-	1,383,088	1,265,465	409,223	-	419,223	1,185,149	551,365	865,498	626,504	205,009	480,060	7,390,584
Reinsurance Ceded	-	1,026,623	951,662	307,663	-	311,972	887,245	411,064	646,370	468,712	148,837	357,248	5,517,396
Net Written Premium	-	356,465	313,803	101,560	-	107,251	297,904	140,301	219,128	157,792	56,172	122,812	1,873,188
Change in Unearned Premium	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Earned Premium	-	356,465	313,803	101,560	-	107,251	297,904	140,301	219,128	157,792	56,172	122,812	1,873,188
Claims Paid	(20,839)	85,880	64,449	21,156	64,408	28,925	57,798	36,067	49,360	39,943	12,722	27,466	467,337
Change in Undiscounted Case Reserves	-	(113,038)	(84,177)	(28,274)	(84,184)	(37,837)	(79,206)	(51,450)	(65,687)	(48,954)	(16,301)	(35,892)	(645,000)
Change in Undiscounted IBNR	(112,609)	55,267	56,631	13,365	(115,881)	18,152	45,127	(674)	40,709	48,209	16,194	30,510	95,000
Change in Impact of Discounting and Provision for Adverse Deviation	(156,415)	(75,834)	(45,602)	(20,651)	(143,211)	(24,771)	(60,589)	(62,525)	(41,726)	(6,974)	(4,793)	(15,908)	(659,000)
Incurred Claims	(289,863)	(47,725)	(8,700)	(14,403)	(278,868)	(15,532)	(36,871)	(78,581)	(17,344)	32,224	7,823	6,175	(741,663)
Operating Expenses	16,975	325,330	277,638	91,160	34,008	99,613	268,973	134,229	199,639	142,256	51,245	111,551	1,752,616
Premium Tax	-	42,224	33,339	9,207	-	12,577	32,056	17,373	25,773	19,142	6,150	15,322	213,163
Total Expenses	16,975	367,554	310,977	100,367	34,008	112,190	301,029	151,602	225,412	161,398	57,395	126,873	1,965,779
Underwriting Gain (Loss)	272,888	36,636	11,526	15,596	244,860	10,593	33,746	67,280	11,060	(35,830)	(9,046)	(10,237)	649,072
Investment Income	13,068	53,869	35,655	15,051	38,405	21,450	47,346	31,197	40,778	28,059	9,068	20,224	354,170
Other Income	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Gain (Loss)	285,956	90,504	47,181	30,647	283,266	32,042	81,092	98,477	51,838	(7,771)	22	9,987	1,003,242
Other Comprehensive Income	7,166	28,041	18,538	7,836	20,007	11,173	24,629	16,246	21,236	14,614	4,722	10,527	184,735
Total Comprehensive Income	293,122	118,545	65,719	38,483	303,272	43,216	105,721	114,722	73,074	6,843	4,744	20,514	1,187,977



CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Reinsurance Policy

Last Updated
December 11, 2018



REINSURANCE POLICY

Effective date: June 22, 2016

1. Purpose and Scope

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

2. Objectives

CLLAS' objectives in purchasing reinsurance are the following:

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



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

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



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

- 3.7. All reinsurance contracts will be in written form, binding, signed by signing officers of CLLAS and the reinsurers and, subject to Section 3.8 below, will be executed prior to the effective date of reinsurance coverage. Reinsurance contracts will clearly and comprehensively document all material terms and conditions mutually agreed to by CLLAS and its reinsurers.
- 3.8. In the event that a full reinsurance contract cannot be executed prior to the effective date, the reinsurance coverage will be set out in a summary document (e.g. cover note, binding letter of intent, or confirmation email). The summary document will set out the following, at a minimum:
- The premium paid by CLLAS;
 - The percentage of the risk being assumed by each reinsurer;
 - The risks and limits reinsured;
 - The effective and termination dates of the coverage;
 - Any applicable exclusions to the terms of coverage;
 - Any substantive changes from the expiring terms; and
 - Any material issues most likely to arise.

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

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

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

- 4.1. The Broker will monitor the security of the reinsurance arrangements between CLLAS and its reinsurers and, subject to Section 3.4 above, the security of the retrocession arrangements between CLLAS' reinsurers and their retrocession partners. The monitoring will include the following, at a minimum:
- Financial health and credit rating measured against criteria recommended by the Broker and reviewed by the Audit Committee;
 - Concentration by reinsurer measured against criteria recommended by the Broker and reviewed by the Audit Committee;



- Collectability issues;
- Licensing status in Canada (registered vs. unregistered).

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

- 4.2. The Broker will report to the Audit Committee on an annual basis. The report will reflect the approach outlined in Appendix I unless otherwise advised by the Audit Committee. The Audit Committee will report any recommendations to the Board.
- 4.3. The General Manager will ensure the following:
 - The reinsurance risk management practices and procedures comply with this reinsurance policy;
 - The reinsurance arrangements effect a transfer of risk; and
 - The reinsurance arrangements are accounted for in the appropriate manner.
- 4.4. The General Manager, with the assistance of the Broker, will maintain a complete description of all reinsurance arrangements, including reinsurance contracts and records of due diligence performed on reinsurance counterparties.

5. Roles and Responsibilities

- 5.1. The Board is responsible for the following:
 - Annually reviewing and approving the reinsurance strategy and structure;
 - Annually reviewing and approving policies and procedures to manage and control reinsurance risks; and
 - Annually reviewing and approving this reinsurance policy on the recommendation of the Audit Committee.
- 5.2. The Audit Committee is responsible for the following:
 - Annually reviewing the report on reinsurance security prepared by the Broker, including the criteria used measure financial health and concentration risk; and
 - Annually reviewing this reinsurance policy and recommending appropriate changes in reinsurance structure to the Advisory Board for the upcoming renewal.
- 5.3. The Principal Attorney is responsible for the following:
 - Annually participating in the negotiation of reinsurance rates and coverage; and
 - Annually signing and executing reinsurance agreements on behalf of the Subscribers.



5.4. The General Manager is responsible for the following:

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

5.5. The Broker is responsible for the following:

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

6. Authority

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

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

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

7. History of Modifications

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



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



APPENDIX I

Section 4.2 – Annual Report to the Audit Committee

Level I Monitoring

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

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

Triggers for Level II Monitoring

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

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

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

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

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

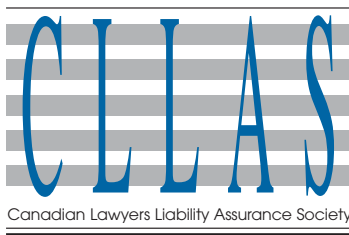
Level II Monitoring:

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



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

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



M E M O R A N D U M

TO: CLLAS Board
FROM: Patrick Mahoney
RE: Own Risk and Solvency Assessment (ORSA)
DATE: November 28, 2019

CLLAS is required by the Alberta regulator to complete and file an updated ORSA report by the end of the year. You will recall that at its June meeting, the Board reviewed and approved an updated risk appetite statement and description of material risks, and also conducted a qualitative assessment of those risks. At the September meeting, the Board reviewed and approved updated risk metrics which will be implemented to facilitate the on-going monitoring of CLLAS' performance against risk targets and limits.

Attached to this memo is the draft ORSA report for CLLAS is attached. Schedule 1 (the draft ERM Policy) and Schedule 2 (Risk Identification and Qualitative Evaluation) reflect the discussions that took place earlier in the year, so I suggest that you focus on the body of the ORSA report itself. As you will see in the Executive Summary, based on the analysis, management recommends no change to CLLAS' internal surplus target.

The purpose of the discussion at the December 10, 2019 Board meeting is to address any comments or questions, and ideally approve the ORSA Report. The ultimate deadline for approval is December 31, 2019.

I look forward to our discussions on the attached.

Patrick Mahoney
General Manager



CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Own Risk and Solvency Assessment
Years 2019/2020 to 2023/2024

Draft Report
December 10, 2019



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PART 1 — EXECUTIVE SUMMARY

This report summarizes the Own Risk and Solvency Assessment (“ORSA”) for the Canadian Lawyers Liability Assurance Society (“CLLAS” or “the Reciprocal”) based on the Reciprocal’s financial position as at June 30, 2019. This report includes financial projections for fiscal years 2019/2020 to 2023/2024.

This report was prepared by the Office of the General Manager in collaboration with Axxima Inc., a non-affiliated company of CLLAS providing actuarial and strategic advisory services to CLLAS.

1.1. Purpose and Scope

The ORSA is a qualitative and quantitative assessment of material risks and capital adequacy to support those risks under normal and stressed conditions. One important element of ORSA is developing an internal capital/surplus target based on CLLAS’ own risk appetite and risk profile, instead of through standard formulas such as the Minimum Capital Test (“MCT”) or Alberta Maintenance of Reserve and Guarantee Fund (“AMRGF”) requirement.

The ORSA is primarily used as a strategic planning tool to assist the Advisory Board in determining an appropriate and prudent target surplus level based on the business strategy. In addition, this ORSA report is designed to meet various regulatory requirements adopted by the Alberta Superintendent of Insurance (“Superintendent”).

This report documents the Reciprocal’s Enterprise Risk Management (“ERM”) philosophy, material risks and capital requirements to support business strategy.

1.2. Conclusions

The following were concluded:

1. Based on its current risk profile, CLLAS’ main sources of inherent risk (i.e. risk before mitigation strategies) are insurance/reinsurance, premium & strategy, investment and operational risks.
2. Based on its current risk profile, CLLAS’ main sources of residual risk (i.e. risk after mitigation strategies) are insurance/reinsurance, premium & strategy, investment and operational risks.
3. CLLAS takes significant insurance risk since it writes insurance for professional liability insurance losses with significant limits per claim. CLLAS currently mitigates its insurance risk by limiting its net retention to drop down claims and \$5,000,000 in the annual aggregate. CLLAS also mitigates the risk of reserve deterioration with a Loss Portfolio Transfer with Colchester through which CLLAS cedes all development on claims reported prior to June 30, 2012.



4. CLLAS is exposed to significant reinsurance risk; unpaid claims recoverable from reinsurers are above \$55,000,000 as at June 30, 2019. Reinsurance risk can emerge in the form of reinsurance defaults or disputes as well as through reductions in market capacity and variability in reinsurance rates. CLLAS mitigates this risk through the selection of reinsurers with high credit ratings.
5. CLLAS is well capitalized as at June 30, 2019 based on the risk profile of its assets and liabilities. The surplus is \$12,690,000 as at June 30, 2019 and the MCT ratio is 735%. The AMGRF requirement is met with a margin in excess of \$11,000,000.
6. Assuming that CLLAS maintains its insurance and reinsurance structure, the actuary estimated the following:
 - o There is an estimated probability of 95% that the surplus will remain above \$10,490,000 at June 30, 2020 and above \$5,724,000 at June 30, 2024.
 - o The surplus position as at June 30, 2019, together with the current funding mechanism, is estimated to be sufficient to support the business strategy with a probability of 98.0% over the next 3 years and 95.9% over the next five years. In other words, the probability of incurring at least one retroassessment to meet the AMGRF requirement is 2.0% over the next 3 years and 4.1% over the next 5 years.

1.3. Recommendations of Management

Based on the review and analysis provided by the actuary, the following is recommended:

1. The Advisory Board should adopt an internal capital/surplus target based on risk appetite. Based on the actuarial analysis presented in Part 7, assuming that the current insurance and reinsurance structure are maintained, and taking into account CLLAS' contractual ability to assess its subscribers, the Advisory Board could consider an internal capital/surplus target ratio of 210%.

An MCT ratio of 210% as at June 30, 2019 corresponds to a surplus position of \$3,680,000 which is made up of capital required of \$3,604,000, an amount of \$76,000 which represents the reinsurance recoverable from unregistered reinsurers not covered by collateral.



2. The Advisory Board should adopt targets and limits for key risk metrics for individual risks based on risk appetite and the following targets and limits:

Risk Category	Risk Metric	Frequency	Green Zone (Meets Target)	Yellow Zone	Red Zone (Limit Exceeded)
General	AMRGF – Excess of Cash and Approved Securities Over Regulatory Requirement	Quarterly	\$5,000,000 and above	\$2,500,000 to \$5,000,000	Less than \$2,500,000
	MCT Ratio	Quarterly	210% and above	n/a	Less than 210%
	Status of Governance Policies	Annually	Up to date	Items Outstanding	Materially behind schedule
Insurance	Gross Loss Ratio	Quarterly	Less than 150%	150% to 300%	Over 300%
	Net Loss Ratio	Quarterly	Less than 50%	50% to 100%	Over 100%
	Risk of Systemic Loss	Annually	Nothing on horizon	Some concerns raised	Adverse experience anticipated
Premium & Strategy	Actual Expenses vs. Budget	Quarterly	Less than 105%	105% to 120%	Over 120%
	State of the Market Outlook	Annually	Nothing on horizon	Some concerns raised	Adverse experience anticipated
Reinsurance	Reinsurer credit rating	Annually	A or above	A-	B+ and below
	Maximum concentration with a single reinsurer excluding Colchester	Quarterly	Less than 10%	10% to 15%	Over 15%
Operational	Board Discussion of Prior Quarter Risk Metrics	Quarterly	Discussed corrective measures	Received but no discussion	Not received
	Resiliency Capacity – People	Annually	Score of 4 or 5 out of 5	Score of 3 out of 5	Score of 1 or 2 out of 5
	Resiliency Capacity – Data/systems	Annually	Score of 4 or 5 out of 5	Score of 3 out of 5	Score of 1 or 2 out of 5
	Advisory Board Turnover in the Last 12 Months	Quarterly	0 to 2 members	3 to 4 members	5 or more members
	Key Management/Advisor Turnover in the Last 36 Months	Quarterly	0 to 1 person	2 to 3 people	4 or more people
Investments	Investment Manager Compliance Statement	Quarterly	In compliance	Temporarily or slightly not in compliance	Consistently or materially not in compliance
Regulatory Compliance	Regulatory Outlook Report	Annually	No significant issues noted	Issues being addressed	Significant issues outstanding



3. Management should track the adopted key risk metrics at least annually and consider taking action when such metrics exceed the risk limits adopted by the Advisory Board.
4. The risk targets, risk limits and internal target should be reviewed annually, or more frequently if there are material changes in the risk profile or strategy.

1.4. Recommendations Adopted by the Advisory Board

[This section will be finalized after the December 2019 Board meeting.]

Based on the recommendations of management:

1. The surplus target will be based on an MCT of 210%;
2. The Advisory Board adopted the risk metric targets and limits as recommended by management;
3. The adopted risk metrics will be monitored by the Office of the General Manager and reported to the Advisory Board on a quarterly basis;
4. The risk targets, risk limits and internal target will be reviewed by February 28, 2021 in the context of the 2020 interim ORSA.



PART 2 — PURPOSE AND SCOPE

The ORSA is a qualitative and quantitative assessment of material risks and capital adequacy to support those risks under normal and stressed conditions. One important element of ORSA is developing an internal capital target based on CLLAS' own risk appetite and risk profile, instead of through standard formulas such as the MCT or AMRGF requirement.

The ORSA is primarily used as a strategic planning tool to assist the Advisory Board in determining an appropriate and prudent target capital level based on the business strategy. In addition, this ORSA report is designed to meet the regulatory requirements set out in the following supervisory guidelines adopted by the Alberta Superintendent:

- OSFI Corporate Governance Guideline;
- OSFI Guideline A-4: Regulatory Capital and Internal Targets;
- OSFI Guideline E-18: Stress Testing; and
- OSFI Guideline E-19: Own Risk and Solvency Assessment.

The main objectives of this report are the following:

- Identify the main sources of risk;
- Identify risk mitigation strategies;
- Identify and recommend risk metrics, risk targets and risk limits for periodic monitoring;
- Evaluate the capital required to support the Reciprocal's anticipated strategy and risk profile;
- Stress test the impact of alternate risk assumptions on the financial position; and
- Recommend an internal surplus target for adoption by the Advisory Board.

Notwithstanding that CLLAS, as a reciprocal, does not have capital *per se*, this report will generally refer to capital instead of surplus, as that is the terminology used in the relevant OSFI supervisory guidelines.



PART 3 — DEFINITIONS

Alberta Maintenance of Reserve and Guarantee Fund (“AMRGF”) Requirement:	Regulatory solvency requirement set out in Articles 99 and 100 of the Alberta Insurance Act.
Enterprise Risk Management (“ERM”):	The discipline by which an organization in any industry assesses, controls, exploits, finances and monitors risks from all sources for the purpose of increasing the organization’s short- and long-term value to its stakeholders.
Minimum Capital Test (“MCT”):	Regulatory solvency test generally applied to commercial insurers but also used as a monitoring tool for reciprocals.
Risk:	Potential that the financial position will be affected due to deviation of actual results from expected results.
Risk appetite:	The level of aggregate risk that an organization chooses to take in pursuit of its objectives.
Risk limit:	A threshold used to monitor the actual risk exposure of a specific unit or units of the organization to ensure that the level of aggregate risk remains within the risk tolerance.
Risk metric:	A measure of risk.
Risk mitigation:	Action that reduces the frequency or severity of a risk.
Risk profile:	The nature and magnitude of risks to which an organization is exposed over a specified period of time.
Stochastic model:	Model relying on statistical probability distributions to determine results.

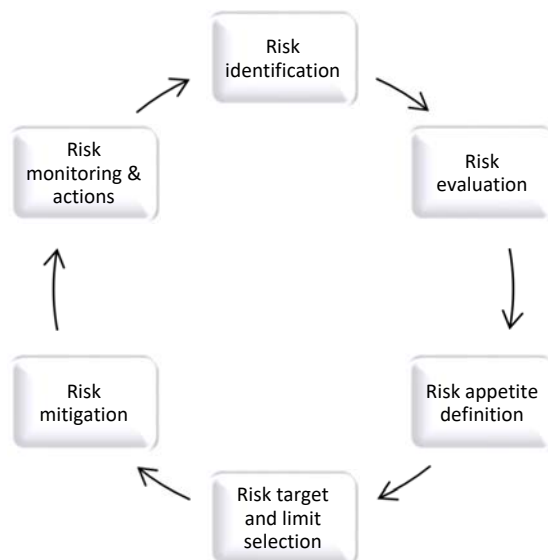
PART 4 — ENTERPRISE RISK MANAGEMENT FRAMEWORK

ERM has multiple objectives, including the following:

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

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

The ERM cycle is as follows:



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



Advisory Board and management would consider implementing appropriate actions when a risk exceeds the established limit.

Strategic Goals

One of the main goals of CLLAS is to achieve premium stability and to provide its members with adequate insurance and reinsurance coverage at a reasonable cost. The Advisory Board strives to operate with adequate surplus levels in order to mitigate the need for a retroassessment. Since CLLAS operates above its surplus target, premiums collected from members are set so that the expected net income or loss is \$0.

Risk Appetite

Risk appetite is the high-level direction for the amounts and types of risks CLLAS wants to pursue based on its risk profile, vision and overall strategy. CLLAS currently considers the following risk appetite statements to be appropriate:

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

CLLAS' risk appetite statements can be found in Section 5 of the ERM policy which is presented in Schedule 1.

Internal Controls

Internal controls consist of systematic checks and reviews to ensure the efficiency, accuracy and completeness of operations, financial reporting and compliance with applicable laws and regulations. The internal control system contributes to managing risk.

CLLAS has implemented a number of internal control processes, as follows:



Operational Function	Internal Controls
Claims management	<ul style="list-style-type: none"> Claims committee involvement on significant claims Periodic internal claims reviews Quarterly reports and teleconferences with reinsurers Two signed authorities on all cheques Reconciliation of claims database to financial statements
Premium management	<ul style="list-style-type: none"> Board approval of premium rates Reconciliation of premiums collected and invoiced
Investments	<ul style="list-style-type: none"> Quarterly reconciliation of cash balances and investments Quarterly review of investment report
Finance and administration	<ul style="list-style-type: none"> Segregation of duties All payments via cheques Two signed authorities on all cheques Periodic bank reconciliation Board-approved budget Quarterly tracking of expenses against Board-approved budget Quarterly financial statements Signed annual audited financial statements
Regulatory Compliance	<ul style="list-style-type: none"> Annual checklist of compliance requirements Periodic review of applicable legislation

In addition, the Reciprocal annually engages an independent external auditor to perform a review of claims, premiums, investment and other financial accounts. The external auditor issues an opinion to the effect that financial statements are free from material misstatement and reports to the Board and senior management on the effectiveness of processes, procedures and internal controls in place.

CLLAS' actuarial liabilities are also peer reviewed by an independent actuary every three years as required by the regulator.

ERM Roles and Responsibilities

CLLAS and its subscribing law firms have a strong risk management culture. CLLAS' Advisory Board oversees all ERM aspects of the Reciprocal.

Section 10 of the ERM policy presented in the Schedule 1 details the roles and responsibilities of the Advisory Board, Principal Attorney and Office of the General Manager with regards to ERM.



PART 5 — OVERVIEW OF OPERATIONS

5.1. Overview of the Insurance Program

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

CLLAS provides professional liability insurance to subscribing law firms in excess of the compulsory coverage provided by the various law societies. Since inception, coverage provided by CLLAS has been on a claims-made basis. For the first policy term (i.e., July 1, 1987 to June 30, 1988), coverage was in excess of \$600,000. Coverage in subsequent policy terms is in excess of \$1,000,000.

A summary of the coverage provided by CLLAS is set out below:

CLLAS HISTORICAL COVERAGE SUMMARY	
Coverage Period	Coverage Provided (in million \$)
July 1, 1987 to June 30, 1988	\$24.4 excess of \$0.6
July 1, 1988 to June 30, 1989 to July 1, 1989 to June 30, 1990	\$24.0 excess of \$1.0
July 1, 1990 to June 30, 1991	\$24.0 excess of \$1.0* plus \$25.0 excess of \$50.0
July 1, 1991 to June 30, 1992 to July 1, 1996 to June 30, 1997	\$34.0 excess of \$1.0* plus \$25.0 excess of a minimum of \$50.0
July 1, 1997 to June 30, 1998	\$34.0 excess of \$1.0* plus \$25.0 excess of a minimum of \$50.0 \$15.0 excess of \$120.0 (optional layer)
July 1, 1998 to June 30, 1999	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$130.0 (optional layer)
July 1, 1999 to June 30, 2000 **	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$130.0 (optional layer)
July 1, 2000 to June 30, 2001 to July 1, 2002 to June 30, 2003 **	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$140.0 (optional layer)
July 1, 2003 to June 30, 2004 to July 1, 2005 to June 30, 2006 ***	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$140.0 (optional layer)



CLLAS HISTORICAL COVERAGE SUMMARY	
Coverage Period	Coverage Provided (in million \$)
July 1, 2006 to June 30, 2007 to July 1, 2007 to June 30, 2008 ***	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$140.0 (optional layer 1) \$20.0 excess of \$160.0 (optional layer 2)
July 1, 2008 to June 30, 2009 to July 1, 2009 to June 30, 2010 ***	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$140.0 (optional layer 1) \$10.0/20.0/30.0 excess of \$160.0 (optional layer 2)
July 1, 2010 to June 30, 2011 ***	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$140.0 (optional layer 1) \$20.0/30.0/40.0 excess of \$160.0 (optional layer 2)
July 1, 2011 to June 30, 2012 to July 1, 2015 to June 30, 2016 ****	\$49.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$65.0 \$10.0/20.0/30.0/40.0/50.0/60.0 excess of \$160.0 (optional layer)
July 1, 2017 to June 30, 2018 to July 1, 2018 to June 30, 2019 ****	\$49.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$65.0 \$10.0/20.0/30.0/40.0/50.0/60.0 excess of \$160.0 (optional layer) 5% of \$30.0 excess of \$50.0 or \$110.0 excess of \$50.0

* The excess policies are endorsed to drop down to excess of \$250,000 (\$25,000 starting in 2008/2009) in certain instances

** For Québec, all CLLAS coverage is provided in excess of a \$5 million retention up to and including policy year 2002/2003

*** For Québec, for policy years 2003/2004 and after, CLLAS coverage is provided \$30 million in excess of a \$10 million retention

**** For Québec, for policy year 2011/2012 and after, CLLAS coverage is provided \$40 million in excess of a \$10 million retention

As of July 1, 2002, the firm aggregate limit on the first \$5 million of coverage, inclusive of underlying, was set at \$25 million. This was reduced as of July 1, 2007 to \$12 million and further reduced to \$5 million as of July 1, 2008. As of July 1, 2011, the policy limits presented above (except for the umbrella layer, discussed below) are also firm aggregate limits.

The umbrella layer of coverage (\$30 million excess of a minimum of \$65 million) is subject to an annual aggregate of \$60 million for all law firms combined. Coverage between the basic coverage described above (\$49 million excess of \$1 million) and the minimum attachment point of \$65 million of the umbrella layer is not provided by CLLAS, but left to individual subscribers to arrange, except for a small retention starting on July 1, 2017.

As of July 1, 2008, CLLAS began offering an option of \$10 million excess of \$160 million, \$20 million excess of \$160 million or \$30 million excess of \$160 million in optional layer 2. As of July 1, 2010, CLLAS



began offering an option of \$20 million excess of \$160 million, \$30 million excess of \$160 million or \$40 million excess of \$160 million in optional layer 2. As of July 1, 2011, CLLAS replaced its two optional layers with a single layer excess of \$160 million (increased from previous years' \$140 million attachment point) with options ranging from \$10 million to \$60 million in \$10 million increments.

CLLAS' operations, including underwriting, claims, brokerage, actuarial and finance, are outsourced to third parties. CLLAS' Advisory Board, supported by its standing committees, provides oversight for these operations.

The number of insured lawyers increased from 1,479 to 3,710 (including 29 patent and trademark agents) from 1987/1988 to 2018/2019. The firm Blake, Cassels & Graydon LLP withdrew from CLLAS at June 30, 2012 and the firm Dentons withdrew from CLLAS at June 30, 2017. In 2014, a number of lawyers previously with Heenan Blaikie joined various CLLAS firms.

CLLAS has been managed by Axxima Insurance Services, a division of 3303128 Canada Inc. ("Axxima Insurance Services") since September 2013.

For policy year 2018/2019, CLLAS issued insurance contracts for total number of lawyers of 3,710 and collected total net premiums of \$1,873,000. The net income was \$1,188,000 and the surplus was \$12,690,000 for the policy year ended June 30, 2019. All invested assets were held in cash, cash equivalents and investments with credit rating of A-1 or higher for short-term investments and A- or higher for long-term investments.

Statements of financial position and of comprehensive income for the policy years ended June 30, 2018 and 2019 are presented in Section 1, Exhibits 1A and 1B respectively.

5.2. Operating Environment

Professional liability insurance losses are subject to significant volatility surrounding the timing, frequency and severity of claims. Claim frequency is expected to remain stable but individual claims are expected to trend up by approximately 4.75% per year.

The Reciprocal currently operates with the philosophy of collecting premiums which are expected to generate no profit or loss over a given policy year. Premiums are expected to cover losses, operating expenses and reinsurance costs and include a credit to recognize the expected investment income during the year. The Board may, at its discretion, apply additional premium discounts when the surplus held is in excess of the surplus target (approximately \$700,000 in 2019/2020).

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



5.3. Reinsurance

CLLAS cedes paid losses, case reserves and provisions for IBNR in three ways:

1. **Proportional reinsurance:** The amounts ceded to proportional reinsurance in each layer vary according to the reinsurance arrangements effective in each policy period. The size and number of layers have varied over time.
2. **Aggregate reinsurance:** CLLAS' aggregate reinsurance with Colchester Reinsurance Limited ("Colchester") is applicable to its retention after reflection of proportional reinsurance. The amounts ceded to aggregate reinsurance vary according to the reinsurance arrangements effective in each policy period.
3. **Loss portfolio transfer:** At June 30, 2012, CLLAS entered into a loss portfolio transfer agreement with Colchester which covers all outstanding claim 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.

Commercial market reinsurance and excess insurance 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, but CLLAS is not immune to the insurance market cycles. Availability for layers in excess of CLLAS' net retention is expected to remain stable for the foreseeable future, but upward pressure on reinsurance rates can be expected given current market conditions and CLLAS' loss experience.

5.4. Regulatory Environment

The Superintendent adopted OSFI's 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.

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 equal to the entity's surplus, reduced by the amount of reinsurance recoverables from unlicensed reinsurers not covered by deposits. 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 operational risk.

The regulator targets 150% as a supervisory minimum MCT ratio and 210% as a supervisory target MCT ratio. Alberta-regulated reciprocals are expected to determine an internal target MCT ratio through the ORSA and operate with surplus in excess of this internal target.

The Reciprocal's MCT ratio as at June 30, 2019 meets this requirement with a ratio of 735%.

A summary of the MCT ratio calculation for the policy years ended June 30, 2018 and 2019 is presented in Section 1, Exhibit 1C.

AMRGF

The primary regulatory solvency test for Alberta-based reciprocals remains the AMRGF requirement. The AMRGF requirement is a liquidity requirement which essentially prescribes that a reciprocal must hold cash and approved securities in excess of the following:

$$\begin{aligned} \text{AMRGF Requirement} = & 50\% \text{ of premiums written} \\ & - 50\% \text{ of premiums written ceded to licensed reinsurers} \\ & + \text{Total Liabilities} \\ & - \text{Unearned premiums} \\ & - \text{Unpaid claims recoverable from licensed reinsurers} \\ & + \$50,000 \end{aligned}$$

CLLAS must maintain cash and approved securities in excess of this requirement in order to avoid a retroassessment. At June 30, 2019, CLLAS met this requirement with an excess margin of \$11,000,000, as shown in Section 1, Exhibit 1D.

In the event that a reciprocal fails to meet regulatory requirements, the Superintendent would require a retroassessment in order to replenish the surplus or liquidity position. The subscribers are contractually obligated to pay a retroassessment declared by CLLAS and, being large law firms, have the capacity to finance a retroassessment.

Accounting Standards



IFRS 17 will introduce major changes in the presentation of financial statements of insurance companies effective January 1, 2022. Insurance industry groups and regulators are currently developing guidance for the implementation of this standard. Pending the release of definitive implementation guidance, including changes to the MCT formula, the results in this ORSA report were presented based on accounting standards in effect as at December 31, 2018. The forecast period extends to June 30, 2024, and therefore the accounting presentation of results for 2022 to 2024 would be impacted by the new accounting standards.



PART 6 — IDENTIFICATION OF MATERIAL RISKS

6.1. Material Inherent Risks

The Board identified ten broad risk categories applicable to the Reciprocal. The inherent risk (i.e. risk before the application of risk mitigation strategies) for each category was qualitatively evaluated by the Board and ranked in order of most to least significant, as follows:

1. **Insurance (claims) risk:** This risk arises out of the uncertainty surrounding the timing, frequency and severity of losses. Examples include large losses, change in payment patterns and increase in losses frequency.

CLLAS provides Canadian law firms with up to \$139,975,000 of professional liability insurance coverage per occurrence. CLLAS also has a 5% subscription participation in up to \$140 million of optional excess layers purchased by the law firms. Coverage is provided on a claims-made basis. Coverage is provided excess of \$1,000,000 (or \$25,000 in the case of drop-down coverage) and so CLLAS is exposed to low frequency, high severity losses. There is significant uncertainty around the timing, frequency and severity of these insurance losses.

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

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

2. **Premium and strategy risk:** This risk pertains to underwriting, competitive pressures as well as the inability to implement the business strategy. Examples include inadequate or uncompetitive premium rates and gain or loss of subscribers.

CLLAS operates on the basis of five year underwriting periods, and can expect significant competitive pressure from insurance brokers during the lead up to a new underwriting period. In order for CLLAS' premium rates to remain competitive, there must be a sufficiently large subscriber base to share the administrative costs necessary to maintain the self-insurance structure. If the subscriber base decreased significantly, the viability of the reciprocal may be compromised.

3. **Reinsurance risk:** This risk arises from reinsurer default, reduction in market capacity following major events, increases in reinsurance rates and disputes over policy conditions.



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

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

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

4. **Operational risk:** Operational risk is defined as the risk of loss resulting from people, inadequate or failed internal processes and systems, or from external events. This includes legal risk but excludes strategic and reputational risk. The risk of loss resulting from people includes, for example, operational risk events relating specifically to internal or external fraud, non-adherence to internal procedures/values/objectives, or unethical behavior more broadly. Risk exposure relating to external events and that stems from coverage sold by insurers to third parties is excluded, while risk on an insurer's own operations is considered within scope.
5. **Investment risk:** Investment risk comprises interest rate, inflation, asset default and liquidity risks.

Interest rate risk:

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

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

Inflation risk:

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



Asset default risk:

CLLAS is exposed to asset default risk as it has investments in fixed income instruments. CLLAS' investment policy allows for long-term investments in federal and provincial government bonds as well as corporate bonds rated A or better.

The riskiest class of fixed income in CLLAS' portfolio is corporate bonds. Although provincial and federal government bonds present some default risk, it is not considered material at this moment.

CLLAS has minimal exposure to default risk on other assets, for example receivables or cash held in bank accounts.

Liquidity risk:

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

Other investment risks:

Based on its Investment Policy, CLLAS holds all its assets in cash and Canadian fixed income and is therefore not directly exposed to equity or foreign exchange risks.

6. **Regulatory compliance risk:** Regulatory compliance risk arises from losses due to failure to comply with regulatory requirements. Examples include costs associated with the need to restate financial statements if they are not in compliance with professional standards, or fines and penalties if legislative requirements are not fulfilled.
7. **Reputation risk:** Reputation risk arises when the confidence of insured lawyers, creditors, reinsurers and other business partners leads to a negative impact on earnings, liquidity or capital position.

For example:

- Reputation with insured lawyers could be negatively impacted by unstable or uncompetitive premium rates or failure to pay claims in a timely manner;
- Reputation with reinsurers could be negatively impacted by a lack of risk management efforts or failure to report claims information in a timely manner;
- Reputation with various business partners could be negatively impacted by failure to provide timely payments;
- Reputation with regulators could be negatively impacted by failure to communicate in a timely manner.



In addition, concentration risk arises from failure to diversify risk. It is a risk category closely tied with other risk categories, such as insurance (claims), reinsurance, premium and investments.

Based on its Investment Policy, CLLAS holds all its assets in cash and Canadian bonds and is therefore not directly exposed to equity or foreign exchange risks.

Schedule 2 of this report presents the ranking methodology as well as additional background on the main categories of inherent risk as determined by the Board.

6.2. Risk Mitigation

Risk mitigation measures are adopted by the Advisory Board and management in order to mitigate the frequency or severity of risks. CLLAS would consider risk mitigation strategies for all material risk categories, such as the following:

Risk Category	Current Risk Mitigation Measures	Additional Risk Mitigation Measures
Insurance	Periodic review of policy limits and other terms of coverage Purchase of reinsurance Annual review of premiums per rate setting policy Quarterly review of claims by Claims Committee Quarterly review of actuarial liabilities Support of subscriber risk management programs and audits	Diversification of risk (additional subscribers)
Reinsurance	Annual review of reinsurance limits and other terms of coverage Active relationship management including annual marketing visit and quarterly claims calls Annual reinsurance security review Maintenance of Reinsurance Security Agreement with Colchester Diversification of reinsurers Formal reinsurance risk management policy	

Risk Category	Current Risk Mitigation Measures	Additional Risk Mitigation Measures
Premium and strategy	Rate setting policy Managed Board turnover Board orientation for new members Purchase of D&O insurance Succession planning	Additional diversification of subscribers
Operational	Outsourcing of critical functions Business continuity plan in place for management Periodic assessment of outsourced functions Outsourcing policy	
Investments	Periodic review of Investment Policy Investment policy which restricts credit ratings Prescribed minimum amount of short-term assets Periodic monitoring of CPI and other general inflation indices Periodic monitoring of legal changes and judgments	Additional diversification of Investments Asset-liability matchin
Regulatory Compliance	Regular communication with regulator Multi-disciplinary team responsible for regulatory compliance	

The evaluation of material risks in Part 7 is performed after reflecting the application of risk mitigation strategies. For example, the capital required for insurance risk would reflect the annual aggregate limits and reinsurance structure.



PART 7 — EVALUATION OF MATERIAL RISKS

The quantitative risk evaluation was performed by Axxima Inc., a non-affiliated company of CLLAS providing actuarial and strategic advisory services to CLLAS.

7.1. Limitations and Distribution

The analysis and results are based on the data provided by CLLAS. Axxima has relied on such data without any detailed audit or verification, but has performed checks necessary to verify that the information provided is sufficient and reliable for the purpose of this analysis.

Axxima does not assume responsibility for the result of any error or omission in the data or other materials provided for the preparation of this report. The accuracy of results is dependent upon the accuracy and completeness of the underlying data; therefore, any material discrepancies discovered in the data provided by CLLAS to Axxima should be reported and this report should be amended accordingly, if warranted.

It is virtually certain that actual future premiums, incurred losses, operating expenses and investment income will not emerge exactly as projected and may, in fact, deviate from Axxima's estimates by a significant margin. By its nature, the insurance program is subject to statistical and other deviations in its loss experience. As a result, Axxima cannot guarantee the projections of future net income (loss) and surplus position as being the extent of CLLAS' maximum exposure to losses. In estimating these projections, Axxima has used models, procedures and assumptions that are reasonable and appropriate and believes that the resulting estimates are reasonable given the information available.

Part 7 of the report as well as Sections 1 and 2 of the exhibits attached are strictly for the use of CLLAS, its internal and external auditors, advisors and regulators in the context of their work for CLLAS. If they are distributed, they must be distributed in their entirety and with prior consent from Axxima.

7.2. Data

Axxima's review and analysis is based on the following information received from CLLAS:

- Claims database containing unlimited paid losses and case reserves for policy periods 1987/1988 to 2018/2019 as at June 30, 2019;
- Lawyer counts for policy periods 1987/1988 to 2019/2020;
- Investments as at December 31, 2018;
- Audited financial statements as at December 31, 2018 and internal financial statements as at June 30, 2018 and 2019;
- P&C-1 annual return as at December 31, 2018;



- Budget and business plan for fiscal years 2019 to 2021;
- Details of historical reinsurance arrangements;
- Reciprocal Insurance Exchange Agreement;
- Investment policy;
- Guidelines for selection of reinsurers; and
- Various discussions with CLLAS management.

Axxima also relied on the actuarial valuation analysis as at December 31, 2018 and June 30, 2019 and the rating analysis for policy period 2019/2020 previously issued to CLLAS.

In addition, Axxima relied on the following:

- Bank of Canada historical yield curves;
- Statistics Canada tables 18-10-0004-01 (consumer price index);
- Standard & Poor's report on U.S. Corporate Default Study and Rating Transitions (2018);
- Standard & Poor's credit ratings;
- Merrill Lynch U.S. corporate spreads, based on Federal Reserve Bank of St. Louis Economic Research;
- Moody's Corporate Global Annual Default Study (2019);
- A.M. Best credit ratings;
- A.M. Best Impairment Rate and Rating Transition Study - 1977 to 2015 (2016);
- A.M. Best's report on the Securitization of Reinsurance Recoverables (2011); and
- ORX Report on Operational Risk Loss Data (2018).

7.3. Model Methodology and Assumptions

A stochastic model with 10,000 iterations was used to project the distribution of premiums, incurred losses, operating expenses, investment income and financial position of the Reciprocal over the next 5 years. The projections are based on the starting financial position as at June 30, 2019 and the period of projection extends to June 30, 2024.

The model is based on the claims and investment portfolio data as at December 31, 2018 as well as the number of lawyers for policy period 2019/2020.

Details on the model methodology and assumptions are provided in Section 2 of the exhibits. Key assumptions used in the model include the following:

- 2019/2020 per-claim limits effective in future policy years;
- 2019/2020 reinsurance structure effective in future policy years;
- Number of lawyers of 3,884 in 2019/2020 and subsequent trend of 0%;
- Expected ground up claim frequency of 1% of lawyers;



- Average 2019/2020 loss severity of \$650,000 in ground up losses and trend of 4.75% in subsequent years;
- Payout pattern and provisions for adverse deviation per the December 31, 2018 actuarial valuation;
- Proportion of 0.25% of ceded reserves recoverable from unlicensed reinsurers (excluding Colchester);
- Reinsurance Security Agreement with Colchester in place throughout the period of projection;
- Expected operating expenses of \$1,711,000 in 2019/2020;
- Expected investment yield equal to 1.99% in 2019/2020;
- Expected inflation rate of 2.0%;
- Probability of reinsurance default ranging from 0.3% to 0.5% depending on the reinsurer and recovery rate of 40%;
- Probability of investment default of 0.50% and recovery rate of 40%;
- Expected operational risk losses of 0.30% of gross premiums (i.e. \$27,000 in 2019/2020).

CLLAS' net written premiums are established according to the current funding philosophy and are expected to generate no net income or loss during the year. CLLAS may apply additional premium discounts when the accumulated surplus exceeds the surplus target. The model assumes that no premium discount will apply for policy years 2020/2021 and after. Reinsurance premiums are added to net required premiums to arrive at the gross premiums collected from subscribers. The reinsurance premium is \$7,163,000 for policy year 2019/2020. CLLAS charges the reinsurance premium in its direct premium and then cedes it at 100%.

The Alberta regulator requires an immediate retroassessment when the AMRGF requirement is not met. For modelling purposes, the scenarios were modelled without future retroassessments (either per regulatory requirements or per the surplus policy) in order to calculate the probabilities of retroassessment at each year-end as well as the magnitude of the retroassessment required. It is assumed that no retroassessment is collected when the surplus position at the prior year-end is insufficient to meet the AMRGF regulatory requirement. This assumes that no additional capital arises from outside sources, beyond that included in the Reciprocal's business plan and model's base scenario.

CLLAS' investments as at December 31, 2018 consist of short-term and long-term bonds. The default risk associated with these assets was modeled using a probability of investment default of 0.50% based on the credit rating of the issuers. In the event of default, the model assumes that 40% of the value will be recovered.

Operational risk arises from inadequate or failed internal processes, people, systems and external events. The benchmarking of operational risk losses in the insurance industry is recent and therefore the operational risk for CLLAS was modeled based on data available from both the insurance and the banking sectors. The data available reflects historical losses with significant volatility for large



companies with highly sophisticated operations. Operational risk was modeled taking into consideration the nature, size and complexity of CLLAS' operations. The annual losses modeled average 0.30% of gross premiums (approximately \$27,000 in 2019/2020).

Reinsurance rates are expected to increase by 14.8% on average annually given current market uncertainty. Reinsurance rate changes were modeled assuming this distribution:

Range of Reinsurance Rate Change	Probability
-10% to -5%	0.00%
-5% to 0%	0.00%
0%	2.50%
0% to 5%	5.00%
5% to 10%	9.00%
10% to 15%	35.00%
15% to 20%	35.00%
20% to 25%	9.00%
25% to 30%	2.50%
30% to 35%	1.00%
35% to 40%	0.50%
40% to 45%	0.25%
45% to 50%	0.25%
Total	100.00%
Average	14.8%

The reinsurance rate change per lawyer for the next five years was judgmentally capped between -25% and 75%.

Reinsurance defaults were modeled based on the current reinsurance structure with a simplification: five of the most important reinsurers in terms of current liability assumed were selected (including Colchester) and all other reinsurers were grouped together, for a total of 6 reinsurers. Each reinsurer was assigned a probability of default ranging from 0.3% to 0.5% depending on their credit rating except for Colchester, which is assumed to have a probability of default of 0%. The correlation between reinsurance defaults was set at 20% based on industry data and the fact that many reinsurers were grouped together. A positive correlation implies that the default of individual reinsurers are not independent and that instead reinsurers tend to default in the same year due to common market forces. This notion is consistent with the fact that reinsurance markets are global and tend to be affected by the same catastrophic or market events. In the event of a default, the model assumes that any reinsurance losses payable during the year or in subsequent years by a reinsurer in default will only be recovered at 40% and that CLLAS will replace the defaulted reinsurer with a new one of equivalent credit rating starting the following policy period.



6 scenarios were modeled under the current insurance and reinsurance structure, as follows:

1. Base Scenario;
2. Insurance & reinsurance risk only;
3. Operational risk only;
4. Investment risk only;
5. Premium risk only;
6. All above risks combined.

The capital required to support material risks was determined using a mixture of deterministic (i.e. static) and stochastic (i.e. random) assumptions and scenarios. The recommended capital requirements are based on the value at risk at various confidence levels ranging from 90% to 95% over horizons ranging from 1 to 3 years. For example, a given capital position at a confidence level of 90% is expected to be sufficient in 90% of scenarios or 9 times out of 10.

7.4. Base Scenario

The Base Scenario projections are presented in Section 1, Exhibit 1, as follows:

- Exhibit 1A: Projection of statement of financial position;
- Exhibit 1B: Projection of statement of comprehensive income;
- Exhibit 1C: Projection of MCT;
- Exhibit 1D: Projection of AMRGF.

The Base Scenario (Scenario 1) represents the best estimate scenario for the Reciprocal's financial position over the next 5 years. It was generated using a deterministic model for the Reciprocal's premiums, claims, operating expenses and investment income. This implies that static, best-estimate assumptions were employed throughout the projection period.

Net written premiums are consistent with premium rates recommended by the actuary for policy period 2019/2020 and are projected in the range of \$1,981,000 to \$3,244,000 over the next five years. Premiums are expected to trend up due to a 4.75% claim severity trend and an increase in operating expenses of 3% per year. The large increase between policy years 2019/2020 and 2020/2021 is due to the premium discount. It is assumed that no premium discount will be provided for policy years 2020/2021 and after.

Net claims incurred are expected to be in the range of (\$724,000) to \$930,000 annually. Operating expenses were projected at \$1,711,000 based on CLLAS' budget for fiscal year 2019. Operating expenses in subsequent years are expected to trend at 3% per year. We assume that premium taxes are expected to represent 2.90% of premiums.



The investment yield, gross of investment management fees, was projected at 1.99%. Total investment income is projected in the range of \$277,000 to \$325,000 annually throughout the period of projection.

The total comprehensive income is projected between (\$97,000) and \$699,000 for the period of projection. This is in accordance with CLLAS' current funding philosophy to operate with a total comprehensive income close to \$0.

The surplus is projected in the range of \$13,086,000 to \$13,388,000 throughout the period of projection. The MCT ratio is expected to remain above 498%, which is in excess of the regulatory target of 210%. The AMRGF requirement is also expected to be met with a margin in excess of \$9,800,000.

7.5. Alternate Scenarios

Methodology and Assumptions – Stochastic Scenarios

A stochastic model with 10,000 iterations was used to apply volatility to the base assumptions. The following alternate scenarios were modeled:

Scenario	Variable Assumptions ¹
1. Base Scenario	All assumptions are static
2. Insurance/Reinsurance Risk Only	<ul style="list-style-type: none"> • Frequency of claims • Severity of claims • Payment pattern • Reinsurance default/dispute • Reinsurance costs
3. Operational Risk Only	<ul style="list-style-type: none"> • Number of operational risk events • Severity of operational risk events
4. Investment Risk Only	<ul style="list-style-type: none"> • Rate of inflation applied to payments and expenses • Impact on investment yields • Investment yield (risk-free) • Credit spreads • Discount rate for actuarial liabilities • Interest rate margin for adverse deviation for actuarial liabilities • Default rate on investments • Default rate on accounts receivable
5. Premium and Strategy Risk Only	<ul style="list-style-type: none"> • Total number of lawyers
6. All Risks Above Combined	<ul style="list-style-type: none"> • All of the above

¹ Details on the assumptions selected are presented in Section 2 of the exhibits.



The insurance and reinsurance risk categories were combined to reflect that under its current insurance and reinsurance structures, CLLAS' most significant risk is the risk of incurring large claims and subsequently experiencing a reinsurance default or dispute.

Notwithstanding regulatory requirements, for the purposes of modelling, it is assumed that no retroassessment is collected when the surplus position at the prior year-end is insufficient to meet the AMRGF regulatory requirement and no surplus distributions are assumed.

Correlations and dependencies in Scenario 6 are taken into account between insurance/reinsurance, premium and strategy, market, inflation and operational risks, given the following interrelationships:

- Investment yields impact premiums and the rate and margin used to discount actuarial liabilities;
- Inflation rates impact investment yields, premiums and claim payments;
- Losses incurred in a given year impact future premiums;
- Number of lawyers impact incurred losses and premiums; and
- Operational risk losses are dependent on the premium volume.

Other risk categories are assumed to be independent.

Results – Stochastic Scenarios

Section 1, Exhibit 2 presents the 5-year projections at 5th, 20th, mean, 80th and 95th percentiles for the following key financial elements under Scenario 6 (i.e. all risks, diversified):

- Exhibit 2A: Net written premiums;
- Exhibit 2B: Net incurred losses;
- Exhibit 2C: Total investment income, gross of fees;
- Exhibit 2D: Total comprehensive income;
- Exhibit 2E: Surplus;
- Exhibit 2F: MCT ratio; and
- Exhibit 2G: Excess of AMRGF requirement.

The confidence interval between the 5th and 95th percentiles represents the range of probable outcomes over the next 5 years. Actual results are expected to remain within this range 9 times out of 10.

The surplus is projected to remain above \$10,490,000 over one year and above \$5,724,000 over 5 years with 95% probability.

The MCT and AMRGF regulatory requirements are expected to be met over the next five years. The probability of retroassessment based on not meeting the MCT supervisory target ratio of 210% is



estimated at 0.9% over the next year and 12.6% over the next 5 years. The probability of retroassessment based on not meeting the AMRGF requirement is estimated at 0.5% over the next year and 4.1% over the next 5 years.

7.6. Capital Required

Risk Categories Modeled Stochastically

Section 1, Exhibit 3 presents the surplus position under the Base Scenario as well as under the five alternate stochastic Scenarios at the end of fiscal years 1 and 3. Confidence levels of 90%, 95%, 97.5% and 99% for the impact on surplus are presented.

The impact of these Scenarios can be thought of as the capital required to sustain the volatility in net income due to the various risks faced by the Reciprocal at the given probability level.

The impact of these scenarios is implicitly shown after the application of risk mitigation strategies. For example, the capital required for insurance/reinsurance risk reflects the reinsurance structure and the market risk capital required implicitly reflects the current investment policy and investment profile.

After considering the current risk mitigation strategies, the risk categories presenting the greatest residual risk at the end of projection year 3 under a 90% confidence level, in order of most to least significant, are insurance/reinsurance, operational and inflation risks. It is worth noting that for the 97.5% and 99% confidence levels for the insurance/reinsurance risk, the significant impact on surplus would occur if Reinsurer 1 (Lloyds) or Reinsurer 5 (all reinsurers other than Lloyds, Scor Re, Allianz Global Risks and AXIS Re) defaulted over the next 3 years.

The difference between the impact of Scenario 6 (i.e. all risk combined) and the additive impact of Scenarios 2 to 5 is the diversification credit. Less capital is required in Scenario 6 because the risks are not perfectly correlated. For example, a scenario presenting the 95th percentile operating loss will not necessarily be the scenario presenting the 95th percentile loss in market value.

Over a longer-time horizon, the capital requirement at a given confidence level is greater. This reflects the “compounding” of risk over time.

Diversification

The methodology used to determine the diversification benefit consists of running stochastic scenarios for the individual categories first (i.e. Scenarios 2 to 5 for insurance/reinsurance risk, operational risk, investment risk, premium & strategy risk individually) and then running a scenario for all risks combined (i.e. Scenario 6). The difference between the sum of the impact on surplus of individual risks and the impact on surplus of all risks combined is the diversification credit.



Section 1, Exhibit 3 shows the impact on surplus and calculation of the diversification credit.

For example, in Exhibit 3, at the 95th percentile over a one-year horizon, the sum of the impacts on surplus of the individual risks is \$3,044,000. This implies a \$3,044,000 loss would result if CLLAS experienced the 95th percentile insurance/reinsurance loss, the 95th percentile bond loss, the 95th percentile operational risk loss, etc. all in the same year. However, the 95th percentile loss for all risk categories considered simultaneously is \$2,727,000. The diversified losses are smaller because when all risk sources are considered, losses from certain risk categories may be offset by gains in other risk categories. For example, a large claim may be offset by market gains, resulting in a lower impact on surplus. The diversification credit is calculated as $\$3,044,000 - \$2,727,000 = \$317,000$.

Other Risk Categories

Other risk categories modeled separately from stochastic Scenario 6 include the following:

- Premium and strategy risk: The capital requirement associated with this risk was judgmentally selected based on 25% of the impact on surplus of a decrease of 20% in number of insured lawyers in policy period 2020/2021. The capital recommended is in the range of \$519,000 to \$419,000 based on the 95th percentile surplus position after 1 year and 90th percentile surplus position after 3 years.
- Regulatory risk: The capital requirement associated with the risk of changes in regulatory requirements was judgmentally set at 5% of the MCT regulatory capital required as at June 30, 2019. The capital recommended is \$180,000.
- Reputation risk: This risk arises when the confidence of subscribers, reinsurers and other business partners leads to a negative impact on net income, surplus or liquidity. The capital requirement associated with the reputation risk was judgmentally set at 5% of the MCT regulatory capital required as at June 30, 2019. The capital recommended is \$180,000. Reputation risk was also implicitly assumed in Scenarios 2 (insurance/reinsurance), 3 (operational) and 5 (premium and strategy) through possible outsourcing and operational risk as well as changes in reinsurance rates and subscriber participation.

7.7. Summary of Capital Required

Section 1, Exhibit 4 presents the capital requirements for all material risks identified above based on CLLAS maintaining its current insurance and reinsurance limits under two options:

- Option A: Low surplus target (high risk appetite); and
- Option B: High surplus target (low risk appetite).



An internal capital target should be selected based on the Advisory Board's risk appetite. A low risk appetite translates to a higher level of risk aversion, which will generally result in holding higher capital levels to sustain a given risk profile. In contrast, a high risk appetite will generally translate in holding lower capital levels for a given risk profile.

The capital requirements under the two options are summarized in the following table:

Capital Requirements	Option A Low Target	Option B High Target
Risks Modeled Stochastically		
Insurance/Reinsurance Risk	\$2,724,000	\$3,013,000
Operational Risk	116,000	191,000
Investment Risk	204,000	257,000
Premium and Strategy Risk	0	129,000
Subtotal	3,044,000	3,590,000
Diversification Credit	(317,000)	(605,000)
Additional Risks Modeled		
Premium & Strategy	519,000	419,000
Regulatory Risk	180,000	180,000
Reputation Risk	180,000	180,000
Subtotal	879,000	779,000
Minimum Capital Required	\$3,606,000	\$3,764,000
Equivalent MCT Ratio	210%	219%
Recoverables from unregistered reinsurers not covered by acceptable collateral*	\$76,000	\$76,000
Total Surplus Required	\$3,682,000	\$3,840,000

* This represents the additional surplus required to meet a minimum MCT ratio of 210% due to regulatory capital deductions in the MCT calculation. The amount is as at June 30, 2019.

Option A is expected to be sufficient in 95% of scenarios over a 1-year horizon and Option B is expected to be sufficient in 90% of scenarios over a 3-year horizon.

The above capital requirements compare to an AMRGF capital requirement of \$1,689,000 as at June 30, 2019. The surplus required to meet an MCT ratio of 210% is \$3,680,000, which consists of the capital required of \$3,604,000, an amount of \$76,000 to cover the recoverables from unregistered reinsurers not covered by acceptable collateral. The actual surplus was \$12,690,000 as at June 30, 2019 and is projected at \$13,388,000 at June 30, 2020.



Section 1, Exhibit 5 presents the regulatory Key Risk Metrics report; this exhibit compares the regulatory and ORSA capital requirements by risk category.

7.8. Stress Testing

Stress testing involves evaluating the potential effect on the financial position of a set of specified assumptions. Stress testing was performed by rerunning Scenario 6 (all risks) and incorporating the following alternate assumptions:

1. **Stress Scenario 1 – Increasing the claim frequency by 50%:** CLLAS' loss frequency has been stable over the last 15 years as shown in Section 2, Exhibit 3. However, given the 76 claims to date, little information is known about the actual claims distribution and therefore Scenario 6 was rerun assuming a 50% increase in the estimated claims frequency.
2. **Stress Scenario 2 – Increase of 20% in number of insured lawyers and surplus in policy year 2019/2020:** An increase in exposure can put stress on the surplus of an insurance entity because there is an increased exposure to loss. This Scenario was tested with a 20% increase in surplus contributions (i.e. it is assumed that the increase in number of lawyers originates from the addition of a new subscriber that would likely contribute surplus when joining CLLAS). Scenario 6 was rerun assuming a 20% increase in number of insured lawyers and in surplus for policy year 2019/2020; all other assumptions were unchanged.
3. **Stress Scenario 3 – Decrease of 20% in number of insured lawyers and surplus in policy year 2019/2020:** Such a scenario is intended to reflect the departure of CLLAS subscribers. The departure of subscribers would translate into a smaller surplus and premium volume and would also add Reciprocal volatility and concentration of risk. Scenario 6 was rerun assuming a 20% decrease in number of insured lawyers and surplus for policy year 2019/2020; all other assumptions were unchanged.
4. **Stress Scenario 4 – Default by Lloyds' underwriters:** The Lloyds' syndicates are the reinsurers with the most significant participation in CLLAS' reinsurance structure; as at December 31, 2018, these syndicates held approximately 66% of CLLAS' claim liabilities not ceded to Colchester. Scenario 6 was rerun assuming that all these syndicates will default during policy year 2019/2020.
5. **Stress Scenario 5 – Doubling the reinsurance default/dispute rate:** CLLAS has had a high reliance on reinsurers since its inception with an amount of unpaid claims recoverable from reinsurers above \$55,000,000 as at June 30, 2019. Scenario 6 was rerun assuming double the estimated reinsurance default/dispute rates.
6. **Stress Scenario 6 – Default by Scor Re:** The probability of default by all the Lloyds syndicates is remote but there is a greater likelihood that a single CLLAS reinsurer defaults. This scenario is designed to quantify the impact of a CLLAS reinsurer default other than Lloyds. Scenario 6 was



rerun assuming Score Re (a significant reinsurer for CLLAS) will default during policy year 2019/2020.

7. **Stress Scenario 7 – Inflation rate increases by 2%:** Inflation affects claims payments, operating expenses and interest rate. Scenario 6 was rerun assuming the inflation rate is 2% higher than expected.
8. **Stress Scenario 8 – Increasing the frequency of operational risk losses by 50%:** CLLAS identified operational risk as a major source of inherent risk. Very little information is known to date about operational risk losses in the insurance industry. Scenario 8 was rerun assuming an increase of 50% in the frequency of operational risk losses.

The results of the above Scenarios are shown in the table below:

Scenario	Mean Surplus June 30, 2022 (Year 3)	90 th Percentile Surplus June 30, 2022 (Year 3)	Cumulative Probability of Retroassessment ¹ by June 30, 2022
Scenario 6 (i.e. All Risks)	\$12,651,000	\$9,666,000	1.97%
Stress Scenario 1	10,547,000	6,979,000	3.54%
Stress Scenario 2	14,589,000	11,292,000	1.76%
Stress Scenario 3	10,739,000	7,989,000	2.27%
Stress Scenario 4	(6,201,000)	(17,383,000)	100.00%
Stress Scenario 5	12,186,000	9,018,000	3.72%
Stress Scenario 6	11,055,000	7,700,000	2.73%
Stress Scenario 7	12,787,000	9,996,000	1.89%
Stress Scenario 8	12,647,000	9,665,000	1.76%

Based on the above results, CLLAS remains sufficiently capitalized at June 30, 2019 to mitigate the probability of retroassessment within the next 3 years to less than 5% under the most severe stress scenario except for Stress Scenario 4 where all the Lloyds syndicates default. CLLAS is in technical bankruptcy under this stress scenario. Excluding Stress Scenario 4, the Stress Scenario showing the highest probability of retroassessment and impact on surplus is Stress Scenario 5 where the reinsurer defaults rate is doubled.

¹ Probability of at least one retroassessment over the next three years; retroassessment based on AMRGF requirement.

PART 8— RISK MONITORING

Risk targets and limits are determined in the context of applying risk appetite statements to specific risk categories.

The following table presents risk categories that can be monitored. As these risks may challenge the Reciprocal's ability to meet strategic objectives, the following risk targets and limits are recommended, above which management action could be considered:

Risk Category	Risk Metric	Frequency	Green Zone (Meets Target)	Yellow Zone	Red Zone (Limit Exceeded)
General	AMRGF – Excess of Cash and Approved Securities Over Regulatory Requirement	Quarterly	\$5,000,000 and above	\$2,500,000 to \$5,000,000	Less than \$2,500,000
	MCT Ratio	Quarterly	210% and above	n/a	Less than 210%
	Status of Governance Policies	Annually	Up to date	Items Outstanding	Materially behind schedule
Insurance	Gross Loss Ratio	Quarterly	Less than 150%	150% to 300%	Over 300%
	Net Loss Ratio	Quarterly	Less than 50%	50% to 100%	Over 100%
	Risk of Systemic Loss	Annually	Nothing on horizon	Some concerns raised	Adverse experience anticipated
Premium & Strategy	Actual Expenses vs. Budget	Quarterly	Less than 105%	105% to 120%	Over 120%
	State of the Market Outlook	Annually	Nothing on horizon	Some concerns raised	Adverse experience anticipated
Reinsurance	Reinsurer credit rating	Annually	A or above	A-	B+ and below
	Maximum concentration with a single reinsurer excluding Colchester	Quarterly	Less than 10%	10% to 15%	Over 15%
Operational	Board Discussion of Prior Quarter Risk Metrics	Quarterly	Discussed corrective measures	Received but no discussion	Not received
	Resiliency Capacity – People	Annually	Score of 4 or 5 out of 5	Score of 3 out of 5	Score of 1 or 2 out of 5
	Resiliency Capacity – Data/systems	Annually	Score of 4 or 5 out of 5	Score of 3 out of 5	Score of 1 or 2 out of 5
	Advisory Board Turnover in the Last 12 Months	Quarterly	0 to 2 members	3 to 4 members	5 or more members
	Key Management/Advisor Turnover in the Last 36 Months	Quarterly	0 to 1 person	2 to 3 people	4 or more people



Risk Category	Risk Metric	Frequency	Green Zone (Meets Target)	Yellow Zone	Red Zone (Limit Exceeded)
Investments	Investment Manager Compliance Statement	Quarterly	In compliance	Temporarily or slightly not in compliance	Consistently or materially not in compliance
Regulatory Compliance	Regulatory Outlook Report	Annually	No significant issues noted	Issues being addressed	Significant issues outstanding

Each risk metric is described in the ERM policy presented in Schedule 1.



PART 9— CONCLUSIONS AND RECOMMENDATIONS

9.1. Conclusions

The following were concluded:

1. Based on its current risk profile, CLLAS' main sources of inherent risk (i.e. risk before mitigation strategies) are insurance/reinsurance, premium & strategy, investment and operational risks.
2. Based on its current risk profile, CLLAS' main sources of residual risk (i.e. risk after mitigation strategies) are insurance/reinsurance, premium & strategy, investment and operational risks.
3. CLLAS takes significant insurance risk since it writes insurance for professional liability insurance losses with significant limits per claim. CLLAS currently mitigates its insurance risk by limiting its net retention to drop down claims and \$5,000,000 in the annual aggregate. CLLAS also mitigates the risk of reserve deterioration with a Loss Portfolio Transfer with Colchester through which CLLAS cedes all development on claims reported prior to June 30, 2012.
4. CLLAS is exposed to significant reinsurance risk; unpaid claims recoverable from reinsurers are above \$55,000,000 as at June 30, 2019. Reinsurance risk can emerge in the form of reinsurance defaults or disputes as well as through reductions in market capacity and variability in reinsurance rates. CLLAS mitigates this risk through the selection of reinsurers with high credit ratings.
5. CLLAS is well capitalized as at June 30, 2019 based on the risk profile of its assets and liabilities. The surplus is \$12,690,000 as at June 30, 2019 and the MCT ratio is 735%. The AMRGF requirement is met with a margin of \$11,000,000.
6. Assuming that CLLAS maintains its insurance and reinsurance structure, the actuary estimated the following:
 - There is an estimated probability of 95% that the surplus will remain above \$10,490,000 at June 30, 2020 and above \$5,724,000 at June 30, 2024.
 - The surplus position as at June 30, 2019, together with the current funding mechanism, is estimated to be sufficient to support the business strategy with a probability of 98.0% over the next 3 years and 95.9% over the next five years. In other words, the probability of incurring at least one retroassessment to meet the AMGRF requirement is 2.0% over the next 3 years and 4.1% over the next 5 years.



9.2. Recommendations of Management

Based on the review and analysis provided by the actuary, the following is recommended:

1. The Advisory Board should adopt an internal capital/surplus target based on risk appetite. Based on the actuarial analysis presented in Part 7, assuming that the current insurance and reinsurance structure are maintained, and taking into account CLLAS' contractual ability to assess its subscribers, the Advisory Board could consider an internal capital/surplus target ratio of 210%.

An MCT ratio of 210% as at June 30, 2019 corresponds to a surplus position of \$3,682,000 which is made up of capital required of \$3,606,000 and an amount of \$76,000 which represents the reinsurance recoverable from unregistered reinsurers not covered by collateral.

1. The Advisory Board should adopt targets and limits for key risk metrics for individual risks based on risk appetite and the targets and limits presented in Part 8 of this report.
2. Management should track the adopted key risk metrics at least annually and consider taking action when such metrics exceed the risk limits adopted by the Advisory Board.
3. The risk targets, risk limits and internal capital target should be reviewed annually, or more frequently if there are material changes in the risk profile or strategy.

9.3. Recommendations Adopted by the Advisory Board

[This section will be finalized after the December 2019 Board meeting.]

Based on the recommendations of management:

1. The surplus target will be based on an MCT of 210%;
2. The Advisory Board adopted the risk metric targets and limits as recommended by management;
3. The adopted risk metrics will be monitored by the Office of the General Manager and reported to the Advisory Board on a quarterly basis;
4. The risk targets, risk limits and internal target will be reviewed by February 28, 2021 in the context of the 2020 interim ORSA.



PART 10 — LIST OF SCHEDULES AND EXHIBITS

Schedule 1:

Enterprise Risk Management Policy (Proposed for adoption)

Schedule 2:

Memo on ORSA Risk Identification and Evaluation (June 12, 2019)

Section 1: Financial Projections (provided by Axxima)

Exhibit 1: Base Scenario

- A. Statement of Financial Position
- B. Statement of Comprehensive Income
- C. Minimum Capital Test (Excluding Transition Adjustments)
- D. Concentration of Insured Values

Exhibit 2: 5-Year Projections at Various Confidence Levels

- A. Premiums Written
- B. Incurred Losses
- C. Investment Income
- D. Net Income
- E. Surplus
- F. Minimum Capital Test Ratio
- G. Excess of Alberta Reserve and Guarantee Fund Requirement

Exhibit 3: Summary of Surplus Position under Various Stochastic Scenarios

Exhibit 4: Selected Capital Requirement

Exhibit 5: Key Risk Metrics Report



Section 2: Model Methodology and Assumptions (provided by Axxima)

Exhibit 1: Summary of Historical Data

Exhibit 2: Selection of Exposure Trend

Exhibit 3: Selection of Loss Frequency Assumptions

Exhibit 4: Selection of Loss Severity Trend

Exhibit 5: Selection of Loss Severity Distribution

A. Ground up Losses

B. Summary of Undiscounted Loss Costs by Layer of Coverage

Exhibit 6: Selection of Payment Pattern Assumptions

Exhibit 7: Investments

A. Summary of Investment Portfolio as at December 31, 2018

B. Selection of Real Rate of Return Assumptions

C. Selection of General Inflation Assumptions

D. Selection of Yield Spreads and Investment Management Expenses

E. Selection of Default Assumptions

F. Selection of Recovery Rate

Exhibit 8: Reinsurance

A. Selection of Reinsurance Rate Change Assumptions

B. Selection of Reinsurance Default Assumptions

Exhibit 9: Selection of Operational Risk Assumptions



CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Enterprise Risk Management Policy

Last Updated
December 10, 2019

ENTERPRISE RISK MANAGEMENT POLICY

Effective date: September 7, 2016

1. Purpose and Scope

Enterprise Risk Management (“ERM”) is the process through which CLLAS proactively manages risk by identifying, assessing, monitoring and mitigating risks from all sources that may impact short- and long-term financial sustainability. ERM is intended to enhance decision-making by integrating strategic planning with a focused evaluation of the risk exposures stemming from CLLAS’ operations and the environment in which it operates. The purpose of this policy is to document the practices and responsibilities with respect to ERM.

The ERM policy, together with CLLAS’ risk appetite assessment, constitutes the foundation for CLLAS’ Own Risk and Solvency Assessment (“ORSA”) and most governance policies, including the surplus target and surplus policy, the investment policy, the reinsurance security policy and the outsourcing policy.

2. Objectives

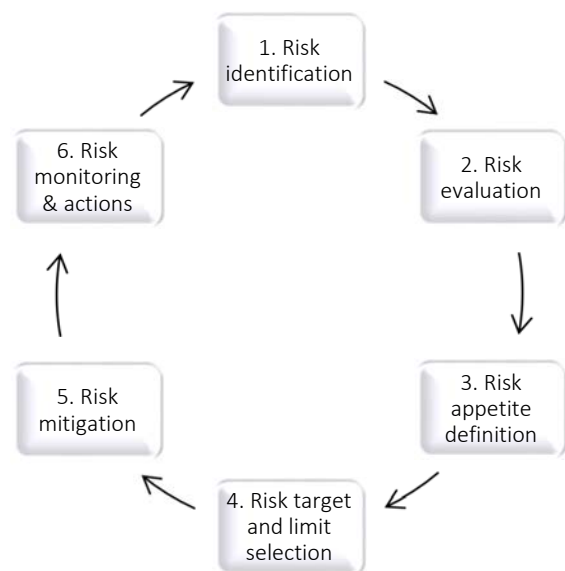
ERM has multiple objectives, including the following:

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

3. ERM Cycle

ERM is a cycle where risks are periodically identified and measured, where risk targets and limits are set, and where CLLAS’ financial condition and material risks are regularly monitored and compared to its risk targets and limits. Risk appetite is fluid and would reflect any improvement or deterioration in risk tolerance, changes in the business strategy and changes in economic conditions.

The diagram on the right illustrates the steps of the ERM cycle. CLLAS’ approach to the various steps is outlined in the next sections.





4. Identification and Evaluation of Material Risks

The Office of the General Manager identifies, defines and assesses the materiality of known, reasonably foreseeable or emerging risks that may have an impact on CLLAS' ability to continue operations, both under normal and stressed conditions. The materiality of the risks CLLAS is exposed to will change over time as the risks are, in part, dependent on CLLAS' business strategy (e.g. amount of net retention, subscriber base, reinsurers selected for reinsurance placement) and on its business environment (e.g. stage of the insurance/reinsurance cycle, outlook for investment market).

The risks which are considered to be material are reviewed in more detail and their potential impact on CLLAS' financial position and continued ability to meet minimum regulatory requirements is quantified.

5. Risk Appetite

Risk appetite is the high-level direction for the amounts and types of risks CLLAS wants to pursue based on its risk profile, vision and overall strategy. CLLAS currently considers the following risk appetite statements to be appropriate:

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

6. Risk Targets and Limits

CLLAS' surplus target is based on an MCT of 210%.

Risk targets and limits are determined in the context of applying risk appetite statements to specific risk categories or business units. Risk targets and limits should be mindful of regulatory requirements or constraints, such as AMRGF requirements, MCT requirements and statutory limits on investment.

The following table presents risk categories that can be monitored. As these risks may challenge the Reciprocal's ability to meet strategic objectives, the following risk targets and limits are recommended, above which management action could be considered:



Risk Category	Risk Metric	Frequency	Green Zone (Meets Target)	Yellow Zone	Red Zone (Limit Exceeded)
General	AMRGF – Excess of Cash and Approved Securities Over Regulatory Requirement	Quarterly	\$5,000,000 and above	\$2,500,000 to \$5,000,000	Less than \$2,500,000
	MCT Ratio	Quarterly	210% and above	n/a	Less than 210%
	Status of Governance Policies	Annually	Up to date	Items Outstanding	Materially behind schedule
Insurance	Gross Loss Ratio	Quarterly	Less than 150%	150% to 300%	Over 300%
	Net Loss Ratio	Quarterly	Less than 50%	50% to 100%	Over 100%
	Risk of Systemic Loss	Annually	Nothing on horizon	Some concerns raised	Adverse experience anticipated
Premium & Strategy	Actual Expenses vs. Budget	Quarterly	Less than 105%	105% to 120%	Over 120%
	State of the Market Outlook	Annually	Nothing on horizon	Some concerns raised	Adverse experience anticipated
Reinsurance	Reinsurer credit rating	Annually	A or above	A-	B+ and below
	Maximum concentration with a single reinsurer excluding Colchester	Quarterly	Less than 10%	10% to 15%	Over 15%
Operational	Board Discussion of Prior Quarter Risk Metrics	Quarterly	Discussed corrective measures	Received but no discussion	Not received
	Resiliency Capacity – People	Annually	Score of 4 or 5 out of 5	Score of 3 out of 5	Score of 1 or 2 out of 5
	Resiliency Capacity – Data/systems	Annually	Score of 4 or 5 out of 5	Score of 3 out of 5	Score of 1 or 2 out of 5
	Advisory Board Turnover in the Last 12 Months	Quarterly	0 to 2 members	3 to 4 members	5 or more members
	Key Management/Advisor Turnover in the Last 36 Months	Quarterly	0 to 1 person	2 to 3 people	4 or more people
Investments	Investment Manager Compliance Statement	Quarterly	In compliance	Temporarily or slightly not in compliance	Consistently or materially not in compliance
Regulatory Compliance	Regulatory Outlook Report	Annually	No significant issues noted	Issues being addressed	Significant issues outstanding



A description of each risk metric is presented below.

General

(1) AMRGF – Excess Cash and Approved Securities over Reserve and Guarantee Fund – key requirement under the Alberta Insurance Act.

(2) MCT Ratio – primary solvency test applicable to insurers in Canada.

(3) Status of Governance Policies – the General Manager will provide a report to the Board once a year in September documenting the status of CLLAS's governance policies and the proposed cycle for preparing/reviewing/confirming the policies (a matrix or set schedule of review would be set for each policy and communicated). The list of policies should generally follow OSFI's requirements as adopted by the Alberta Superintendent, and would likely include:

- Defence Counsel Rates Policy
- Enterprise Risk Management Policy
- Investment Policy
- Outsourcing Policy
- Rate Setting Policy
- Reinsurance Risk Management Policy
- Surplus Management Policy
- Related Party Transactions Policy

Insurance Risk

(4) Gross Loss Ratio – ratio of claims to premiums without the application of any reinsurance.

(5) Net Loss Ratio – loss ratio after the application of reinsurance.

(6) Risk of Systemic Loss – Systemic risk arises from dynamics which produce shocks or uncertainty faced by all (or in any event multiple) insureds. Examples could include an economic recession or an adverse court ruling on a limitations issue. The risk of systemic loss is a difficult matter to assess. A focused discussion would take place once per year in December and summarized in a memo from the General Manager to the Board, which could be as simple as “no issues noted”.

Premium & Strategy Risk

(7) Actual Expenses vs. Budget – the variation of expenses from the budget as compiled in the quarterly management financial statements.

(8) State of the Market Outlook – annual report from General Manager in December with objective to identify any industry trends that could put pressure on CLLAS premium rates, such as predatory pricing.



Reinsurance Risk

(9) Reinsurer Credit Rating – The credit rating is based on A.M. Best and S&P.

(10) Maximum Concentration with a Single Reinsurer Excl. Colchester – This is monitored to assess concentration risk. It is measured based on a reinsurer’s proportion of current claims liability exposure (i.e. case reserves and IBNR) for all policy years. Lloyd’s syndicates are assessed separately.

Operational Risk

(11) Board Discussion of Prior Quarter Risk Metrics – This metric ensures that the Board holds regular discussions on its key material risks. The General Manager would prepare a short accompanying memo to highlight any metrics in “yellow” and “red” zones. Such metrics as well relevant corrective measures, if necessary, should be discussed with the Board.

(12) Resiliency Capacity - People (redundancy, succession) –The General Manager would report once per year in December on business continuity/crisis management. CLLAS’ status would be assessed by the Board on a five-point satisfaction scale.

(13) Resiliency Capacity – Data/Systems –The General Manager would report once per year in December on IT systems and data management. CLLAS’ status would be assessed by the Board on a five-point satisfaction scale.

(14) Board Turnover in Last 12 Months – Board member turnover head count.

(15) Senior Management/Key Advisor Turnover in Last 36 Months – Senior Management Turnover head count over 36 months.

Investment Risk

(16) Investment Manager Compliance Statement –Identifies whether the portfolio is in or out of compliance, with the latter case leading to Board disclosure and discussion.

Regulatory Risk

(17) Regulatory Outlook Report – The General Manager would provide a report, once per year in December, identifying regulatory changes on the horizon and CLLAS’s ability to effectively deal with current and anticipated future regulatory requirements.



7. Risk Mitigation

Risk mitigation measures are implemented by the Advisory Board and the Office of the General Manager, with the support of its standing committees, in order to mitigate the frequency or severity of risks. Risk mitigation strategies should be considered for all material risk categories (as outlined in Appendix A) and should be periodically reviewed.

8. Risk Monitoring and Actions

Risks are monitored and compared against targets and limits on a quarterly basis by the Office of the General Manager. Results are presented to the Advisory Board along with management financial statements, which also include aggregate solvency measures such as the AMRGF, MCT and other financial performance ratios.

The Advisory Board and Office of the General Manager would consider implementing appropriate actions when a risk exceeds the established limit. Corrective actions would be discussed with the Advisory Board before being implemented by the Office of the General Manager.

9. ORSA and Stress Testing

CLLAS performs a full ORSA every three years in accordance with OSFI Guideline E-19 and an interim ORSA in the years a full ORSA is not requested by the regulator. The ORSA is a comprehensive assessment of CLLAS' risks and is intended to assist the Advisory Board in determining the internal MCT ratio target to support the reciprocal's strategy. The ORSA process should:

- Be conducted at least annually;
- Strive to identify and quantify all risks material to CLLAS' operations;
- Be the basis for the selection of the overall internal target;
- Be the basis for the selection of targets and limits by risk category;
- Be used to identify current and potential mitigation strategies;
- Be used to review Advisory Board, Principal Attorney and management responsibilities;
- Be documented in a summary report; and
- Be approved annually by the Advisory Board.

CLLAS performs stress testing in the context of its ORSA and in accordance with OSFI Guideline E-18. Stress testing involves evaluating the impact of a set of specified assumptions on CLLAS' financial condition. CLLAS' stress testing should:

- Include plausible but severe scenarios that could materially impact its operations or financial condition;
- Cover a range of scenarios, including non-historical scenarios;
- Take into account the effectiveness of risk mitigation techniques such as reinsurance in stressed conditions; and
- Be documented in the ORSA summary report.



10. Responsibility for ERM

The Advisory Board is ultimately responsible for overseeing ERM and risk-taking activities. The Advisory Board is responsible for the following:

- Annual review/approval of risk appetite statements;
- Annual review/approval of risk targets and limits;
- Annual review/approval of the ERM policy; and
- Annual review/approval of the internal capital target and the ORSA.

The Principal Attorney is responsible for the following:

- Reporting to the Advisory Board on the effectiveness of and compliance with the ERM policy.

The Office of the General Manager is responsible for the implementation of the Board-approved strategy and overall business performance, specifically:

- Ensuring compliance with the ERM policy;
- Identifying, assessing and monitoring risks;
- Assessing the effectiveness of operations against risk appetite statements and risk limits;
- Recommending appropriate risk mitigation strategies;
- Developing appropriate action plans and ensuring timely communication with the Advisory Board or a committee thereof when risk limits are exceeded;
- Reporting to the Principal Attorney and Board on the risk profile and capital needs, including ORSA;
- Recommending improvements in policies, processes and procedures;
- Developing and reporting on internal controls with respect to risk-taking activities;
- Filing appropriate documentation and communication with the regulator with respect to the ERM policy and ORSA.

11. Authority

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

12. History of Modifications

This policy was first approved by the Advisory Board on September 7, 2016.

This policy was updated to amend the key metrics with respect to maximum allocation to a single non-governmental security and confirmed by the Advisory Board on December 6, 2017.



This policy was updated to reflect risk descriptions, risk metrics, targets and limits to reflect changes adopted in the 2019 ORSA report. The changes were confirmed by the Advisory Board on December 10, 2019.



APPENDIX A – MATERIAL RISKS

Pursuant to its ERM policy, CLLAS periodically identifies, assesses and monitors material risks. The following are CLLAS' exposure to material risks:

- 1. Insurance risk:** CLLAS provides Canadian law firms with up to \$139,975,000 of professional liability insurance coverage per occurrence. CLLAS also has a 5% subscription participation in up to \$140 million of optional excess layers purchased by the law firms. Coverage is provided on a claims-made basis. Coverage is provided excess of the mandatory law society coverage (or \$25,000 in the case of drop-down coverage) and so CLLAS is exposed to low frequency, high severity losses. There is significant uncertainty around the timing, frequency and severity of these insurance losses.

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

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

- 2. Premium & Strategy risk:** Strategic risk arises from the potential inability to implement appropriate business plans and strategies, make decisions, allocate resources, or adapt to changes in the business environment¹.

CLLAS operates on the basis of five-year underwriting periods, and can expect significant competitive pressure from insurance brokers during the lead up to a new underwriting period. In order for CLLAS' premium rates to remain competitive, there must be a sufficiently large subscriber base to share the administrative costs necessary to maintain the self-insurance structure. If the subscriber base decreased significantly as a result of, for example, uncompetitive rates, the viability of the reciprocal may be compromised.

- 3. Reinsurance risk:** Given the loss portfolio transfer at June 30, 2012 and the low net claim retention since July 1, 2012, CLLAS retains only a small proportion of its insurance exposure and cedes the remaining exposure to reinsurers. A

¹ OSFI Own Risk and Solvency Assessment Guideline, January 2014.



reinsurer default or dispute on claims presents a material risk as CLLAS has the ultimate responsibility for the payment of claims.

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

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

4. Operational risk: Operational risk is defined as the risk of loss resulting from people, inadequate or failed internal processes and systems, or from external events. This includes legal risk but excludes strategic and reputational risk. The risk of loss resulting from people includes, for example, operational risk events relating specifically to internal or external fraud, non-adherence to internal procedures/values/objectives, or unethical behaviour more broadly. Risk exposure relating to external events and that stems from coverage sold by insurers to third parties is excluded, while risk on an insurer's own operations is considered within scope¹.

5. Investment Risk: Investment risk comprises interest rate, inflation, asset default and liquidity risks.

Interest rate risk:

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

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

¹ OSFI Operational Risk Management Guideline E-21



Inflation risk:

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

Asset default risk:

CLLAS is exposed to asset default risk as it has investments in fixed income instruments. CLLAS' investment policy allows for long-term investments in federal and provincial government bonds as well as corporate bonds rated A or better.

The riskiest class of fixed income in CLLAS' portfolio is corporate bonds. Although provincial and federal government bonds present some default risk, it is not considered material at this moment.

CLLAS has minimal exposure to default risk on other assets, for example receivables or cash held in bank accounts.

Liquidity risk:

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

Other investment risks:

Based on its Investment Policy, CLLAS holds all its assets in cash and Canadian fixed income and is therefore not directly exposed to equity or foreign exchange risks.

6. Regulatory compliance risk:

Regulatory compliance risk arises from losses due to failure to comply with regulatory requirements. Examples include costs associated with the need to restate financial statements if they are not in compliance with professional standards, or fines and penalties if legislative requirements are not fulfilled.



7. Reputation risk: Reputation risk arises when the confidence of insured members, creditors, reinsurers and other business partners leads to a negative impact on earnings, liquidity or capital position.

For example:

- Reputation with subscribers could be negatively impacted by unstable or noncompetitive premium rates or failure to pay claims in a timely manner;
- Reputation with reinsurers could be negatively impacted by a lack of risk management efforts or failure to report claims information in a timely manner;
- Reputation with various business partners could be negatively impacted by failure to provide timely payments;
- Reputation with regulators could be negatively impacted by failure to communicate in a timely manner.

Concentration risk arises from failure to diversify risk. It is a risk category that is closely tied with other risk categories, most notably with risks involving insurance, reinsurance and invested assets.

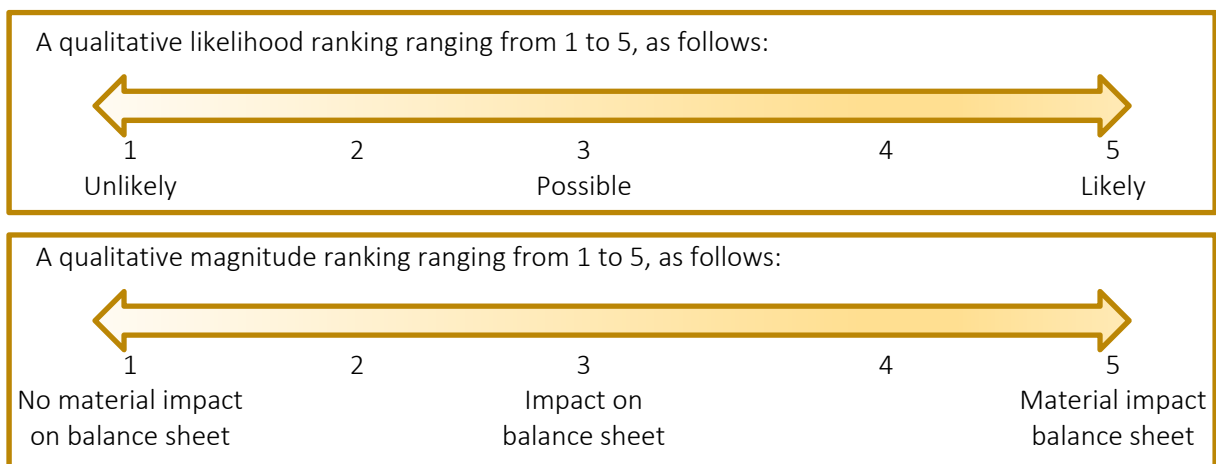
It is also important to keep in mind that risk mitigation measures – such as the use of reinsurance to reduce the net insurance exposure or the use of collateral or letters of credit to secure reinsurance recoverables – may not be functioning as usual under stressed market conditions. For example, if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



Schedule 2

Qualitative Assessment of Material Risks

In June 2019, the Advisory Board performed a qualitative assessment of each of CLLAS's material risks set out in the ERM policy. Inherent risk (i.e. the risk before the application of any risk mitigation strategies) was ranked based on the following scale:



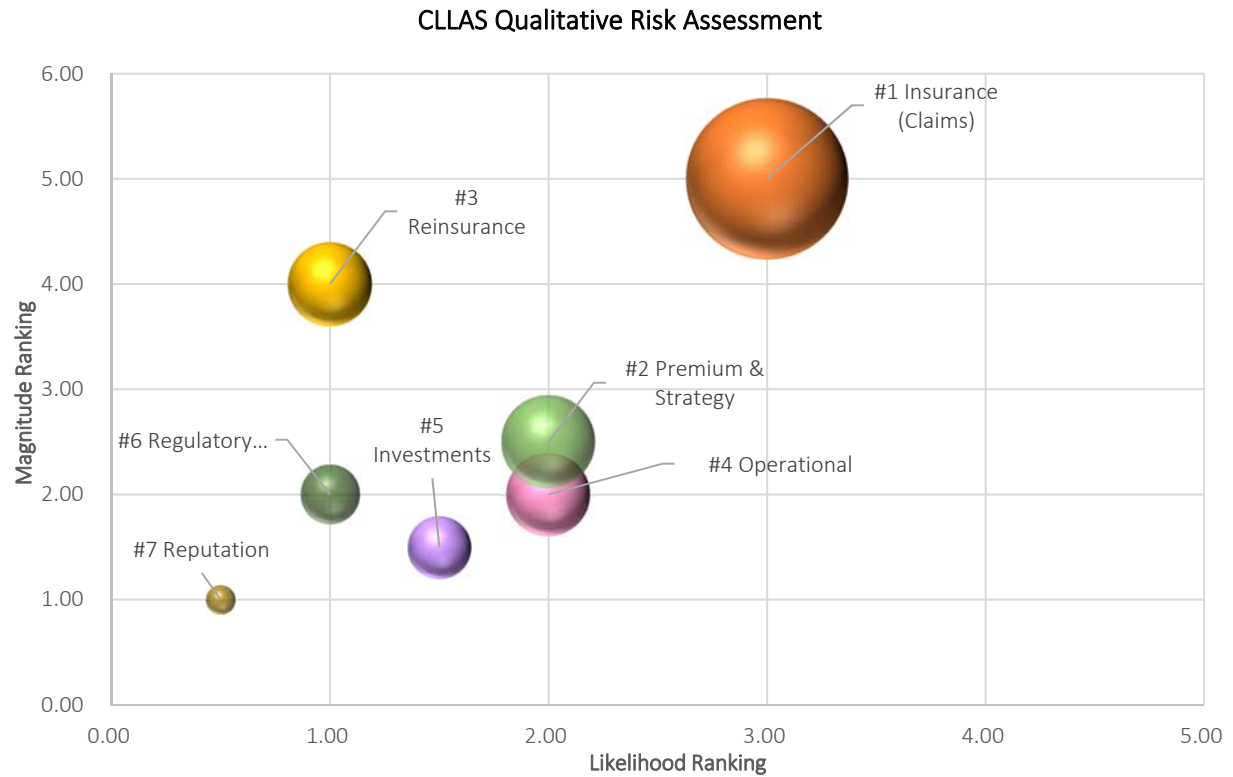
The results of CLLAS's qualitative assessment of its risks are summarized in the table below and presented graphically on the following page.

CLLAS Risk Assessment

Category	Overall Likelihood Ranking	Overall Magnitude Ranking	Overall Ranking
#1 Insurance (Claims)	3.00	5.00	15.00
#2 Premium & Strategy	2.00	2.50	5.00
#3 Reinsurance	1.00	4.00	4.00
#4 Operational	2.00	2.00	4.00
#5 Investments	1.50	1.50	2.25
#6 Regulatory Compliance	1.00	2.00	2.00
#7 Reputation	0.50	1.00	0.50



The following chart presents a graphical summary of the risk categories for CLLAS:



Note: The size of each bubble represents the overall ranking for the risk category.

Section 1
Exhibit 1A

Canadian Lawyers Liability Assurance Society
Projection of Statement of Financial Position

Scenario 1: Base Scenario

	←	Actual	Budget *	Projected	→			
	06/30/2018	06/30/2019	12/31/2019	06/30/2020	06/30/2021	06/30/2022	06/30/2023	06/30/2024
Assets								
Investments, Cash and cash equivalents	19,190,522	18,948,316	20,103,000	18,802,000	19,220,000	19,659,000	20,076,000	20,474,000
Interest income due and accrued	20,414	21,949	0	19,000	19,000	20,000	20,000	20,000
Prepaid expenses	76,947	79,246	152,000	98,000	119,000	133,000	150,000	168,000
Accounts receivable	319,730	525,696	2,677,000	457,000	553,000	620,000	696,000	783,000
Deferred acquisition costs	0	0	116,000	0	0	0	0	0
Unearned premiums recoverable from reinsurers	0	0	3,035,000	0	0	0	0	0
Unpaid claims recoverable from reinsurers	96,738,000	55,883,000	87,890,000	64,113,000	69,610,000	74,893,000	80,076,000	85,314,000
Total	116,345,613	75,458,207	113,973,000	83,489,000	89,521,000	95,325,000	101,018,000	106,759,000
Liabilities								
Accounts payable and accrued expenses	145,819	134,432	468,000	160,000	166,000	173,000	181,000	189,000
Unpaid claims and adjustment expenses	104,698,000	62,634,000	95,626,000	69,941,000	76,064,000	81,938,000	87,689,000	93,484,000
Unearned premiums	0	0	3,995,000	0	0	0	0	0
Premium deficiency reserve	0	0	0	0	0	0	0	0
Other liabilities	0	0	1,979,000	0	0	0	0	0
Total	104,843,819	62,768,432	102,068,000	70,101,000	76,230,000	82,111,000	87,870,000	93,673,000
Surplus								
Retained earnings	11,501,794	12,689,775	11,905,000	13,388,000	13,291,000	13,214,000	13,148,000	13,086,000

* Per business plan dated March 14, 2019.

Section 1
Exhibit 1B

Canadian Lawyers Liability Assurance Society
Projection of Statement of Comprehensive Income

Scenario 1: Base Scenario

	←	Actual	Budget *	Projected	→			
	06/30/2018	06/30/2019	12/31/2019	06/30/2020	06/30/2021	06/30/2022	06/30/2023	06/30/2024
Underwriting Income								
Premiums Written								
Direct	7,138,422	7,390,585		9,144,000	11,068,000	12,403,000	13,925,000	15,662,000
Ceded to reinsurers	5,124,626	5,517,391		7,163,000	8,219,000	9,431,000	10,822,000	12,418,000
Net	2,013,796	1,873,194	1,920,000	1,981,000	2,849,000	2,972,000	3,103,000	3,244,000
Net premiums earned	2,013,796	1,873,194	1,889,000	1,981,000	2,849,000	2,972,000	3,103,000	3,244,000
Net losses paid	(213,456)	467,338	256,000	199,000	246,000	292,000	333,000	372,000
Net change in unpaid claims	686,000	(1,209,000)	247,000	(923,000)	626,000	591,000	567,000	558,000
Premium deficiency adjustments	0	0	0	0	0	0	0	0
Losses incurred	472,544	(741,662)	503,000	(724,000)	872,000	883,000	900,000	930,000
Management and Operating Expenses**	1,693,151	1,473,617	1,677,000	1,711,000	1,762,000	1,815,000	1,870,000	1,926,000
Reinsurance Fees	279,000	279,000	279,000	285,000	294,000	302,000	311,000	321,000
Premium taxes	206,620	213,164	222,000	287,000	321,000	360,000	404,000	454,000
Total claims and expenses	2,651,315	1,224,119	2,681,000	1,559,000	3,249,000	3,360,000	3,485,000	3,631,000
Total underwriting income	(637,519)	649,075	(792,000)	422,000	(400,000)	(388,000)	(382,000)	(387,000)
Investment income	141,792	538,906	364,000	277,000	303,000	310,000	317,000	325,000
Other income and expenses			0	0	0	0	0	0
Total comprehensive income (loss)	(495,727)	1,187,981	(428,000)	699,000	(97,000)	(78,000)	(65,000)	(62,000)

* Per business plan dated March 14, 2019.

** Includes investment fees

Section 1
Exhibit 1C

Canadian Lawyers Liability Assurance Society
Projection of Minimum Capital Test

Scenario 1: Base Scenario

	← 06/30/2018	Actual 06/30/2019	Budget * 12/31/2019	Projected 06/30/2020	06/30/2021	06/30/2022	06/30/2023	→ 06/30/2024
Capital Available								
Surplus	11,502,000	12,690,000	11,905,000	13,388,000	13,291,000	13,214,000	13,148,000	13,086,000
Deductions from Capital Available	(1,004,000)	(76,000)	(519,000)	(160,000)	(174,000)	(188,000)	(199,000)	(213,000)
Capital Available	10,498,000	12,614,000	11,386,000	13,228,000	13,117,000	13,026,000	12,949,000	12,873,000
Capital Required								
Insurance Risk	1,392,000	1,102,652	1,357,000	1,030,000	1,209,000	1,315,000	1,417,000	1,518,000
Market Risk	156,000	28,000	298,000	21,000	1,000	21,000	40,000	58,000
Credit Risk	1,765,000	1,236,000	1,771,000	1,267,000	1,399,000	1,524,000	1,644,000	1,761,000
Operational Risk	588,181	523,865	643,000	612,000	706,000	789,000	882,000	986,000
Diversification Credit	(431,692)	(315,484)	(438,000)	(306,000)	(348,000)	(381,000)	(412,000)	(443,000)
Total Capital Required at 150%	3,469,489	2,575,033	3,631,000	2,624,000	2,967,000	3,268,000	3,571,000	3,880,000
Capital Required at 100%	2,313,000	1,717,000	2,420,667	1,749,000	1,978,000	2,179,000	2,381,000	2,587,000
MCT Ratio	454%	735%	470%	756%	663%	598%	544%	498%

* Per business plan dated March 14, 2019.

**Section 1
Exhibit 1D**

**Canadian Lawyers Liability Assurance Society
Projection of Alberta Maintenance of Reserve and Guarantee Fund Requirement**

Scenario 1: Base Scenario

	← 06/30/2018	Actual 06/30/2019	Budget * 12/31/2019	Projected 06/30/2020	06/30/2021	06/30/2022	06/30/2023	→ 06/30/2024
Reserve Fund								
Net premiums written	2,013,796	1,873,194	1,920,000	1,981,000	2,849,000	2,972,000	3,103,000	3,244,000
Reserve fund required	1,031,898	936,597	960,000	991,000	1,425,000	1,486,000	1,552,000	1,622,000
Guarantee Fund								
Total liabilities	104,843,819	62,768,432	102,068,000	70,101,000	76,230,000	82,111,000	87,870,000	93,673,000
Less: Unearned premiums	0	0	(3,995,000)	0	0	0	0	0
Less: Recoverable from registered reinsurers**	(95,729,000)	(55,807,001)	(87,306,000)	(63,683,000)	(69,143,000)	(74,391,000)	(79,540,000)	(84,742,000)
Plus: Statutory margin	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Guarantee fund required	9,164,819	7,011,431	10,817,000	6,468,000	7,137,000	7,770,000	8,380,000	8,981,000
Total reserve and guarantee fund required	10,196,717	7,948,028	11,777,000	7,459,000	8,562,000	9,256,000	9,932,000	10,603,000
Cash and approved securities	19,190,522	18,948,316	20,103,000	18,802,000	19,220,000	19,659,000	20,076,000	20,474,000
Excess of Cash & Securities over reserve and guarantee fund required	8,993,805	11,000,288	8,326,000	11,343,000	10,658,000	10,403,000	10,144,000	9,871,000

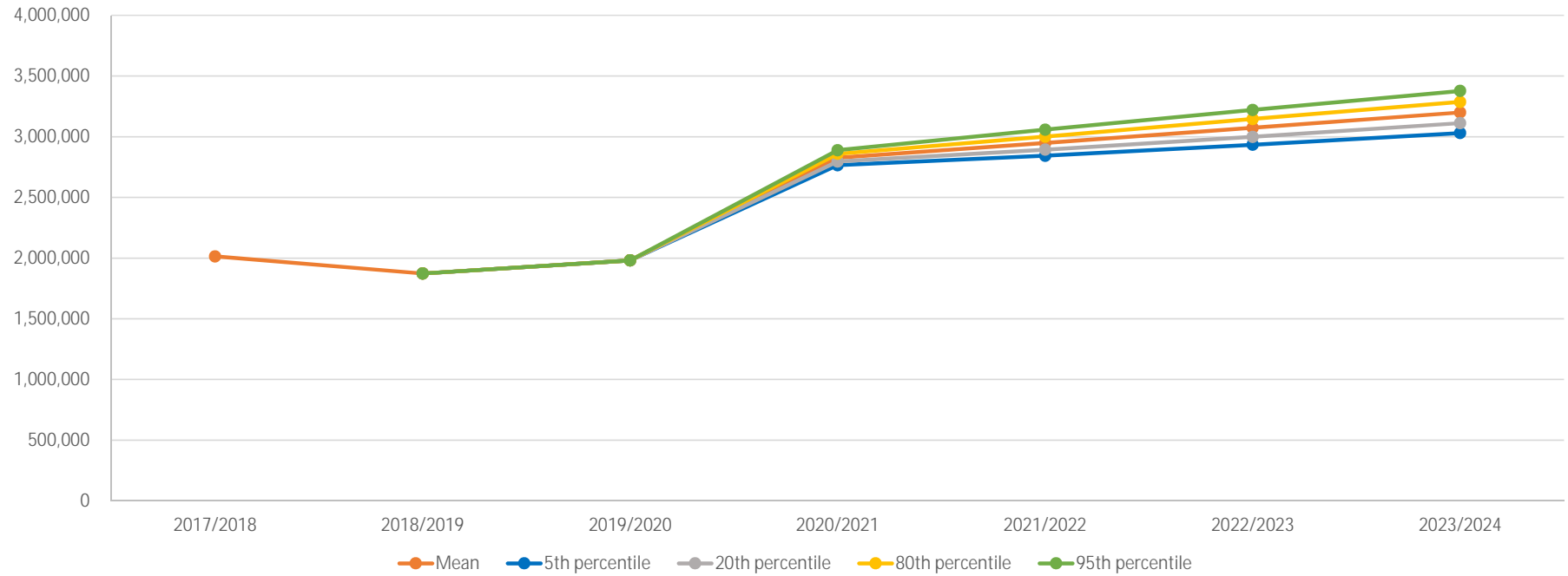
* Per business plan dated March 14, 2019.

** Amounts recoverable from Colchester are secured by a Reinsurance Security Agreement and can be deducted.

Section 1
Exhibit 2A

Canadian Lawyers Liability Assurance Society
5-Year Projections at Various Confidence Levels

Net Written Premiums Excluding Retroassessments



Year	Actual 2017/2018	Actual 2018/2019	Projected (Known) 2019/2020	Projected 2020/2021	Projected 2021/2022	Projected 2022/2023	Projected 2023/2024
5th percentile			1,981,000	2,765,000	2,843,000	2,934,000	3,030,000
20th percentile			1,981,000	2,796,000	2,893,000	2,999,000	3,112,000
Mean	2,014,000	1,873,000	1,981,000	2,827,000	2,948,000	3,073,000	3,200,000
80th percentile			1,981,000	2,859,000	3,001,000	3,146,000	3,287,000
95th percentile			1,981,000	2,889,000	3,058,000	3,221,000	3,377,000

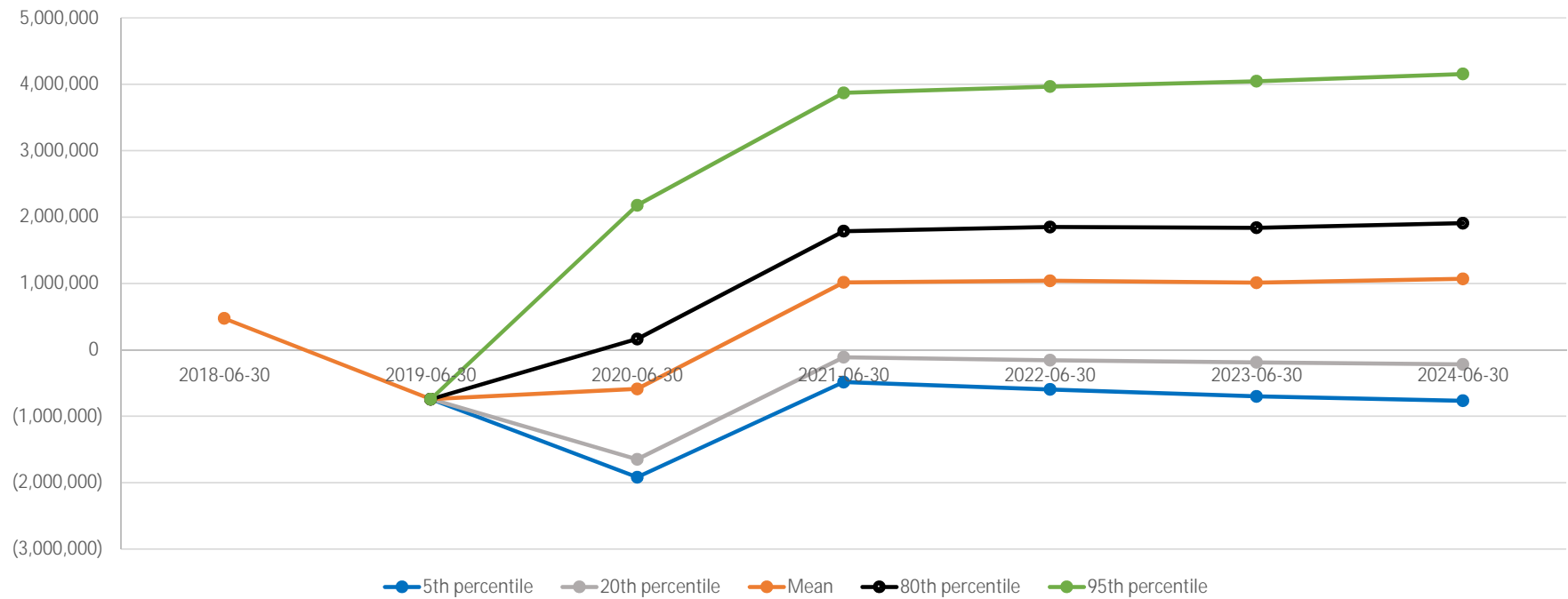
Notes

From stochastic simulation for all risks combined (Scenario 9).
Does not include Future Retroassessments

Section 1
Exhibit 2B

Canadian Lawyers Liability Assurance Society
5-Year Projections at Various Confidence Levels

Net Incurred Losses



Year	Actual 2018-06-30	Actual 2019-06-30	Projected 2020-06-30	Projected 2021-06-30	Projected 2022-06-30	Projected 2023-06-30	Projected 2024-06-30
5th percentile			(1,918,000)	(486,000)	(596,000)	(701,000)	(767,000)
20th percentile			(1,648,000)	(111,000)	(157,000)	(189,000)	(219,000)
Mean	473,000	(742,000)	(588,000)	1,016,000	1,041,000	1,012,000	1,069,000
80th percentile			164,000	1,787,000	1,850,000	1,838,000	1,908,000
95th percentile			2,178,000	3,871,000	3,965,000	4,045,000	4,155,000

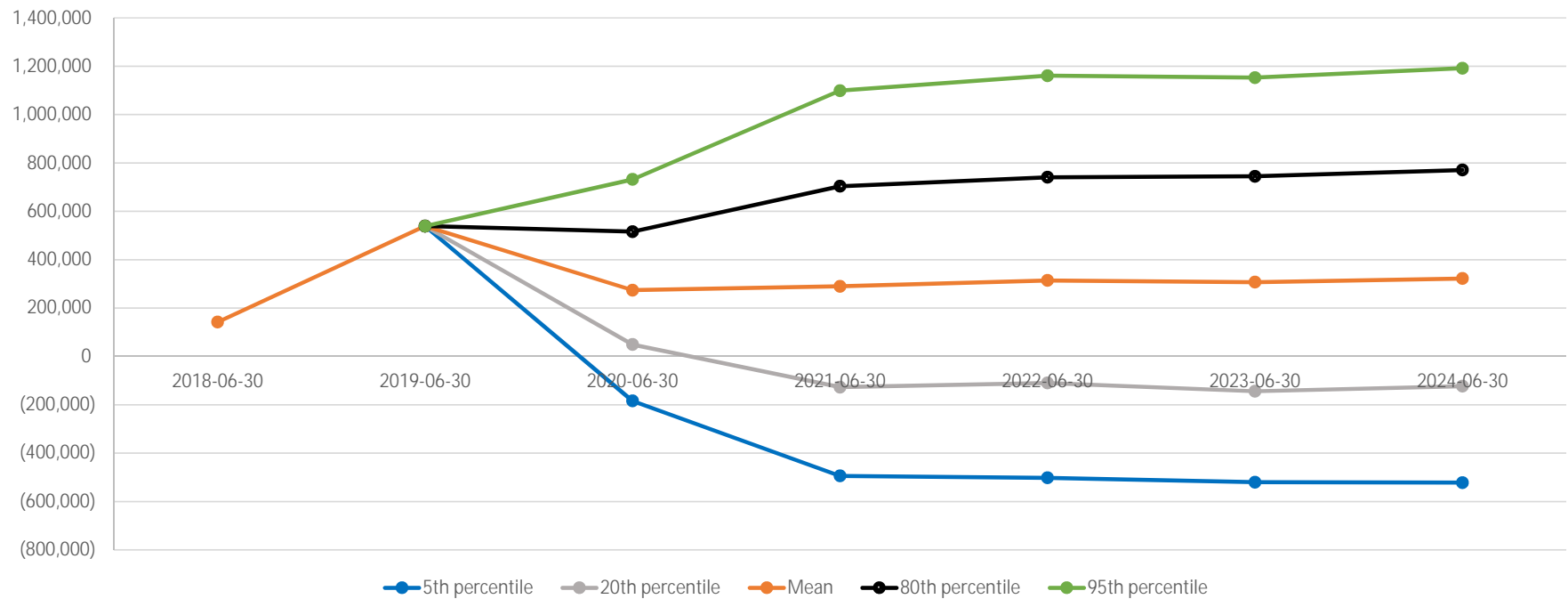
Notes

From stochastic simulation for all risks combined (Scenario 9).

Section 1
Exhibit 2C

Canadian Lawyers Liability Assurance Society
5-Year Projections at Various Confidence Levels

Total Investment Income



Year	Actual 2018-06-30	Actual 2019-06-30	Projected 2020-06-30	Projected 2021-06-30	Projected 2022-06-30	Projected 2023-06-30	Projected 2024-06-30
5th percentile			(184,000)	(494,000)	(502,000)	(520,000)	(522,000)
20th percentile			49,000	(127,000)	(110,000)	(144,000)	(123,000)
Mean	142,000	539,000	274,000	290,000	314,000	307,000	322,000
80th percentile			516,000	704,000	741,000	745,000	771,000
95th percentile			732,000	1,099,000	1,161,000	1,153,000	1,192,000

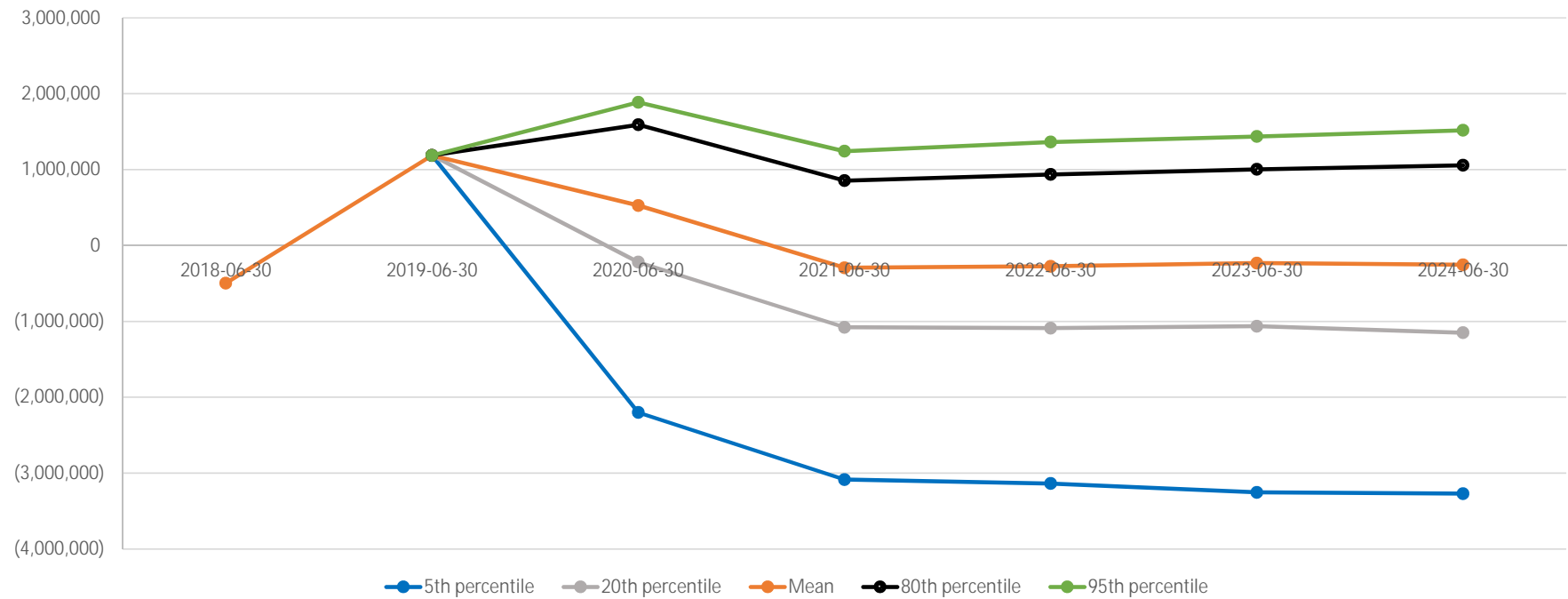
Notes

From stochastic simulation for all risks combined (Scenario 9).
Does not include Future Retroassessments

Section 1
Exhibit 2D

Canadian Lawyers Liability Assurance Society
5-Year Projections at Various Confidence Levels

Total Comprehensive Income



Year	Actual 2018-06-30	Actual 2019-06-30	Projected 2020-06-30	Projected 2021-06-30	Projected 2022-06-30	Projected 2023-06-30	Projected 2024-06-30
5th percentile			(2,200,000)	(3,085,000)	(3,137,000)	(3,253,000)	(3,270,000)
20th percentile			(219,000)	(1,077,000)	(1,088,000)	(1,064,000)	(1,149,000)
Mean	(496,000)	1,188,000	527,000	(293,000)	(273,000)	(232,000)	(254,000)
80th percentile			1,591,000	855,000	937,000	1,004,000	1,058,000
95th percentile			1,888,000	1,243,000	1,364,000	1,437,000	1,518,000

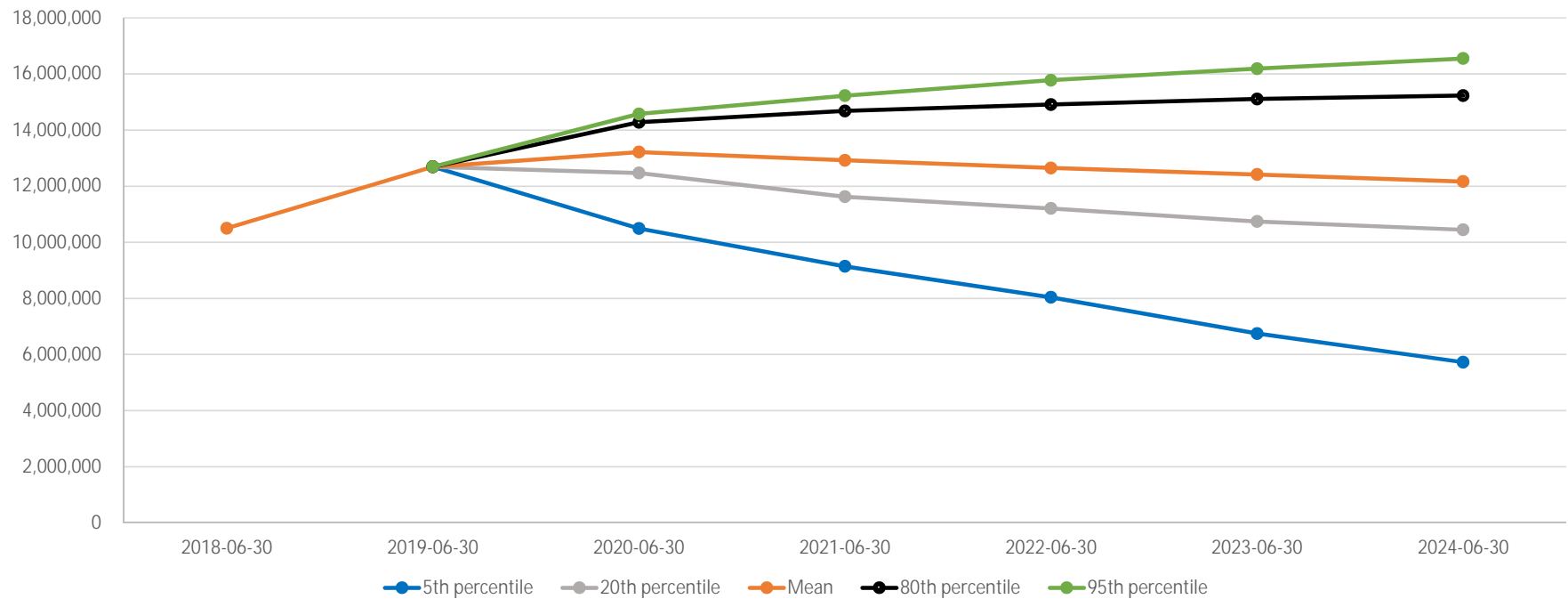
Notes

From stochastic simulation for all risks combined (Scenario 9).
Does not include Future Retroassessments

Section 1
Exhibit 2E

Canadian Lawyers Liability Assurance Society
5-Year Projections at Various Confidence Levels

Surplus



Year	Actual 2018-06-30	Actual 2019-06-30	Projected 2020-06-30	Projected 2021-06-30	Projected 2022-06-30	Projected 2023-06-30	Projected 2024-06-30
5th percentile			10,490,000	9,144,000	8,040,000	6,748,000	5,724,000
20th percentile			12,471,000	11,625,000	11,208,000	10,742,000	10,446,000
Mean	10,498,000	12,690,000	13,216,000	12,924,000	12,651,000	12,419,000	12,166,000
80th percentile			14,281,000	14,684,000	14,912,000	15,109,000	15,233,000
95th percentile			14,578,000	15,227,000	15,778,000	16,190,000	16,553,000

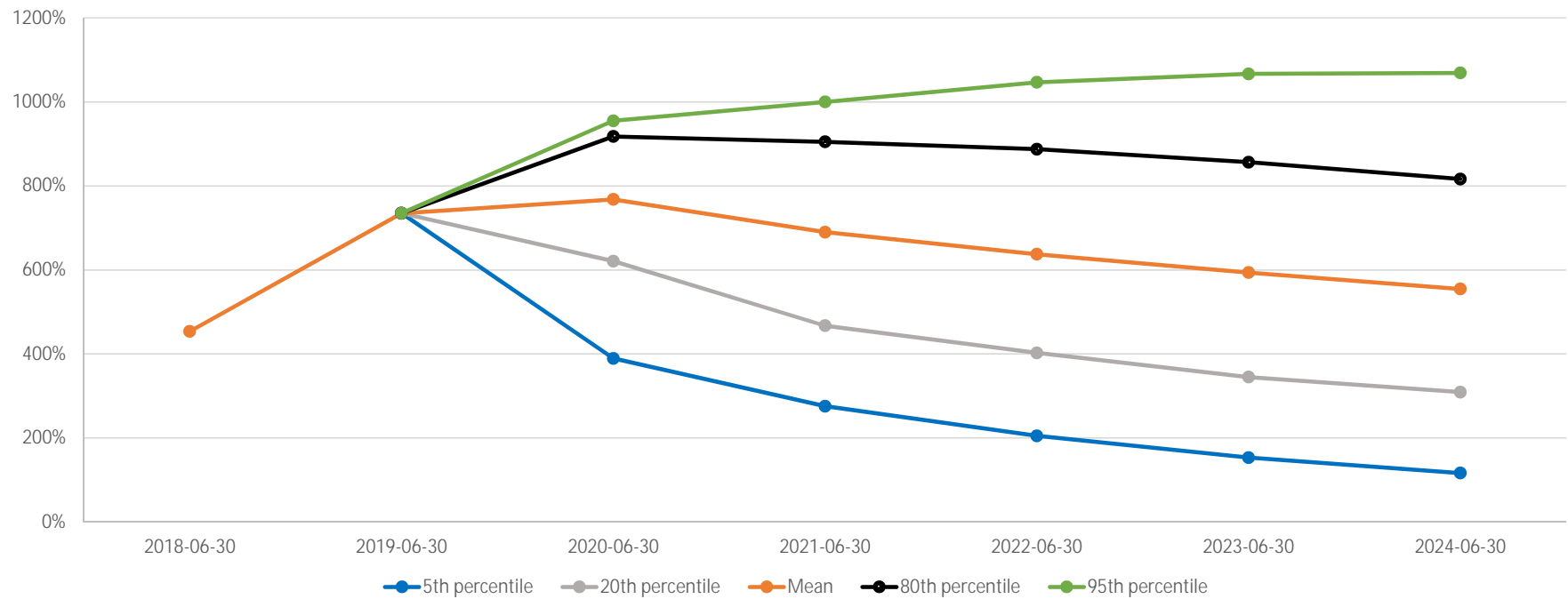
Notes

From stochastic simulation for all risks combined (Scenario 9).
Does not include Future Retroassessments

Section 1
Exhibit 2F

Canadian Lawyers Liability Assurance Society
5-Year Projections at Various Confidence Levels

MCT Ratio



Year	Actual 2018-06-30	Actual 2019-06-30	Projected 2020-06-30	Projected 2021-06-30	Projected 2022-06-30	Projected 2023-06-30	Projected 2024-06-30
5th percentile			389%	276%	205%	153%	117%
20th percentile			621%	467%	403%	345%	309%
Mean	454%	735%	768%	690%	637%	594%	555%
80th percentile			918%	905%	887%	857%	816%
95th percentile			955%	1,000%	1,047%	1,067%	1,069%

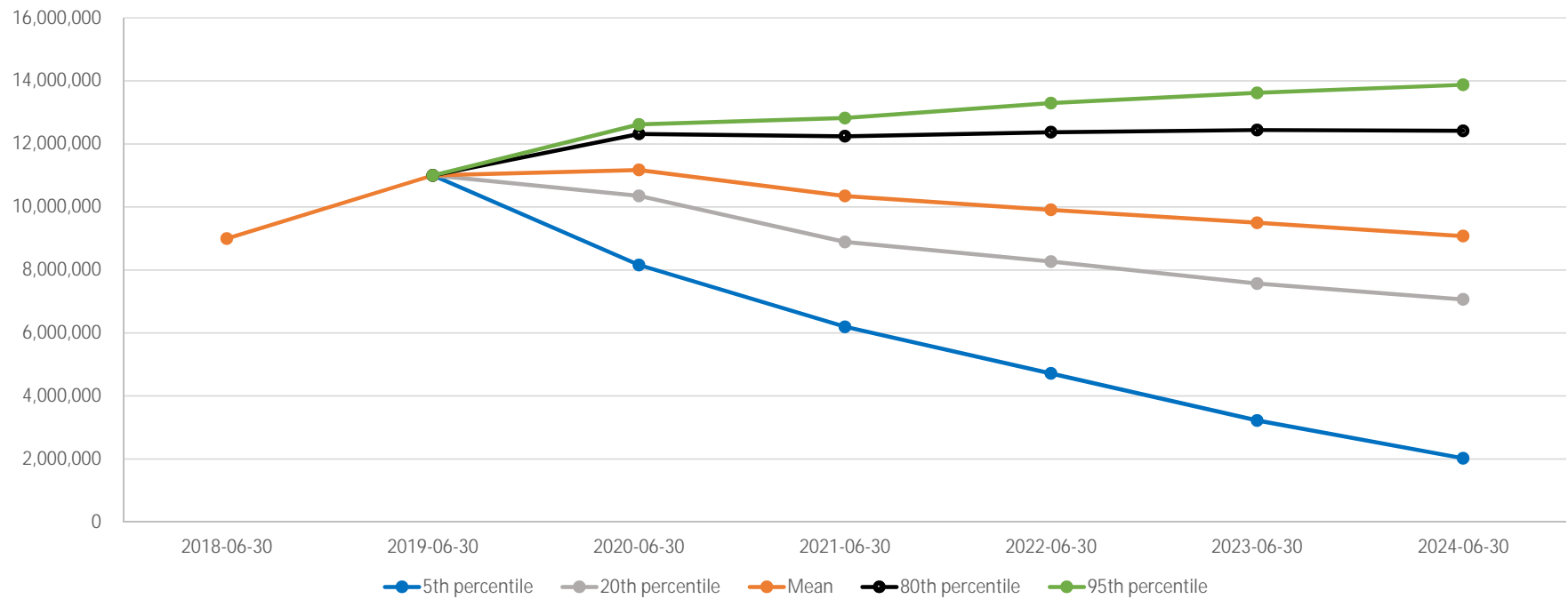
Notes

From stochastic simulation for all risks combined (Scenario 9).
Does not include Future Retroassessments

Section 1
Exhibit 2G

Canadian Lawyers Liability Assurance Society
5-Year Projections at Various Confidence Levels

Excess of AMRGF Requirement



Year	Actual 2018-06-30	Actual 2019-06-30	Projected 2020-06-30	Projected 2021-06-30	Projected 2022-06-30	Projected 2023-06-30	Projected 2024-06-30
5th percentile			8,157,000	6,196,000	4,714,000	3,221,000	2,024,000
20th percentile			10,351,000	8,888,000	8,267,000	7,568,000	7,064,000
Mean	8,994,000	11,000,000	11,172,000	10,349,000	9,906,000	9,498,000	9,074,000
80th percentile			12,318,000	12,243,000	12,373,000	12,441,000	12,416,000
95th percentile			12,620,000	12,822,000	13,296,000	13,619,000	13,875,000

Notes

From stochastic simulation for all risks combined (Scenario 9).
Does not include Future Retroassessments

Section 1
Exhibit 3

Canadian Lawyers Liability Assurance Society
Summary of Surplus Position under Various Stochastic Scenarios

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	End of Projection Year 1					End of Projection Year 3				
Confidence Level	Mean	90%	95%	97.5%	99%	Mean	90%	95%	97.5%	99%
Return Period (in Years)	10	20	40	100		10	20	40	100	
Scenario 1: Base Scenario*	13,388,000	13,388,000	13,388,000	13,388,000	13,388,000	13,214,000	13,214,000	13,214,000	13,214,000	13,214,000
Impact on Surplus **										
Scenario 2: Insurance & Reinsurance Risks Only	(2,014,000)	(2,724,000)	(3,729,000)	(5,753,000)		(3,013,000)	(4,619,000)	(7,106,000)	(15,591,000)	
Scenario 3: Operational Risk Only	(22,000)	(116,000)	(255,000)	(495,000)		(191,000)	(326,000)	(616,000)	(728,000)	
Scenario 4: Investment Risk Only	(149,000)	(204,000)	(258,000)	(321,000)		(257,000)	(337,000)	(411,000)	(553,000)	
Scenario 5: Premium Risk Only	0	0	0	0		(129,000)	(168,000)	(203,000)	(236,000)	
Additive Impact on Surplus (Before Diversification)	(2,185,000)	(3,044,000)	(4,242,000)	(6,569,000)		(3,590,000)	(5,450,000)	(8,336,000)	(17,108,000)	
Equivalent MCT Ratio	127%	177%	247%	383%		209%	317%	485%	996%	
Diversification Benefit	162,000	317,000	515,000	906,000		605,000	840,000	902,000	1,050,000	
Equivalent MCT Ratio	(9%)	(18%)	(30%)	(53%)		(35%)	(49%)	(53%)	(61%)	
Scenario 6: All Risks Combined	(2,023,000)	(2,727,000)	(3,727,000)	(5,663,000)		(2,985,000)	(4,610,000)	(7,434,000)	(16,058,000)	
Equivalent MCT Ratio	118%	159%	217%	330%		174%	268%	433%	935%	

Notes

* From Exhibit 1A (no simulation)

** From stochastic simulation

Does not include Future Retroassessments

**Section 1
Exhibit 4**

**Canadian Lawyers Liability Assurance Society
Capital Requirements**

		ORSA Capital		Regulatory Capital
		Low Option A	High Option B	Supervisory Target MCT 210%
Capital Requirement for Risks and Diversification From Stochastic Model				
(1)	Insurance & Reinsurance Risks	2,724,000	3,013,000	1,544,000
(2)	Operational Risk	116,000	191,000	733,000
(4)	Investment Risk	204,000	257,000	1,769,000
(5)	Premium and Strategy Risk	0	129,000	
(6a)	Subtotal	3,044,000	3,590,000	4,046,000
(6b)	Equivalent MCT Ratio	177%	209%	236%
(7a)	Diversification Credit	(317,000)	(605,000)	(442,000)
(7b)	Equivalent MCT Ratio	(18%)	(35%)	(26%)
Capital Requirement for Additional Risks				
(8)	Premium & Strategy	519,000	419,000	
(9)	Regulatory Risk	180,000	180,000	
(10)	Reputation Risk	180,000	180,000	
(11a)	Subtotal	879,000	779,000	0
(11b)	Equivalent MCT Ratio	51%	45%	0%
Total Capital Requirement				
(12a)	Indicated Capital Required	3,606,000	3,764,000	3,604,000
(12b)	Equivalent MCT Ratio	210%	219%	210%
(12c)	MCT Deductions from Capital Available (June 30, 2019)	76,000	76,000	76,000
(12d)	Total Surplus Required (June 30, 2019)	3,682,000	3,840,000	3,680,000
(13)	Surplus (June 30, 2019)	12,689,775	12,689,775	12,689,775
(14)	AMRGF Surplus Required (June 30, 2019)			1,689,000

Notes

(1) to (5) Option A based on 95% confidence using 1-year horizon [Exhibit 3, Col. (4)]; Option B based on 90% confidence using 3-year horizon [Exhibit 3, Col. (7)]

(6) = Sum (1) to (5)

(7) From Exhibit 3; Option A based on 95% confidence using 1-year horizon; Option B based on 90% confidence using 3-year horizon
(8) = 25% of impact on surplus of decrease of 50% in exposure vs. Scenario 9; Option A based on 95% confidence using 1-year horizon; Option B based on 90% confidence using 3-year horizon

(9) = 5% x MCT capital required at 210% as at June 30, 2019

(10) = 5% x MCT capital required at 210% as at June 30, 2019

(11) = Sum (8) to (10)

(12a) = (6) + (7) + (11)

(12c) Receivables and recoverables from unregistered reinsurers not covered by acceptable collateral as at June 30, 2019

(12d) = (12a) + (12c)

(13) From Exhibit 1A

(14) = Surplus - Excess of Alberta Reserve and Guarantee Fund Requirement (as at June 30, 2019)

**Section 1
Exhibit 5**

**Canadian Lawyers Liability Assurance Society
Key Risk Metrics Report
As at June 30, 2019**

	(02)	(04)	(06)
	Regulatory Capital (210% MCT)	ORSA Capital	Methodology and References
Total Capital Required			
(01) Insurance & Reinsurance Risks	1,544,000	2,724,000	From Exhibit 4
(02) Market Risk	39,000	193,800	From Exhibit 4 based on 95% of investment risk; regulatory capital includes reinsurance risk
(03) Credit Risk	1,730,000	10,200	From Exhibit 4 based on 5% of investment risk
(04) Operational Risk	733,000	116,000	From Exhibit 4
(05) Base Required Capital	4,046,000	3,044,000	= (01) + (02) + (03) + (04)
(06) Regulatory Minimum Required Capital	4,046,000	3,044,000	= (05)
(07) Other Risk: Premium & Strategy		519,000	From Exhibit 4
(08) Other Risk: Regulatory		180,000	From Exhibit 4
(09) Other Risk: Reputation		180,000	From Exhibit 4
(10) Adjustments - Other			
(11) Adjustments - Aggregation / Diversification	(442,000)	(317,000)	From Exhibit 4
(12) Adjustments - Extremely Severe Scenarios			
(13) Target Required Capital / Own Capital Needs	3,604,000	3,606,000	= Sum [(06) to (13)]
(14) Adjustments - Other		0	
(15) Adjustments - Varying Nature & Severity Scenarios			
(16) Internal Target		3,606,000	Equivalent to MCT ratio of 210% at June 30, 2019
(17) Total Available Capital	12,614,000	12,614,000	From Exhibit 1C = Surplus - Recoverables not covered by collateral
Reconciliation of Available Capital			
(18) ORSA Total Available Capital		12,614,000	= (18)
(19) Regulatory Total Available Capital	12,614,000		= (18)

Section 2
Exhibit 1

Canadian Lawyers Liability Assurance Society
Summary of Historical Data

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Policy Period	Exposure Number of Lawyers	Reciprocal Premium Gross of Reinsurance	Net of Reinsurance	CLLAS Layer	Number of Claims Drop Down Claims	Ground-Up Losses	CLLAS Reported Losses Gross of Reinsurance	Net of Reinsurance	Ground Up Reported Losses	Drop Down Claims Reported Losses
1987-1988	1,479	4,434,000	1,883,829	0	0	24	0	0	255,751	0
1988-1989	1,807	3,614,000	1,137,725	0	0	37	0	0	1,673,300	0
1989-1990	2,078	3,740,400	689,957	0	0	62	0	0	2,655,706	0
1990-1991	2,352	4,233,600	586,847	1	0	86	3,593,148	896,574	6,059,360	0
1991-1992	2,400	4,320,000	577,354	3	0	90	7,416,563	2,470,496	14,078,492	0
1992-1993	2,433	4,478,400	389,208	1	0	99	326,599	0	5,491,955	0
1993-1994	2,507	4,512,600	373,280	2	0	131	30,654,825	5,638,230	37,389,958	0
1994-1995	2,514	5,153,700	1,328,836	4	0	88	9,318,988	1,883,180	17,348,113	0
1995-1996	2,525	5,807,500	1,930,552	2	0	53	3,742,644	1,871,322	10,099,385	0
1996-1997	2,594	5,276,196	1,070,215	0	0	52	0	0	1,936,471	0
1997-1998	2,640	6,587,610	1,627,963	0	0	49	0	0	4,109,525	0
1998-1999	2,838	10,826,416	4,368,122	2	0	55	20,296,669	3,300,000	25,100,723	0
1999-2000	3,229	12,093,829	5,100,300	3	0	41	8,492,585	3,300,000	13,119,207	0
2000-2001	4,008	14,968,458	6,734,718	0	0	43	0	0	4,726,198	0
2001-2002	4,242	14,694,378	5,919,526	4	0	52	17,553,756	3,300,000	25,282,592	0
2002-2003	4,523	17,346,379	4,631,546	3	0	59	3,466,726	3,415,798	11,100,894	0
2003-2004	4,719	22,376,007	6,619,932	4	0	59	38,933,335	6,433,335	49,181,313	0
2004-2005	4,743	24,676,487	6,832,821	3	1	46	1,262,333	1,262,333	11,131,383	38,338
2005-2006	4,770	25,025,027	6,259,056	3	0	38	765,546	712,114	5,034,661	0
2006-2007	4,772	33,356,139	12,326,959	2	0	30	6,474,107	5,050,313	10,589,820	0
2007-2008	4,784	27,040,048	10,121,699	4	0	31	16,826,586	7,514,456	21,378,526	0
2008-2009	4,835	24,343,680	9,812,057	4	1	43	2,808,791	5,042	7,970,467	5,042
2009-2010	4,817	23,632,747	9,849,698	6	0	43	42,517,939	19,696	52,002,184	0
2010-2011	4,771	20,852,074	8,040,957	5	1	51	35,270,882	2,073,436	43,027,980	242,012
2011-2012	4,708	17,006,743	5,101,008	6	2	43	5,187,567	106,506	10,550,995	106,506
2012-2013	4,128	14,228,728	3,352,235	3	1	47	1,437,727	203,270	8,995,980	203,270
2013-2014	4,124	13,954,400	3,154,848	3	0	47	8,559,332	0	15,953,942	0
2014-2015	4,198	12,895,931	2,452,086	2	2	38	72,383	72,383	4,821,853	72,383
2015-2016	4,141	12,438,547	2,414,074	3	0	47	2,250,000	0	12,466,964	0
2016-2017	4,084	10,610,344	2,176,665	3	1	40	3,840,333	650,000	9,246,091	650,000
2017-2018	3,582	7,138,422	2,013,796	0	0	46	0	0	3,218,860	0
2018-2019	3,710	3,725,665	944,295	0	0	28	0	0	1,413,100	0
Total	115,053	415,388,455	129,822,164	76	9	1,698	271,069,365	50,178,484	447,411,749	1,317,551

Notes

(1) The policy period extends from July 1 to June 30

(2) From CLLAS

(3) to (11) From CLLAS Actuarial Valuation as at December 31, 2018

Losses from policy periods 1987-1988 to 2011-2012 have been transferred to Colchester

Premiums exclude retroassessments and the loss portfolio transfer premium

Section 2
Exhibit 2

Canadian Lawyers Liability Assurance Society
Selection of Exposure Trend

(1)	(2)	(3)
Policy Period	Number of Lawyers	Annual Change
1987-1988	1,479	
1988-1989	1,807	22.2%
1989-1990	2,078	15.0%
1990-1991	2,352	13.2%
1991-1992	2,400	2.0%
1992-1993	2,433	1.4%
1993-1994	2,507	3.0%
1994-1995	2,514	0.3%
1995-1996	2,525	0.4%
1996-1997	2,594	2.7%
1997-1998	2,640	1.8%
1998-1999	2,838	7.5%
1999-2000	3,229	13.8%
2000-2001	4,008	24.1%
2001-2002	4,242	5.8%
2002-2003	4,523	6.6%
2003-2004	4,719	4.3%
2004-2005	4,743	0.5%
2005-2006	4,770	0.6%
2006-2007	4,772	0.0%
2007-2008	4,784	0.3%
2008-2009	4,835	1.1%
2009-2010	4,817	-0.4%
2010-2011	4,771	-1.0%
2011-2012	4,708	-1.3%
2012-2013	4,128	-12.3%
2013-2014	4,124	-0.1%
2014-2015	4,198	1.8%
2015-2016	4,141	-1.4%
2016-2017	4,084	-1.4%
2017-2018	3,582	-12.3%
2018-2019	3,710	3.6%
Total	115,053	

(4) Indicated Trend

All Years	3.29%
Last 10 Years	-2.47%
Last 5 Years	-1.93%

(5) Selected Average Exposure Trend

0.00%

(6) Indicated Standard Deviation of Annual Changes

4.59%

(7) Selected Standard Deviation of Annual Changes

4.50%

Notes

- (1) The policy period extends from July 1 to June 30
(2) = Exhibit 1, Col. (2)
(4) Simple average based on (3)
(5) Selected based on actuarial judgment
(6) Based on last 15 years standard deviation
(7) Selected based on actuarial judgment

**Section 2
Exhibit 3**

**Canadian Lawyers Liability Assurance Society
Selection of Loss Frequency Assumptions (Ground Up Losses)**

(1) Policy Period	(2) Number of Earned Lawyers	(3) Number of Reported Drop Down Claims	(4) Number of Reported Claims CLLAS Layer	(5) Number of Non-Zero Ground Up Claims	(6) Claim Count Development Factor	(7) Ultimate Number of Claims	(8) Frequency (in %)
1987-1988	1,479		0	24	1.000	24	1.62%
1988-1989	1807		0	37	1.000	37	2.05%
1989-1990	2078		0	62	1.000	62	2.98%
1990-1991	2352		1	86	1.000	86	3.66%
1991-1992	2400		3	90	1.000	90	3.75%
1992-1993	2433		1	99	1.000	99	4.07%
1993-1994	2507		2	131	1.000	131	5.23%
1994-1995	2514		4	88	1.000	88	3.50%
1995-1996	2525		2	53	1.000	53	2.10%
1996-1997	2594		0	52	1.000	52	2.00%
1997-1998	2640		0	49	1.000	49	1.86%
1998-1999	2838		2	55	1.000	55	1.94%
1999-2000	3,229		3	41	1.000	41	1.27%
2000-2001	4,008		0	43	1.000	43	1.07%
2001-2002	4,242		4	52	1.000	52	1.23%
2002-2003	4,523		3	59	1.000	59	1.30%
2003-2004	4,719		4	59	1.000	59	1.25%
2004-2005	4,743	1	3	46	1.000	46	0.97%
2005-2006	4,770		3	38	1.000	38	0.80%
2006-2007	4,772		2	30	1.000	30	0.63%
2007-2008	4,784		4	31	1.000	31	0.65%
2008-2009	4,835	1	4	43	1.000	43	0.89%
2009-2010	4,817		6	43	1.000	43	0.89%
2010-2011	4,771	1	5	51	1.000	51	1.07%
2011-2012	4,708	2	6	43	1.000	43	0.91%
2012-2013	4,128	1	3	47	1.000	47	1.14%
2013-2014	4,124		3	47	1.000	47	1.14%
2014-2015	4,198	2	2	38	1.000	38	0.91%
2015-2016	4,141		3	47	0.995	47	1.13%
2016-2017	4,084	1	3	40	0.950	38	0.93%
2017-2018	3,582		0	46	0.816	38	1.05%
2018-2019	1,855		0	28	1.036	29	1.56%
Total	113,198	9	76	1,698		1,688	

(9) Indicated Frequency:

All Years	58	1.49%
Last 10 Years	40	1.04%
Last 5 Years	41	1.06%
Last 3 Years	43	1.10%

(10) Selected Frequency:

1.00%

(11) Projected Exposure:

(11a) Total: 3,884

(11b) Quebec: 749

(11c) Proportion Quebec: 19%

(12) Projected Claim Count

2019-2020

38.84

(13) Indicated Frequency Trend:

All Years	-4.3%
Last 10 Years	2.9%

(14) Selected Frequency Trend

0.0%

(15) Selected Proportion of Drop Down Claims :

(15a) Outside Quebec

10.00%

(15b) Quebec

1.00%

Notes

(1) The policy period extends from July 1 to June 30

(2) = Exhibit 1, Col. (2)

(3) = Exhibit 1, Col. (6)

(4) = Exhibit 1, Col. (5)

(5) = Exhibit 1, Col. (7)

(6) Based on the loss development factors selection in the 2019-2020 rating analysis

(7) = (5) x (6)

(8) = (7) / (2)

(9) Frequency weighted based on total insured values in (2)

Ultimate number of claims = Indicated Frequency x Exposure value of policy period 2019-2020

(10) Selected based on actuarial judgment

(11a) From CLLAS 2019-2020 renewal

(11b) From CLLAS 2019-2020 renewal

(11c) = (11b) / (11a)

(12) = (10) x (11a)

(13) Exponential trend

(14) Selected based on actuarial judgment

(15) Selected based on actuarial judgment

**Section 2
Exhibit 4**

**Canadian Lawyers Liability Assurance Society
Selection of Loss Severity Trend (Ground Up Losses)**

(1) Policy Period	(2) Ground-Up Reported Losses	(3) Adjustments for Large Losses	(4) Loss Development Factor	(5) Ground-Up Ultimate Losses	(6) Ultimate Number of Claims	(7) Average Claim
1987-1988	255,751	0	1.000	255,751	24	10,656
1988-1989	1,673,300	0	1.000	1,673,300	37	45,224
1989-1990	2,655,706	0	1.000	2,655,706	62	42,834
1990-1991	6,059,360	0	1.000	6,059,360	86	70,458
1991-1992	14,078,492	0	1.000	14,078,492	90	156,428
1992-1993	5,491,955	0	1.000	5,491,955	99	55,474
1993-1994	37,389,958	0	1.000	37,389,958	131	285,420
1994-1995	17,348,113	0	1.000	17,348,113	88	197,138
1995-1996	10,099,385	0	1.000	10,099,385	53	190,554
1996-1997	1,936,471	0	1.000	1,936,471	52	37,240
1997-1998	4,109,525	0	1.000	4,109,525	49	83,868
1998-1999	25,100,723	0	1.000	25,100,723	55	456,377
1999-2000	13,119,207	0	1.000	13,119,207	41	319,981
2000-2001	4,726,198	0	1.000	4,726,198	43	109,912
2001-2002	25,282,592	0	1.000	25,282,592	52	486,204
2002-2003	11,100,894	0	1.000	11,100,894	59	188,151
2003-2004	49,181,313	0	1.000	49,181,313	59	833,582
2004-2005	11,131,383	0	1.000	11,131,383	46	241,987
2005-2006	5,034,661	0	1.000	5,034,661	38	132,491
2006-2007	10,589,820	0	1.000	10,589,820	30	352,994
2007-2008	21,378,526	0	1.000	21,378,526	31	689,630
2008-2009	7,970,467	0	1.000	7,970,467	43	185,360
2009-2010	52,002,184	32,900,000	1.001	52,014,237	43	1,209,633
2010-2011	43,027,980	31,800,000	1.011	43,147,987	51	846,039
2011-2012	10,550,995	0	1.026	10,823,077	43	251,699
2012-2013	8,995,980	0	1.105	9,936,082	47	211,406
2013-2014	15,953,942	0	1.205	19,221,244	47	408,963
2014-2015	4,821,853	0	1.316	6,347,647	38	167,043
2015-2016	12,466,964	0	1.571	19,589,148	47	418,930
2016-2017	9,246,091	0	2.088	19,308,773	38	508,219
2017-2018	3,218,860	0	3.528	11,357,622	38	302,410
2018-2019	1,413,100	0	8.941	12,634,808	29	435,576
Total	447,411,749	64,700,000		490,094,423	1,688	290,286

(8) Indicated Trend:

All Years	5.70%	7.69%
Last 10 Years	-10.47%	-6.86%

(9) Selected Trend:

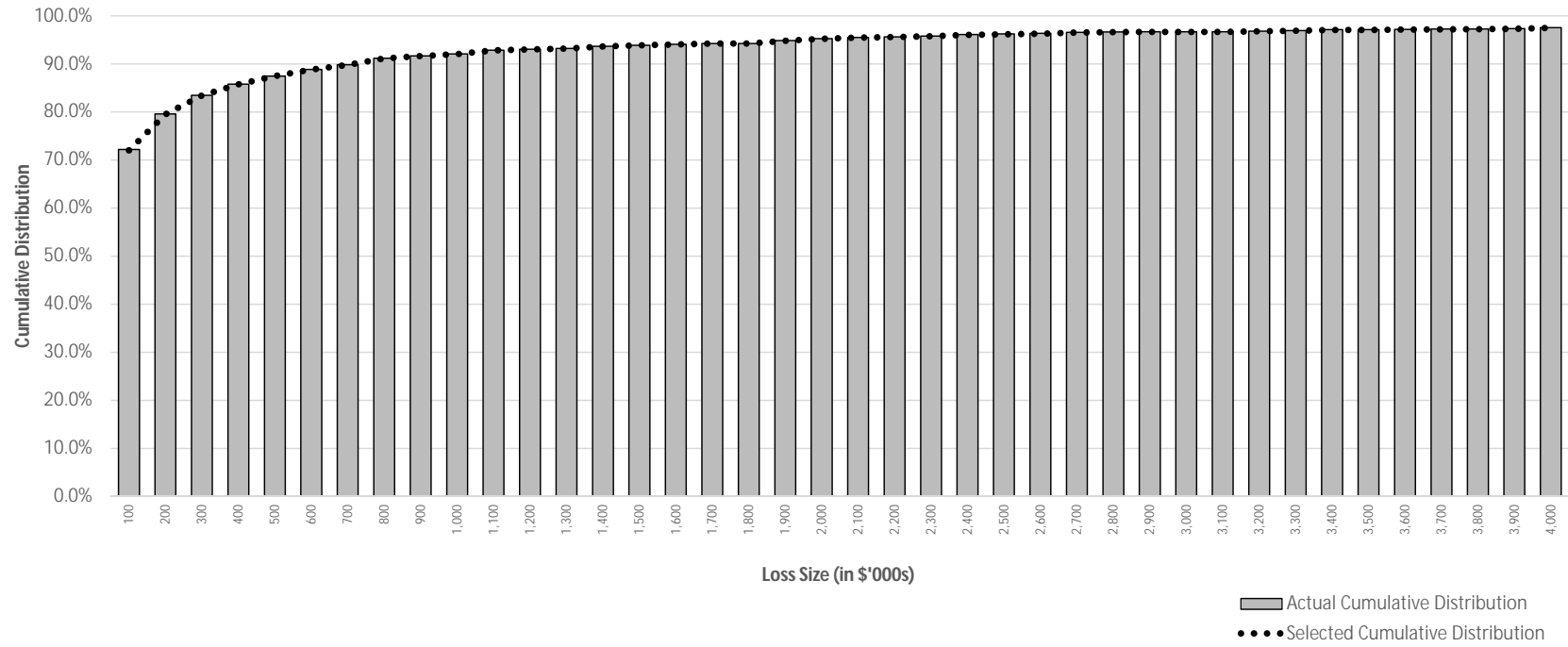
4.75%

Notes

- (1) The policy period extends from July 1 to June 30
Losses from policy periods 1987-1988 to 2011-2012 have been transferred to Colchester
- (2) = Exhibit 1, Col. (10)
- (3) Large claims not developed: 2010-059 and 2011-145
- (4) Based on the loss development factors selection in the 2019-2020 rating analysis
- (5) = [(2) - (3)] x (4) + (3)
- (6) = Exhibit 3, Col. (7)
- (7) = (5) / (6)
- (8) Exponential trend
- (9) Selected based on actuarial judgment

Section 2
Exhibit 5A

Canadian Lawyers Liability Assurance Society
Selection of Loss Severity Distribution - Ground Up Losses



	(1) Actual Distribution	(2) Selected Distribution	(3) Claims Excess of Retention	(4) Actual Proportion	(5) Selected Probability
Mean	705,343	650,000	> \$1,000,000	7.904%	7.947%
Standard Deviation	4,171,798	4,838,195	> \$10,000,000	1.018%	1.100%
Minimum	40	0	> \$50,000,000	0.240%	0.215%
Maximum	80,841,573	Unlimited	> \$100,000,000	0.000%	0.040%
			> \$220,000,000	0.000%	0.002%

Notes

- (1) Based on ground up claims observations between 1999-2000 and 2017-2018; losses were developed and trended in accordance with assumptions presented in Exhibit 4
(2) The selected distribution is based on an Inverse Gaussian fitted distribution with a mean of \$650,000
(3) to (5) provide information on the probability of large losses for the actual and selected distribution

Section 2
Exhibit 5B

Canadian Lawyers Liability Assurance Society
Summary of Undiscounted Loss Costs by Layer of Coverage

Policy Year 2019-2020

(1)	Number of Lawyers	3,884
(2)	Selected Frequency per Lawyer	1.00%
(3)	Selected Average Number of Claims	38.84
(4)	Selected Claim Severity	650,000
(5)	Expected Losses	25,244,375

(6) Range of Losses	(7) Layer	(8) Lawyer Distribution	(9) (10) (11) (12) Lawyers Practicing in			
			Provinces other than Québec		Québec	
			Estimated Undiscounted Ultimate Losses	Estimated Undiscounted Loss Cost Per Lawyer	Estimated Undiscounted Ultimate Losses	Estimated Undiscounted Loss Cost Per Lawyer
Up to \$25,000	\$.025M Excess \$0		642,072	165	64,207	17
From \$25,000 to \$1,000,000	\$.975M Excess \$.025M		5,668,584	1,460	566,858	146
From \$1,000,000 to \$5,000,000	\$4M Excess \$1M		5,995,456	1,544	599,546	154
From \$5,000,000 to \$10,000,000	\$5M Excess \$5M		2,977,002	767	297,700	77
From \$10,000,000 to \$20,000,000	\$10M Excess \$10M		3,106,233	800	3,106,233	800
From \$20,000,000 to \$50,000,000	\$30M Excess \$20M		4,397,378	1,132	4,397,378	1,132
Primary Layer (\$49M Excess \$1M)			16,476,069	4,242	8,400,857	2,163
From \$50,000,000 to \$80,000,000	5% of \$30M Excess \$50M	2.8%	70,844		70,844	
From \$50,000,000 to \$160,000,000	5% of \$110M Excess \$50M	97.2%	115,341		115,341	
Secondary Layer (Excess \$50M)			100.0%	114,110	29	114,110
From \$80,000,000 to \$110,000,000	\$30M Excess \$80M	2.6%	555,594		555,594	
From \$200,000,000 to \$230,000,000	\$30M Excess \$200M	18.5%	29,535		29,535	
From \$220,000,000 to \$250,000,000	\$30M Excess \$220M	78.9%	19,083		19,083	
Excess Umbrella (\$30M Excess Min \$65M)			100.0%	34,997	9	34,997
From \$160,000,000 to \$200,000,000	\$40M Excess \$160M	19.0%	88,158		88,158	
From \$160,000,000 to \$220,000,000	\$60M Excess \$160M	81.0%	109,918		109,918	
Optional Excess (Excess \$160M)			100.0%	105,784	27	105,784
Total CLLAS coverage above \$1M				\$4,308		\$2,229

Notes

- (1) = Exhibit 3, (11a)
(2) = Exhibit 3, (10)
(3) = (1)*(2)
(4) = Exhibit 5A, Col. (2) mean
(5) = (3)*(4)
(6) Range of losses corresponding to [7].
(7) Excess layer ID.
(8) Percentage of lawyers currently purchasing corresponding optional excess layer
(9) = (5) x by density of losses in range from 2019-2020 Rating Analysis (based on data at 12.31.2018)
(10) = (9) / total number of lawyers.
(11) = (5) x by density of losses in range from 2019-2020 Rating Analysis (based on data at 12.31.2018)
; multiplied by 10 % for layers \$10M and less
(12) = (11) / total number of lawyers.

Section 2
Exhibit 6

Canadian Lawyers Liability Assurance Society
Selection of Payment Pattern Assumptions

Payment Pattern

Selected Payment Pattern	(1) Policy Period Maturity (in months)	(2) Selected Proportion Paid in Year
	12	4.00%
	24	8.00%
	36	10.00%
	48	10.00%
	60	10.75%
	72	11.50%
	84	10.75%
	96	8.50%
	108	5.25%
	120	3.25%
	132	3.00%
	144	3.00%
	156	3.00%
	168	2.75%
	180	2.25%
	192	1.75%
	204	1.13%
	216	1.13%
		100.00%

Unallocated Loss Adjustment Expenses

(3a) Selected ULAE Ratio - Claim Liabilities	2.95%
(3b) Selected ULAE Ratio - Premium Liabilities	2.95%

Margins for Adverse Deviation

(4) Claims Development	10.00%
(5) Reinsurance Default	3.50%
(6) Interest Rate	If discount rate is below 1.5%: 0.25%
	If discount rate is between 1.5% and 2.5%: 0.50%
	If discount rate is between 2.5% and 3.5%: 0.75%
	If discount rate is between 3.5% and 4.5%: 1.00%
	If discount rate is above or equal to 4.5%: 1.25%

(1) = Maturity of policy period as at December 31

(2) = Selected per actuarial valuation at December 31, 2018 (Payout Pattern for Discount Factors)

(3) = Selected per actuarial valuation at December 31, 2018, Exhibit 6

(4) to (6) Selected per actuarial valuation at December 31, 2018, Exhibit 9

Section 2
Exhibit 7A

Canadian Lawyers Liability Assurance Society
Selection of Investment Assumptions
Summary of Investment Portfolio as at December 31, 2018

	(1) Market Value	(2) Average Duration	(3) Number of Investments	(4) Number of Issuers	(5) S&P Credit Rating	(6) IFRS 9 Classification
Cash	5,090,551					
Short-Term Investments						
Royal Bank BA	998,366	0.03	1		A-1+	Available for Sale
Canadian Imperial Bank BA	996,530	0.11	1		A-1	Available for Sale
First Bank BA	509,164	0.05	1		A-1	Available for Sale
Toronto Dominion BA	973,791	0.01	1		A-1+	Available for Sale
Canada Treasury Bills	3,641,210	0.10	3		A-1+	Available for Sale
Subtotal	7,119,061	0.078	7	5		
Long-Term Investments						
Canada Housing Trust	1,451,100	3.849	6		AAA	Available for Sale
British Columbia Province	599,917	5.154	2		AAA	Available for Sale
Ontario Province	1,662,850	5.084	7		A+	Available for Sale
Royal Bank of Canada	146,222	3.066	1		AA-	Available for Sale
Bank of Montreal	504,257	1.737	2		A+	Available for Sale
Wells Fargo	353,018	1.948	2		A-	Available for Sale
Bank of Nova Scotia	192,896	7.172	1		A+	Available for Sale
CIBC	253,267	5.811	1		A+	Available for Sale
National Bank of Canada	244,345	3.104	1		A	Available for Sale
Toronto Dominion Bank	503,460	3.279	2		AA-	Available for Sale
Subtotal	5,911,332	4.129	25	10		
Canadian Equities	0	0	0	0		
Non-Canadian Investments	0	0	0	0		
Total	18,120,944	1.916	32	15		

Notes

(1) From financial statements as at December 31, 2018

(2) Total Duration excludes Cash

(5) Credit Rating as at April 2019

(6) Classification from Annual Return as at December 31, 2018

**Section 2
Exhibit 7B**

**Canadian Lawyers Liability Assurance Society
Selection of Investment Return Assumptions
Risk-Free Real Rate of Return**

		(1a) Government of Canada Yield Curve Maturity 0.25 Years	(1b) Government of Canada Yield Curve Maturity 4.00 Years	(1c) Difference
Year	Year			
1986	33	8.44%	8.60%	0.16%
1987	32	8.63%	9.69%	1.07%
1988	31	11.01%	10.10%	-0.91%
1989	30	11.88%	9.71%	-2.16%
1990	29	11.00%	10.15%	-0.85%
1991	28	7.07%	7.57%	0.49%
1992	27	7.10%	7.32%	0.21%
1993	26	4.01%	5.47%	1.46%
1994	25	7.17%	8.81%	1.64%
1995	24	5.68%	6.38%	0.70%
1996	23	2.86%	5.35%	2.49%
1997	22	4.08%	5.32%	1.24%
1998	21	4.73%	4.72%	0.00%
1999	20	4.95%	6.15%	1.21%
2000	19	5.57%	5.26%	-0.30%
2001	18	1.98%	4.42%	2.44%
2002	17	2.69%	3.79%	1.09%
2003	16	2.67%	3.75%	1.08%
2004	15	2.51%	3.51%	0.99%
2005	14	3.48%	3.86%	0.38%
2006	13	4.23%	3.93%	-0.30%
2007	12	3.89%	3.83%	-0.06%
2008	11	0.78%	1.65%	0.87%
2009	10	0.12%	2.53%	2.41%
2010	9	1.07%	2.22%	1.15%
2011	8	0.86%	1.18%	0.32%
2012	7	0.96%	1.33%	0.37%
2013	6	1.03%	1.70%	0.67%
2014	5	0.93%	1.23%	0.30%
2015	4	0.50%	0.66%	0.15%
2016	3	0.45%	1.05%	0.60%
2017	2	1.05%	1.82%	0.76%
2018	1	1.66%	1.88%	0.22%
<hr/>				
(2) Simple Average				
Last 33 years		4.09%	4.69%	0.60%
Last 15 years		1.57%	2.16%	0.59%
Last 5 years		0.92%	1.33%	0.41%

(3) Selected Mean Nominal Yield (Risk-Free) **1.00%** **1.50%** **0.50%**

(4) Selected Mean Inflation Rate **2.00%** **2.00%**

(5) Selected Mean Real Return (Risk-Free) **-1.00%** **-0.50%** **0.50%**

**Real Bond Returns (Risk-Free)
2-Year Mean-Reverting Autoregressive Model
Based on Last 33 Years**

	Maturity of 0.25 years	
	(6) Indicated Parameters	(7) Selected Parameters
Mean	4.09%	-1.00%
Weight on prior year	80.55%	80.00%
Weight on second prior year	5.62%	5.00%
Mean of Residuals	0.00%	0.00%
Standard Deviation of Residuals	1.55%	0.25%
Selected Minimum		-2.00%
Selected Maximum		2.00%

Notes

(1) from Bank of Canada. Accessed March 2019

(1a) Maturity of 0.25 years selected based on average maturity of 0.078 years for Short-Term Investments as at December 31, 2018

(1b) Maturity of 4.00 years selected based on average maturity of 4.129 years for Long-Term Investments as at December 31, 2018

(1c) = (1b) - (1a)

(3) Selected based on actuarial judgment

(4) = From Exhibit 7C, Col. (5)

(5) = (3) - (4)

(6) Indicated parameters based on least-squares regressions for AR(2) model

(7) Selected based on actuarial judgment

Section 2
Exhibit 7C

Canadian Lawyers Liability Assurance Society
Selection of Investment Return Assumptions
General Inflation

Year	Year	(1) Consumer Price Index (Canada) All Items	(2) Year-over-year changes
1919	100	9.8	n/a
...
1982	37	55.4	11.0%
1983	36	58.4	5.4%
1984	35	60.8	4.1%
1985	34	63.3	4.1%
1986	33	65.9	4.1%
1987	32	68.9	4.6%
1988	31	71.6	3.9%
1989	30	75.4	5.3%
1990	29	78.5	4.1%
1991	28	83.2	6.0%
1992	27	84.2	1.2%
1993	26	85.6	1.7%
1994	25	85.7	0.1%
1995	24	87.9	2.6%
1996	23	89.0	1.3%
1997	22	90.5	1.7%
1998	21	91.4	1.0%
1999	20	93.1	1.9%
2000	19	95.8	2.9%
2001	18	98.4	2.7%
2002	17	100.5	2.1%
2003	16	102.6	2.1%
2004	15	105.0	2.3%
2005	14	107.1	2.0%
2006	13	109.6	2.3%
2007	12	112.0	2.2%
2008	11	115.8	3.4%
2009	10	114.7	-0.9%
2010	9	116.8	1.8%
2011	8	120.0	2.7%
2012	7	121.5	1.3%
2013	6	123.1	1.3%
2014	5	125.7	2.1%
2015	4	127.3	1.3%
2016	3	128.9	1.3%
2017	2	130.4	1.2%
2018	1	134.3	3.0%
(3) Simple Average			
Last 100 years			2.8%
Last 50 years			4.0%
Last 30 years			2.1%
Last 15 years			1.8%

1-Year Mean-Reverting Autoregressive Model	(4) Indicated Parameters	(5) Selected Parameters
Based on Last 30 Years		
Mean	2.1%	2.00%
Weight on prior year	18.4%	25.00%
Mean of Residuals	0.0%	0.00%
Standard Deviation of Residuals	1.2%	1.00%
Selected Minimum		-1.00%
Selected Maximum		5.00%

Notes

(1) From Table: 18-10-0004-01 (formerly CANSIM 326-0020); March 20, 2019

(2) = (1) / [(1) Previous Year]

(4) Indicated parameters based on least-squares regressions for AR(1) model

(5) Selected based on actuarial judgment

Section 2
Exhibit 7D

Canadian Lawyers Liability Assurance Society
Selection of Investment Assumptions
Yield Spreads and Investment Management Expenses

	(1a)	(1b)	(1c)	(1d)
	U.S. Corporate Bond Spread by Credit Rating All Remaining Terms to Maturity			
Year	AAA	AA	A	CLLAS-Weighted
Weight	34.7%	11.0%	54.3%	100.0%
1996	n/a	0.42%	0.57%	0.54%
1997	n/a	0.51%	0.66%	0.63%
1998	n/a	0.74%	1.02%	0.97%
1999	n/a	0.83%	1.01%	0.98%
2000	n/a	1.30%	1.86%	1.77%
2001	n/a	0.86%	1.44%	1.34%
2002	n/a	0.81%	1.33%	1.24%
2003	n/a	0.48%	0.68%	0.65%
2004	n/a	0.54%	0.68%	0.66%
2005	n/a	0.64%	0.84%	0.81%
2006	n/a	0.61%	0.84%	0.80%
2007	n/a	1.68%	1.96%	1.91%
2008	n/a	4.19%	5.62%	5.38%
2009	n/a	1.19%	1.69%	1.61%
2010	0.66%	1.10%	1.51%	1.17%
2011	0.87%	1.67%	2.35%	1.76%
2012	0.64%	0.89%	1.20%	0.97%
2013	0.60%	0.70%	0.95%	0.80%
2014	0.65%	0.84%	1.07%	0.90%
2015	0.75%	0.97%	1.25%	1.05%
2016	0.71%	0.80%	1.04%	0.90%
2017	0.54%	0.56%	0.77%	0.67%
2018	0.78%	0.87%	1.24%	1.04%
(2) Simple Average	0.69%	1.01%	1.37%	1.24%
(3) Average Excl. Min/Max	0.68%	0.89%	1.21%	1.08%
(4) Standard Deviation	0.10%	0.77%	1.03%	0.98%
(5) Minimum	0.54%	0.42%	0.57%	0.54%
(6) Maximum	0.87%	4.19%	5.62%	5.38%

(7) Selected Credit Spread Distribution

	(7a)	(7b)	(7c)
Credit Spread Range (in %)	Actual	Selected	Probability
0.00% to 0.25%	0.0%	0.0%	0.0%
0.25% to 0.50%	0.0%	0.0%	5.0%
0.50% to 0.75%	21.7%	20.0%	20.0%
0.75% to 1.00%	34.8%	35.0%	35.0%
1.00% to 1.25%	17.4%	15.0%	15.0%
1.25% to 1.50%	4.3%	5.0%	5.0%
1.50% to 1.75%	4.3%	7.5%	7.5%
1.75% to 2.00%	13.0%	7.5%	7.5%
2.00% and +	4.3%	5.0%	5.0%
Total	100.0%	100.0%	100.0%

	Long-Term	Short-Term (50% of average spread selected for Long-Term Investments)
Average spread selected for Investments	1.05%	0.53%
Selected Minimum	0.25%	0.125%
Selected Maximum	2.00%	1.00%

(8) Investment Management Expense Ratio

(8a) Investment Management Expenses - Calendar Year 2018	43,011
(8b) Average Invested Assets (Excl. Cash) - Calendar Years 2017 and 2018	14,929,000
(8c) Indicated Ratio	0.29%
(8d) Selected Ratio	0.22%

Notes

- (1a) to (1c) from Federal Reserve Bank of St. Louis Economic Research. Merrill Lynch U.S. Corporate Option-Adjusted Spreads.
<<https://research.stlouisfed.org/fred2/series/BAMLC0A2CAA>>. Accessed March 2019.
<<https://research.stlouisfed.org/fred2/series/BAMLC0A3CA>>. Accessed March 2019.
- (1d) = (1a) to (1c) weighted based on April 2019 credit rating distribution of Long-Term Investments (to the closest credit rating); prior to 2010 weighted based on AA and A securities only
- (7a) and (7b) based on (1d); (7c) selected based on actuarial judgment
- (8a) and (8b) From CLLAS internal financial statements as at December 31, 2018
- (8c) = (8a) / (8b)
- (8d) = Selected based on actuarial judgment

**Section 2
Exhibit 7E**

**Canadian Lawyers Liability Assurance Society
Selection of Investment Assumptions
Default Rates**

Year	(1a) Default Rate by S&P Credit Rating	(1b)	(1c)	(2) CLLAS Portfolio Weighted
	AAA	AA	A	
1981	--	--	--	--
1982	--	--	0.21%	0.08%
1983	--	--	--	--
1984	--	--	--	--
1985	--	--	--	--
1986	--	--	0.18%	0.07%
1987	--	--	--	--
1988	--	--	--	--
1989	--	--	0.18%	0.07%
1990	--	--	--	--
1991	--	--	--	--
1992	--	--	--	--
1993	--	--	--	--
1994	--	--	0.14%	0.05%
1995	--	--	--	--
1996	--	--	--	--
1997	--	--	--	--
1998	--	--	--	--
1999	--	0.17%	0.18%	0.15%
2000	--	--	0.27%	0.10%
2001	--	--	0.27%	0.10%
2002	--	--	--	--
2003	--	--	--	--
2004	--	--	0.08%	0.03%
2005	--	--	--	--
2006	--	--	--	--
2007	--	--	--	--
2008	--	0.38%	0.39%	0.32%
2009	--	--	0.22%	0.08%
2010	--	--	--	--
2011	--	--	--	--
2012	--	--	--	--
2013	--	--	--	--
2014	--	--	--	--
2015	--	--	--	--
2016	--	--	--	--
2017	--	--	--	--
2018	--	--	--	--
(3) Simple Average	--	0.01%	0.06%	0.03%
(4) Standard Deviation	--	0.07%	0.10%	0.06%
(5) Minimum	--	--	--	--
(6) Maximum	--	0.38%	0.39%	0.32%
(7) One-Year Correlation	--	-4.95%	21.89%	14.86%
(8) CLLAS Investments	2,051,017	6,263,049	4,716,327	13,030,393
(9) Proportion (%)	15.74%	48.06%	36.19%	100.00%

(10) Selected Default Rate Distribution

Selected probability of default
on at least one investment

0.50%
1/200

Default on accounts receivable
Average
Maximum

0.50%
2.00%

Probability	Cumulative Probability	Default Rate
99.5000%	99.5000%	0%
0.2502%	99.7502%	10%
0.1251%	99.8754%	20%
0.0626%	99.9379%	30%
0.0313%	99.9692%	40%
0.0156%	99.9848%	50%
0.0078%	99.9927%	60%
0.0039%	99.9966%	70%
0.0020%	99.9985%	80%
0.0010%	99.9995%	90%
0.0005%	100.0000%	100%
Average Default Rate		0.0995%

Notes

(1) From Standard and Poor's 2018 Annual Global Corporate Default Study and Rating Transitions (April 9, 2019), Table 3
<<https://www.spratings.com/documents/20184/774196/2018AnnualGlobalCorporateDefaultAndRatingTransitionStudy.pdf>>.

(2) = (1), weighted according to (9)

(8) From Exhibit 7A

(9) = (8) / [(8) Total]

(10) Selected based on actuarial judgment; 0% default rate with probability of 1/200 years; probability of 10% to 100% of investments defaulting with geometrically decreasing probability of 50%.

Section 2
Exhibit 7F

Canadian Lawyers Liability Assurance Society
Selection of Investment Assumptions
Recovery Rates

	(1)
	Recovery Rate
Year	All Bonds
1983	44.53%
1984	45.49%
1985	43.60%
1986	46.75%
1987	51.30%
1988	38.54%
1989	32.54%
1990	25.80%
1991	35.51%
1992	45.89%
1993	43.08%
1994	45.57%
1995	43.28%
1996	41.54%
1997	47.56%
1998	38.30%
1999	34.31%
2000	25.24%
2001	21.58%
2002	29.49%
2003	41.38%
2004	58.50%
2005	56.52%
2006	55.02%
2007	55.06%
2008	34.12%
2009	33.92%
2010	51.46%
2011	45.70%
2012	44.51%
2013	46.13%
2014	48.52%
2015	40.62%
2016	36.07%
2017	56.75%
2018	51.65%
(2) Simple Average	42.7%
(3) Standard Deviation	9.2%
(4) Minimum	21.6%
(5) Maximum	58.5%

(6) Selected Recovery Rate

40%

Notes

(1) From Moody's Corporate Global Annual Default Study
(February 1, 2019), Exhibit 26

(6) Selected based on actuarial judgment

**Section 2
Exhibit 8A**

**Canadian Lawyers Liability Assurance Society
Selection of Reinsurance Rate Change Assumptions**

(1) Range of Reinsurance Rate Change	(2) Probability	(3) Average in Range
-10% to -5%	0.00%	-7.5%
-5% to 0%	0.00%	-2.5%
0%	2.50%	0.0%
0% to 5%	5.00%	2.5%
5% to 10%	9.00%	7.5%
10% to 15%	35.00%	12.5%
15% to 20%	35.00%	17.5%
20% to 25%	9.00%	22.5%
25% to 30%	2.50%	27.5%
30% to 35%	1.00%	32.5%
35% to 40%	0.50%	37.5%
40% to 45%	0.25%	42.5%
45% to 50%	0.25%	47.5%
Total	100.00%	14.8%

(4) 2019/2020 Reinsurance Premium

7,163,139

(5a) Minimum reinsurance rate change for the next five years

-25%

(5b) Maximum reinsurance rate change for the next five years

75%

Notes

(1) to (3) Selected distribution based on judgment

(4) Provided by CLLAS

(5) Selected based on judgment

**Section 2
Exhibit 8B**

**Canadian Lawyers Liability Assurance Society
Selection of Reinsurance Default Assumptions
(Proportional Reinsurance Excluding Colchester)**

Reinsurance Group*	Most Important Reinsurers with the Largest Liability as at December 31, 2018 (Proportional Reinsurance)	(1) Proportion of Current Liability	(2) Expected Proportion of Future Liability	(3) Selected Proportion of Liability	(4) Status in Canada	(5a) A.M. Best Financial Strength Rating (FSR)	(5b) A.M. Best Issuer Credit Rating (ICR)	(6) (7) (8) Historical Default Rate by Credit Rating 1 Year 15 Years Annualized			(9) Selected Probability of Default/Dispute
1	Underwriters at Lloyds	66.0%	58.4%	60.0%	Registered Insurer	A	a+	0.13%	5.28%	0.36%	0.50%
2	Scor Re.	5.1%	--	5.0%	Registered Insurer	A+	aa-	0.06%	3.03%	0.20%	0.30%
3	Allianz Global Risks	5.6%	6.0%	5.0%	Registered Insurer	A+	aa	0.06%	3.03%	0.20%	0.30%
4	AXIS Re	3.7%	4.6%	5.0%	Registered Insurer	A+	aa-	0.06%	3.03%	0.20%	0.30%
5	Others	19.6%	31.0%	25.0%	Registered & Unregistered			--	--	--	0.35%
Total		100%	100%	100%				0.09%	3.62%	0.25%	0.43%
6	Colchester										0.00%
Average of Groups 1 to 4											0.35%
Registered Reinsurers			83.2%								
Unregistered Reinsurers (excluding Colchester)			0.8%								
Colchester			16.0%								
			100.0%								

(10) Selected Default/Dispute Rate Correlation Between Reinsurers

20%

(11) Selected Default/Dispute Rate for Replacement Reinsurers in Event of Default

0.500%

(12) Selected Recovery Rate

40%

Notes

* Five groups of reinsurers are used for probability of default/dispute modeling.
It is assumed that Colchester's probability of default/dispute is 0%.

(1) Based on liability as at December 31, 2018

(2) Based on calendar year premium

(3) Based on judgment

(5) From A.M. Best as at March 27, 2019

(6) and (7) From A.M. Best Impairment Rate and Rating Transition Study - 1977 to 2015 (November 30, 2016) , Exhibit 3

(8) = $1 - [1 - (6)]^{(1/15)}$

(9) Selected based on actuarial judgment to include the risk of default, downgrade and dispute

Group 5: We assume a Probability of Default/Dispute equals to Row (8)

Colchester: We assume a 0% Probability of Default/Dispute

(10) Based on A.M. Best's Securitization of Reinsurance Recoverables (June 16, 2011), Exhibit 6 and Actuarial Judgment.

(11) Selected based on actuarial judgment

(12) Selected based on actuarial judgment

**Section 2
Exhibit 9A**

**Canadian Lawyers Liability Assurance Society
Selection of Operational Risk Assumptions - Operational Risk Loss Data for Banks**

(1) Industry Distribution by Loss Range (Events in Excess of €20,000 Only)	(1a)	(1b)	(1c)	(1d) Selected Average Loss in Range
	Frequency in Loss Range			
Range	2012 to 2016	2017	2012-2017	
€ 20,000 to € 50,000	55.5%	62.6%	56.7%	€ 35,000
€ 50,000 to € 100,000	21.4%	19.2%	21.0%	€ 75,000
€ 100,000 to € 500,000	18.4%	14.7%	17.8%	€ 300,000
€ 500,000 to € 1,000,000	2.2%	1.7%	2.1%	€ 750,000
€ 1,000,000 to € 5,000,000	1.8%	1.4%	1.7%	€ 3,000,000
€ 5,000,000 to € 10,000,000	0.3%	0.2%	0.3%	€ 7,500,000
€ 10,000,000 and over	0.4%	0.2%	0.4%	€ 81,500,000
Total	100.0%	100.0%	100.0%	€ 476,923

(2) Selected CLLAS Distribution by Loss Range (as a % of Gross Premium)

(2a) Selected CLLAS Average Loss as a % of Gross Premium	0.40%	(2b)	(2c)
		Selected Frequency in Loss Range	Selected Average Loss in Range
Range			
0.04% to 0.10%		55.0%	0.07%
0.10% to 0.19%		20.0%	0.14%
0.19% to 0.95%		20.0%	0.57%
0.95% to 1.90%		2.5%	1.43%
1.90% to 9.50%		2.0%	5.70%
9.50% to 19.00%		0.5%	14.25%
19.00% and over		0.0%	19.00%
Total		100.0%	0.40%

(3) Industry Average Total Loss Cost as a % of Gross Income (2012-2017) 2.43%

(4) Selected CLLAS Total Loss Cost as a % of Gross Premium

	(4a)	(4b)	(4a) Indicated	(4b) Adjustment	(4c) Selected % of Total
Frequency of Loss Events by Event Type	2013	2008 to 2012	2012 to 2017	Factor	
Internal fraud	2.9%	2.1%	1.7%	1.000	1.7%
External fraud	29.3%	28.8%	27.6%	0.150	4.1%
Employment practices and workplace safety	9.6%	19.5%	16.5%	0.000	0.0%
Clients, products and business practices	19.4%	18.9%	21.1%	0.250	5.3%
Disasters and public safety	1.4%	1.3%	1.1%	1.000	1.1%
Technology and infrastructure failures	2.0%	1.3%	1.4%	1.000	1.4%
Executing, delivery and process management	35.4%	28.1%	30.5%	0.250	7.6%
Total	100.0%	100.0%	100.0%		21.3%

(4d) Indicated CLLAS Total Loss Cost as a % of Gross Premium 0.52%

(4e) Selected CLLAS Total Loss Cost as a % of Gross Premium **0.50%**

(4f) Selected CLLAS Average Number of Events **1.25**

Notes

(1a) and (1b) From 2018 ORX Report on Operational Risk Loss Data for Banks

(1c) = 5/6 x (1a) + 1/6 x (1b)

(1d) Middle of range; range and average loss size for range €10,000,000 was selected based on actuarial judgment to arrive close to the average loss of €476,156.

(2a) Selected based on actuarial judgment

(2b) Selected based on (1c)

(2c) Ranges and average values normalized based on (2a)

(3) From 2018 ORX Report on Operational Risk Loss Data for Banks.

(4a) From 2018 ORX Report on Operational Risk Loss Data for Banks

(4b) Selected based on actuarial judgment; external fraud frequency reduced to as data reflects a high proportion of external fraud events from retail banking; the loss frequency for other categories was reduced to reflect the nature and complexity of the Reciprocal's operations.

(4c) = (4a) x (4b)

(4d) = (3) x (4c)

(4e) Selected based on actuarial judgment

(4f) = (4e) / (2a)

Section 2
Exhibit 9B

Canadian Lawyers Liability Assurance Society
Selection of Operational Risk Assumptions - Operational Risk Loss Data for Insurers

(1) Industry Distribution by Loss Range (Events in Excess of €50,000 Only)	(1a)	(1b)	(1c)	(1d) Selected Average Loss in Range
	Frequency in Loss Range			
Range	2012 to 2016	2017	2012-2017	
€ 50,000 to € 100,000	40.0%	40.8%	40.1%	€ 75,000
€ 100,000 to € 250,000	31.2%	32.7%	31.5%	€ 175,000
€ 250,000 to € 500,000	12.4%	12.3%	12.4%	€ 375,000
€ 500,000 to € 1,000,000	7.4%	7.3%	7.4%	€ 750,000
€ 1,000,000 to € 5,000,000	6.6%	5.2%	6.4%	€ 3,000,000
€ 5,000,000 to € 10,000,000	1.1%	0.6%	1.0%	€ 7,500,000
€ 10,000,000 and over	1.3%	1.1%	1.3%	€ 20,000,000
Total	100.0%	100.0%	100.0%	€ 707,533

(2) Selected CLLAS Distribution by Loss Range (as a % of Gross Premium)

(2a) Selected CLLAS Average Loss as a % of Gross Premium	0.40%	(2b)	(2c)
		Selected Frequency in Loss Range	Selected Average Loss in Range
Range			
0.04% to 0.07%		40.0%	0.06%
0.07% to 0.18%		32.0%	0.13%
0.18% to 0.37%		12.5%	0.28%
0.37% to 0.74%		7.5%	0.55%
0.74% to 3.68%		6.0%	2.21%
3.68% to 7.35%		1.0%	5.51%
7.35% and over		1.0%	7.35%
Total		100.0%	0.40%

(3) Industry Average Total Loss Cost as a % of Gross Income (2012-2017) 0.16%

(4) Selected CLLAS Total Loss Cost as a % of Gross Premium

	(4a)	(4b)	(4a) Indicated	(4b) Adjustment	(4c) Selected
Frequency of Loss Events by Event Type	2013	2008 to 2012	2012 to 2017	Factor	% of Total
Internal fraud	2.9%	2.1%	7.9%	1.000	7.9%
External fraud	29.3%	28.8%	11.2%	0.100	1.1%
Employment practices and workplace safety	9.6%	19.5%	8.4%	0.000	0.0%
Clients, products and business practices	19.4%	18.9%	18.1%	0.250	4.5%
Damage to physical assets	1.4%	1.3%	0.7%	1.000	0.7%
System failure	2.0%	1.3%	6.1%	1.000	6.1%
Executing, delivery and process management	35.4%	28.1%	47.6%	0.250	11.9%
Total	100.0%	100.0%	100.0%		32.2%

(4d) Indicated CLLAS Total Loss Cost as a % of Gross Premium 0.05%

(4e) Selected CLLAS Total Loss Cost as a % of Gross Premium **0.10%**

(4f) Selected CLLAS Average Number of Events **0.25**

Notes

(1a) and (1b) From 2018 ORX Report on Operational Risk Loss Data for Insurers

(1c) = 5/6 x (1a) + 1/6 x (1b)

(1d) Middle of range; range and average loss size for range €10,000,000 was selected based on actuarial judgment to arrive close to the average loss of €703,947.

(2a) Selected based on actuarial judgment

(2b) Selected based on (1c)

(2c) Ranges and average values normalized based on (2a)

(3) From 2018 ORX Report on Operational Risk Loss Data for Insurers.

(4a) From 2018 ORX Report on Operational Risk Loss Data for Insurers

(4b) Selected based on actuarial judgment; external fraud frequency reduced to as data reflects a high proportion of external fraud events from retail banking; the loss frequency for other categories was reduced to reflect the nature and complexity of the Reciprocal's operations.

(4c) = (4a) x (4b)

(4d) = (3) x (4c)

(4e) Selected based on actuarial judgment

(4f) = (4e) / (2a)

Section 2
Exhibit 9C

Canadian Lawyers Liability Assurance Society
Selected Operational Risk Assumptions

(1) Selected CLLAS Average Number of Events

0.75

(2) Selected CLLAS Distribution by Loss Range (as a % of Gross Premium)

Range	(2a) Selected Frequency in Loss Range	(2b) Selected Average Loss in Range
0.04% to 0.07%	40.0%	0.06%
0.07% to 0.18%	32.0%	0.13%
0.18% to 0.37%	12.5%	0.28%
0.37% to 0.74%	7.5%	0.55%
0.74% to 3.68%	6.0%	2.21%
3.68% to 7.35%	1.0%	n/a
7.35% and over	1.0%	n/a
Total	100.0%	0.27%

(3) Selected CLLAS Total Loss Cost as a % of Gross Premium

0.30%

Notes

(1) = Average of Exhibit 9A, Line (4f) and Exhibit 9B, Line (4f)

(2) = Exhibit 9B, Table (2)

(3) = (1) x [(2) Selected Average]



Actuaries & Insurance Management Advisors

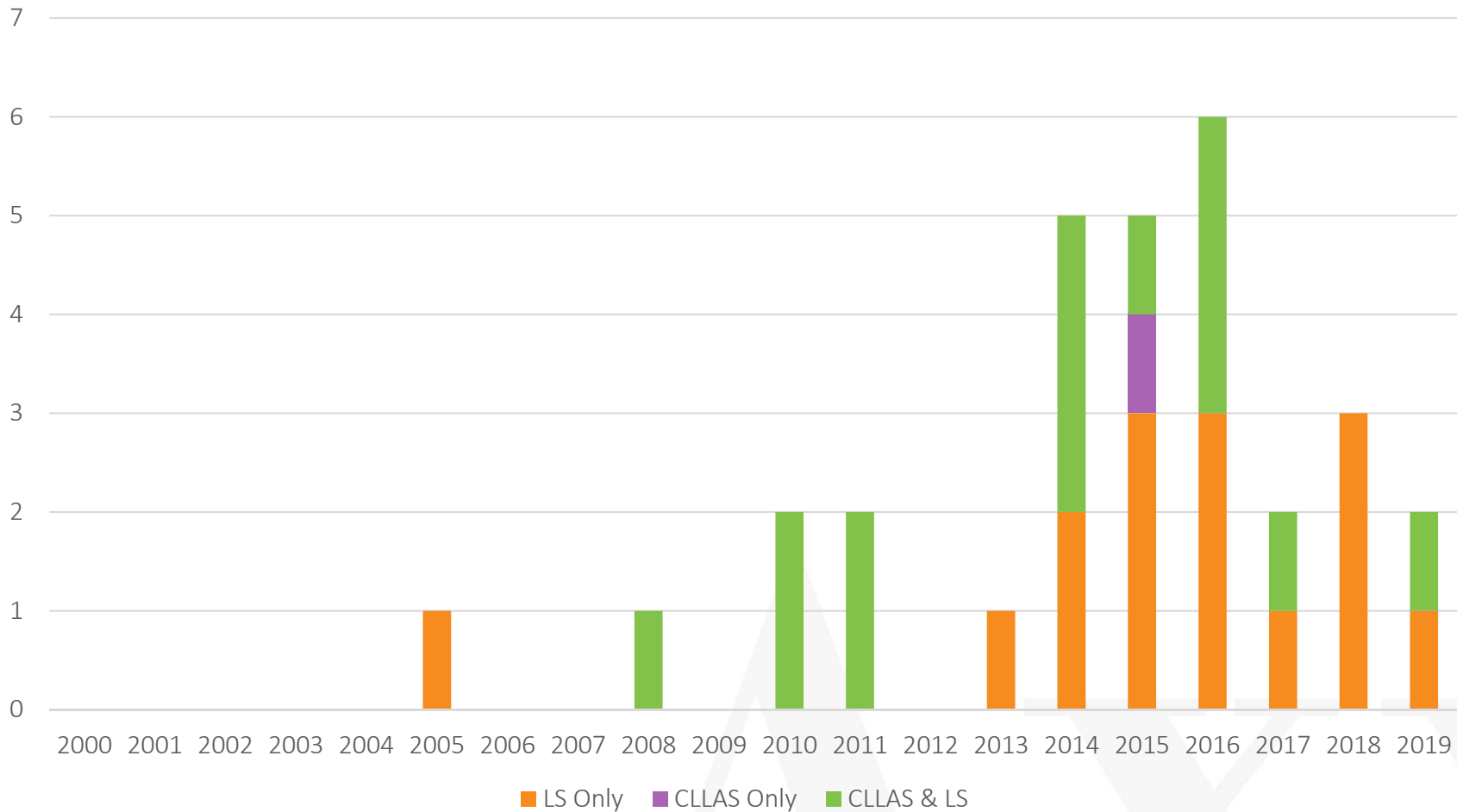
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CLLAS

Open Large Loss Claims Summary
As at September 30, 2019

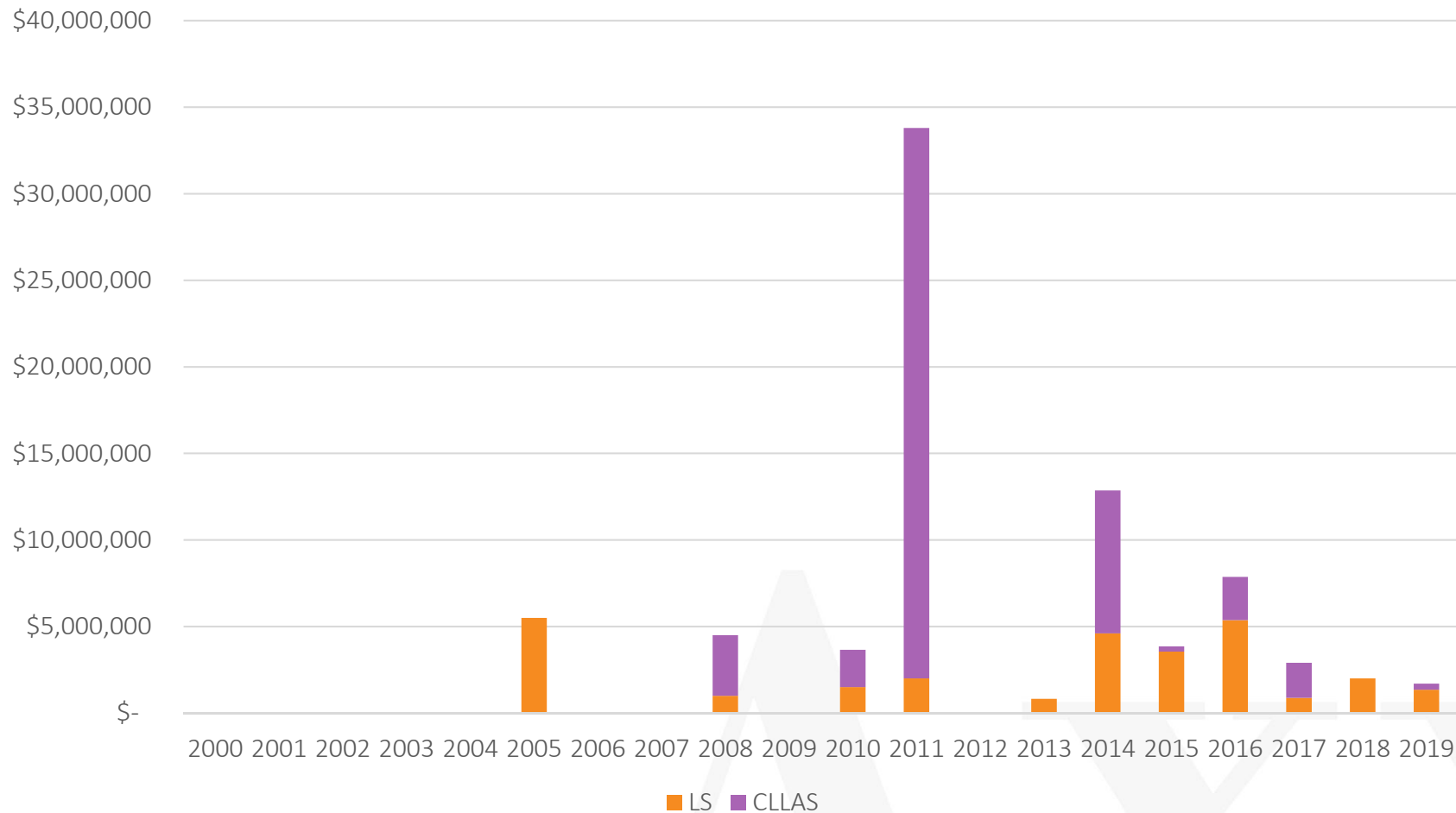
Open Large Loss Claims

Number of Claims by Insurer



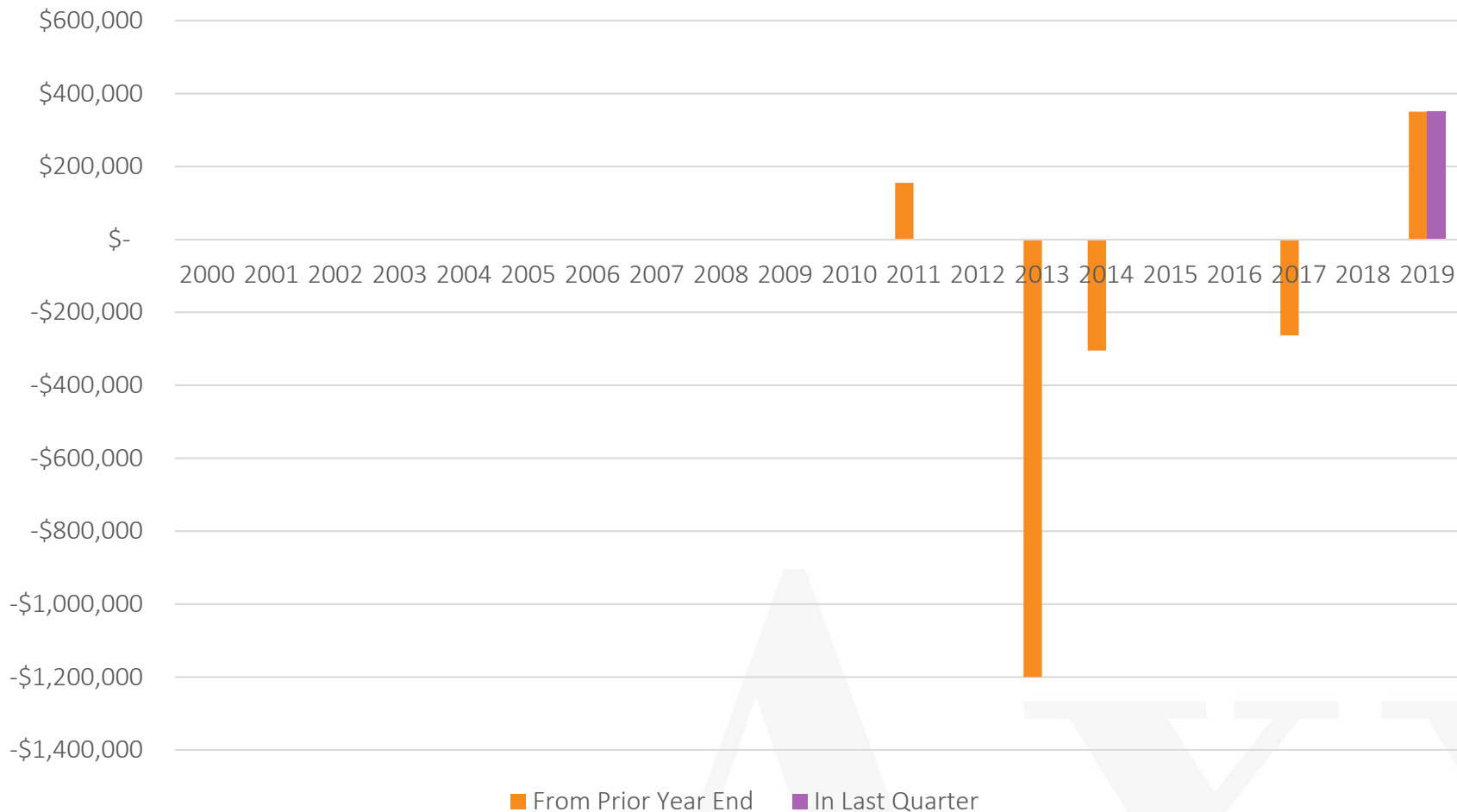
Open Large Loss Claims

Incurred Amounts by Insurer



Open Large Loss Claims

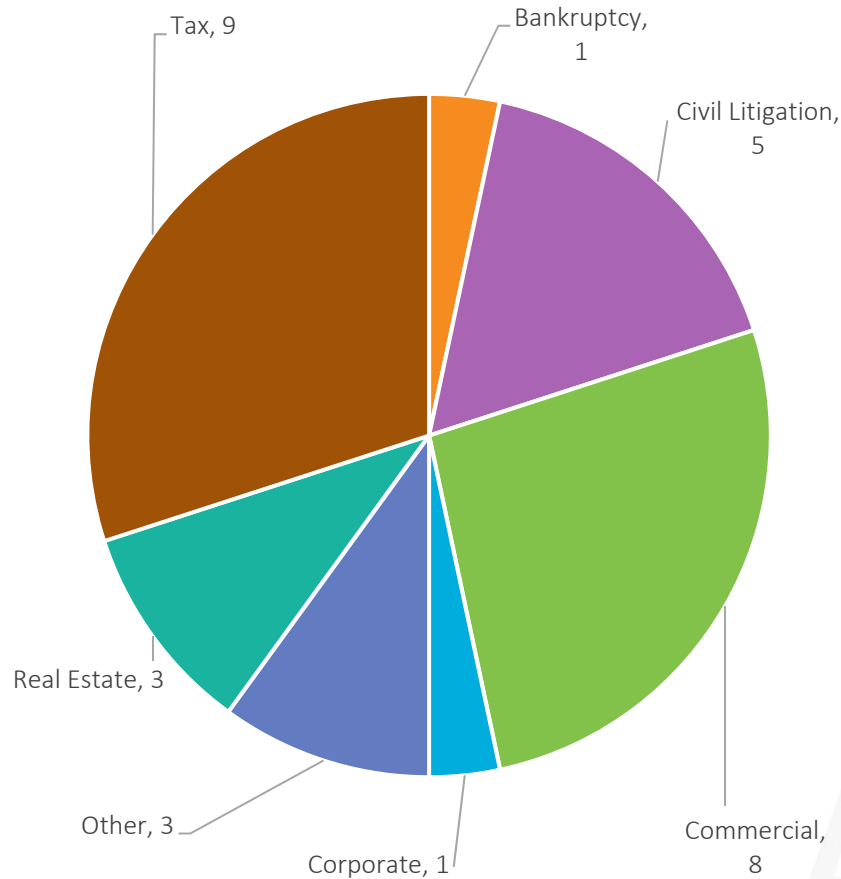
Change in Incurred Amounts (CLLAS)



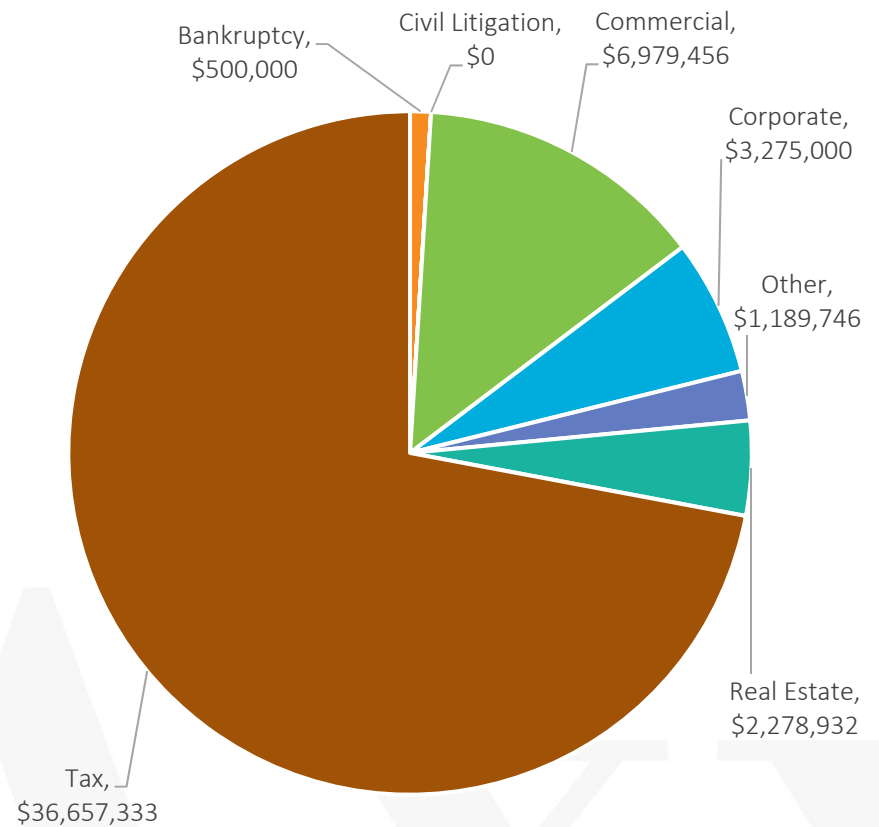
Open Large Loss Claims

By Area of Law

Number of Claims (CLLAS & LS)

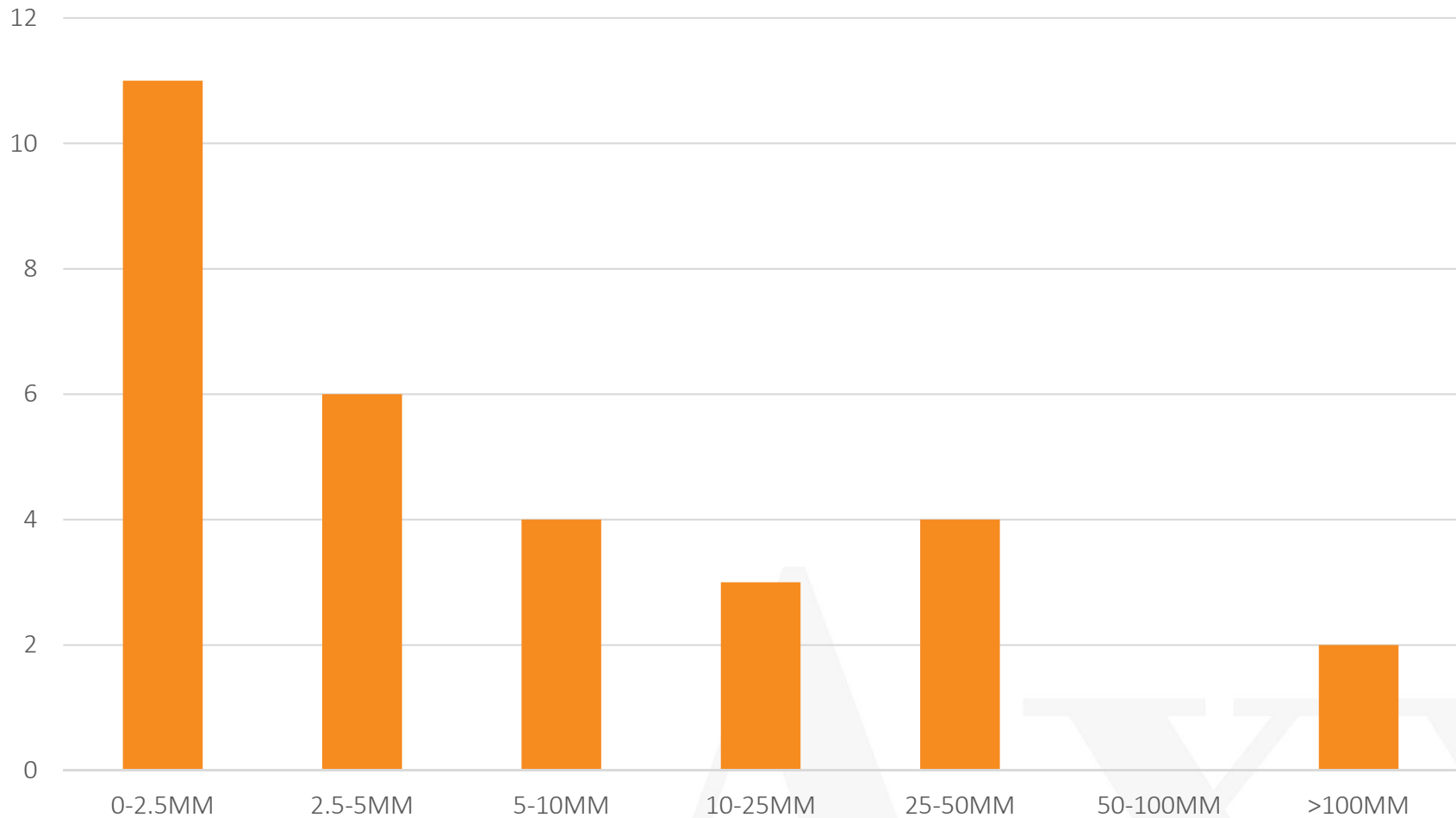


CLLAS Incurred



Open Large Loss Claims

Number of Claims by Best Estimate of Worst Case



Open Large Loss Claims

Claim Count Movement in Quarter

Policy Year	Law Society Only	CLLAS Only	CLLAS & Law Society
2000	0	0	0
2001	0	0	0
2002	0	0	0
2003	0	0	0
2004	0	0	0
2005	0	0	0
2006	0	0	0
2007	0	0	0
2008	0	0	0
2009	0	0	0
2010	-1	0	0
2011	0	0	0
2012	0	0	0
2013	-1	0	0
2014	0	0	0
2015	0	0	0
2016	-1	0	0
2017	0	0	0
2018	0	0	0
2019	1	0	1

Notes

Slide 1

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

Slide 2

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

Slide 3

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

Notes (Cont'd)

Slide 4

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

Slide 5

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

Slide 6

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

CLLAS
CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

INVESTMENT REPORT
SEPTEMBER 30, 2019

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CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

COMMENTARY FOR THE QUARTER ENDING SEPTEMBER 30, 2019

Review of Market Yields

After drifting lower during the first two months of the third quarter, longer term bond yields turned up early in September and quickly rebounded to levels that prevailed at the beginning of the quarter. However, due to another downward move late in the period, the yield on the 10-year issue ended the quarter 9 basis points lower. Meanwhile, the yield on both the 3-month Treasury Bill and the 5-year Canada held practically level.

As a result of these shifts, the slope of the yield curve inverted further. At the end of September, the yield on the 10-year issue was 28 basis points below the Treasury bill yield compared to being 20 basis points lower three months earlier.

	Jan. 01/95	Mar. 31/19	Jun. 30/19	Sep. 30/19
3-month Treasury Bills	6.80%	1.67%	1.66%	1.65%
5-year Canadas	8.99%	1.52%	1.39%	1.40%
10-year Canadas	9.09%	1.62%	1.46%	1.37%

During the third quarter, activity in the Short Term Investment Fund involved the roll-over of money market securities.

Over the quarter, the market value of the Long Term Investment Fund decreased \$14,616 which represents a capital decline of 0.2%. During the period a corporate bond matured and the proceeds were used to purchase a medium-term corporate issue.

At September 30, 2019, the average term to maturity of the Long Term Investment Fund was 4.3 years and the duration was 4.0 years.

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

<i>Distribution at September 30, 2019</i>	<i>Valuation</i>	<i>%</i>
Short Term Investment Fund	\$7,280,008	54.6%
Long Term Investment Fund	\$6,066,382	45.4%
TOTAL COMBINED VALUATION	\$13,346,390	100.0%

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 Term and Long Term Investment Funds
Listed and Valued Separately as at September 30, 2019
- Security Purchases and Sales
- Cash Reconciliations
- External Individual Credit Rating Report

LONG TERM INVESTMENT FUND

**TIME-WEIGHTED RATES OF TOTAL RETURN
FOR PERIODS ENDING September 30, 2019**

	3 Years*	2 Years*	1 Year	Last 3 months
<i>Long Term Investment Fund – Gross of Fees</i>	<i>1.81%</i>	<i>3.52%</i>	<i>6.19%</i>	<i>0.41%</i>
<i>Long Term Investment Fund – Net of Fees</i>	<i>1.52%</i>	<i>3.23%</i>	<i>5.90%</i>	<i>0.34%</i>
Benchmark Portfolio **	1.75%	3.53%	6.39%	0.54%

*Annualized

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

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

SHORT TERM INVESTMENT FUND

**TIME-WEIGHTED RATES OF TOTAL RETURN
FOR PERIODS ENDING SEPTEMBER 30, 2019**

	Since Inception Oct. 01/08 *	3 Years*	2 Years *	1 Year	Last 3 Months
<i>Short Term Investment Fund – Gross of Fees</i>	<i>0.90%</i>	<i>1.21%</i>	<i>1.50%</i>	<i>1.72%</i>	<i>0.44%</i>
<i>Short Term Investment Fund – Net of Fees</i>	<i>0.77%</i>	<i>1.09%</i>	<i>1.37%</i>	<i>1.58%</i>	<i>0.38%</i>
Benchmark Portfolio **	0.84%	1.10%	1.38%	1.65%	0.42%

* Annualized

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

LONG TERM INVESTMENT FUND

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

	Dec. 17/13	Dec. 31/18	Mar. 31/19	Jun. 30/19	Sep. 30/19
Bonds, Treasury Bills & Cash Less than 1 year term	100.0%	7.6%	7.5%	12.4%	9.1%
Canadas Greater than 1 year term		20.3%	20.3%	24.5%	24.6%
Provincials Greater than 1 year term		38.3%	38.4%	38.4%	38.4%
Corporates Greater than 1 year term		33.8%	33.8%	24.7%	27.9%
TOTAL PORTFOLIO	100.0%	100.0%	100.0%	100.0%	100.0%

LONG TERM INVESTMENT FUND

DISTRIBUTION OF SECURITIES BY MATURITY
(Based on Market Values)

	Sep. 30/18	Mar. 31/19	Jun. 30/19	Sep. 30/19
Under 1 year	8.9%	7.5%	12.4%	9.1%
1 - 3 years	14.9%	27.6%	25.2%	25.1%
3 - 5 years	35.6%	24.9%	22.2%	26.5%
5 - 7 years	17.7%	24.9%	26.5%	25.6%
7 - 10 years	22.9%	15.1%	13.6%	13.7%
TOTAL	100.0%	100.0%	100.0%	100.0%
Average Maturity (yrs)	4.69	4.20	4.33	4.31
Average Duration (yrs)	4.28	3.88	4.02	3.99

SHORT TERM INVESTMENT FUND

	Sep. 30/18	Mar. 31/19	Jun. 30/19	Sep. 30/19
Short Term Average Duration (yrs)	0.10	0.08	0.10	0.12

COMPLIANCE WITH INVESTMENT POLICY STATEMENT

AT SEPTEMBER 30, 2019

	Investment Limits	Investment Funds	Compliance
<i>Short Term Investment Fund</i>			
Maximum Term of Any Issue	1 year	0.2 years	Yes
Minimum Percentage of Total Fund (Short & Long)	40% of Total	54.6%	Yes
Minimum Canada & Provincial Percentage	50%	51.2%	Yes
Minimum Provincial Quality	A	N/A	Yes
Minimum Bank CD & BA Quality	R1 (high)	R1 (high)	Yes
<i>Long Term Investment Fund</i>			
Maximum Term of Any Issue	10 years	8.5 years	Yes
Maximum Percentage of Total Fund (Short & Long)	60% of Total	45.4%	Yes
Minimum Canada Percentage	20%	24.6%	Yes
Maximum Provincial Percentage	40%	38.4%	Yes
Minimum Canada & Provincial Percentage	60%	63.0%	Yes
Minimum Provincial Quality *	A	AA (low)	Yes
Maximum Corporate Percentage	40%	37.0%	Yes
Minimum Corporate Quality *	A	AA (low)	Yes

* At time of purchase

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

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

Martin, Lucas & Seagram Ltd.
 PERFORMANCE REPORT
 GROSS OF FEES
CLLAS – LONG TERM INVESTMENT FUND
(RBC Investor Services)
From 06-30-19 to 09-30-19

Portfolio Value on 06-30-19	6,076,698
Accrued Interest	21,949
Contributions	5,490
Withdrawals	-18,966
Realized Gains	-150
Unrealized Gains	-14,466
Interest	17,776
Dividends	0
Change in Accrued Interest	21,863
Portfolio Value on 09-30-19	6,066,382
Accrued Interest	43,811
Average Capital	6,093,635
Total Gains before Fees	25,023
IRR for 0.25 Years	0.41%

BOND MARKET COMMENTARY AND FUTURE POLICY

After moving erratically lower during the first eight months of the year, bond yields shifted higher early in September and, by the end of the third quarter, yields were close to their levels three months earlier. The Canada 10-year bond yield is currently near a three-month high at 1.5%, up from the year's low of 1.1% reached in mid-August. Despite this increase, the Canadian yield curve remains inverted and the 10-year yield is still some 50 basis points lower than at the start of the year. Bond yields in the U.S. have also backed up in recent weeks, with the 10-year Treasury issue currently yielding 1.76%, up from the year-to-date low of 1.46% in early September.

Like the major stock indices, which have been volatile and shown little net change over the past few months, the bond market has also been buffeted by shifting perceptions surrounding the economic outlook and developments on the trade front. Amid fresh signs of an economic slowdown and concerns that impeachment proceedings against Mr. Trump would undermine trade negotiations, bond prices recovered from their slump in September. However, Mr Trump's announcement two weeks ago that the U.S. had reached "phase one" of a partial trade deal with China triggered another selloff in bonds. While details remain to be worked out, China has agreed to additional agricultural purchases and made unspecified commitments regarding intellectual property and its currency.

Thus far, the protracted trade war has had only a moderate impact on the world's two largest economies, although the slowdown in trade flows is starting to take a greater toll on some segments. In the U.S., second quarter growth of 2.0% came in better than expected, as a surge in consumption and government spending more than offset the drag from residential and business investment. Indeed, the manufacturing slump that appears to have spilled over into the third quarter has been overshadowed by the expanding services sector, which makes up nearly two-thirds of GDP. A tight labour market, relatively low debt levels and cheaper credit further strengthen the U.S. consumer and support continued economic growth. Meanwhile, China has reported third-quarter GDP growth of 6.0%, which was slightly below expectations and down from a 6.2% gain in the second quarter. Recent trade data shows that China's exports and imports have both shrunk, the latter resulting from a slowdown in domestic demand amid elevated debt levels and rising prices. In response to the economic headwinds, the People's Bank of China has unveiled a round of stimulus measures. Most notable of these is a reduction in bank reserve requirements to the lowest level in more than a decade in an attempt to stimulate consumption through credit growth.

Similarly, the U.S. central bank has also shifted policy to support the expansion. At its most recent meeting, the Fed lowered its target range for the funds rate by a quarter percentage point, its second rate cut since 2008. In its latest policy statement, the central bank remained generally upbeat about the domestic economy and noted that household spending "has been rising at a strong pace" while "business fixed investment and exports have weakened". As was the case in the July statement, the bank cited "the implications of global developments for the economic outlook as well as muted inflation pressures" as the primary rationale for the cut in rates. Looking ahead, Fed officials were divided on whether rates would be reduced further, although the Fed funds futures indicate a high probability of another 25 basis point rate when the Fed meets at the end of this month.

In the Euro area, GDP growth in the second quarter was cut in half to 0.2%, which brought the year-over-year increase to just 1.1%, the lowest gain in over five years. Earlier tariff increases, that saw world trade volumes contract for three consecutive quarters, have had a very negative impact on the industrial output of Europe's export-centric economies. This slump has placed Germany at the brink of a technical recession and threatens to subdue growth for the entire region. In response to the slowdown, the European Central Bank (ECB) recently announced its largest monetary stimulus package in 3-1/2 years. In this latest effort to revive the European economy and combat deflationary pressures, the ECB has pushed interest rates further into negative territory by lowering its deposit rate to minus 0.5% and reinstating its bond buying program.

Meanwhile, unlike most regions, economic conditions in Canada improved during the second quarter as exports surged, business confidence improved and energy production rebounded. During the quarter, GDP growth accelerated to 3.7% annualized, exceeding the Bank of Canada's most recent estimate, and outpacing the U.S. economy for the first time in eight quarters. Furthermore, a resilient labour market, together with strong wage gains and increased affordability, have also contributed to a revival of Canada's housing market. However, the Bank expects economic activity in Canada to slow in the second half of the year due to elevated household debt, which restricts consumer spending growth, and trade uncertainties which are weakening business investment. With core measures of inflation tracking at the midpoint of the Bank's target range of 1% to 3% and third quarter growth projected at around 1.5%, the Bank is expected to hold administered rates steady for the balance of the year.

As illustrated over the past few months, market sentiment has been extremely sensitive to contradictory news on the trade front. For the time being, hopes that a partial trade deal will be ratified, along with the prospect of lower administered interest rates, have calmed the equity markets and encouraged risk-on trades that have put modest upward pressure on bond yields.

Looking ahead, we think investors should be prepared for an extended period of volatility, due to the elevated economic risks and the markets' propensity to be whipsawed by the daily news flow. In the wake of the deceleration in global growth, we believe this year's downward shift in longer-dated bond yields will likely persist and that bond prices will trade in a bumpy sideways range over the near term. Until there is more clarity on the trade front, where the disputes are likely to drag on, and on the economic consequences, we think investors should avoid making excessive bets on a particular outcome. At this juncture, we believe the prudent course is to maintain the Long Term Fund's laddered maturity structure and that the current duration of 4 years provides a reasonable hedge against a variety of scenarios.

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.

Martin, Lucas & Seagram Ltd.

CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)

Portfolio Holdings at September 30, 2019

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
CASH					
	Cash Account			15,665	0
MONEY MARKET ISSUES					
1,185,000	Canada Treasury Bill 1.610962% due October 3, 2019	99.69	99.99	1,184,829	19,031
1,260,000	Toronto Dominion Bank BA 1.775272% due October 28, 2019	99.86	99.86	1,258,240	22,338
1,020,000	CIBC BA 1.81999% due October 29, 2019	99.58	99.86	1,018,524	18,486
1,280,000	Canada Treasury Bill 1.60995% due November 14, 2019	99.57	99.80	1,277,393	20,519
1,270,000	Canada Treasury Bill 1.579898% due December 12, 2019	99.58	99.67	1,265,822	19,980
1,265,000	Royal Bank BA 1.799592% due December 27, 2019	99.57	99.57	1,259,535	22,667
				<hr/> 7,264,343	<hr/> 123,021
TOTAL PORTFOLIO				7,280,008	123,021

Disclosures:

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

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)
From 07-01-19 To 09-30-19

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
PURCHASES					
07-05-19	07-08-19	1,010,000	CIBC BA 1.759491% due August 6, 2019	99.86	1,008,590.04
07-18-19	07-19-19	1,250,000	Toronto Dominion Bank BA 1.797323% due September 3, 2019	99.77	1,247,175.00
07-24-19	07-25-19	1,185,000	Canada Treasury Bill 1.610962% due October 3, 2019	99.69	1,181,350.20
08-02-19	08-06-19	1,020,000	CIBC BA 1.81999% due October 29, 2019	99.58	1,015,745.58
08-07-19	08-08-19	1,280,000	Canada Treasury Bill 1.60995% due November 14, 2019	99.57	1,274,490.88
08-20-19	08-21-19	1,260,000	Royal Bank BA 1.801173% due September 30, 2019	99.80	1,257,517.80
08-30-19	09-03-19	1,250,000	TD Bank BA 1.759695% due September 30, 2019	99.87	1,248,375.00
09-04-19	09-05-19	1,270,000	Canada Treasury Bill 1.579898% due December 12, 2019	99.58	1,264,635.52
09-27-19	09-27-19	1,265,000	Royal Bank BA 1.799592% due December 27, 2019	99.57	1,259,535.20
09-27-19	09-27-19	1,260,000	Toronto Dominion Bank BA 1.775272% due October 28, 2019	99.86	1,258,286.40
					12,015,701.62
SALES					
07-08-19	07-08-19	1,010,000	FirstBank BA 1.780062% due July 8, 2019	100.00	1,010,000.00
07-19-19	07-19-19	1,250,000	Toronto Dominion Bank BA 1.775272% due July 19, 2019	100.00	1,250,000.00
07-25-19	07-25-19	1,185,000	Canada Treasury Bill 1.619938% due July 25, 2019	100.00	1,185,000.00
08-06-19	08-06-19	1,010,000	CIBC BA 1.759491% due August 6, 2019	100.00	1,010,000.00
08-08-19	08-08-19	1,280,000	Canada Treasury Bill 1.630273% due August 8, 2019	100.00	1,280,000.00
08-21-19	08-21-19	1,250,000	Royal Bank BA 1.809057% due August 21, 2019	100.00	1,250,000.00
09-03-19	09-03-19	1,250,000	Toronto Dominion Bank BA 1.797323% due September 3, 2019	100.00	1,250,000.00
09-05-19	09-05-19	1,270,000	Canada Treasury Bill 1.60% due September 5, 2019	100.00	1,270,000.00

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)
From 07-01-19 To 09-30-19

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
09-30-19	09-30-19	1,260,000	Royal Bank BA 1.801173% due September 30, 2019	100.00	1,260,000.00
09-30-19	09-30-19	1,250,000	TD Bank BA 1.759695% due September 30, 2019	100.00	1,250,000.00
					12,015,000.00

Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)
From 06-30-19 to 09-30-19

Cash Balance at June 30, 2019		<u>13,372.88</u>
ADD: Proceeds from Sales	12,015,000.00	
Bond Interest Credited (from Long Term Investment Fund)	17,776.25	
Trust Company Interest		
Transfer to/from Long Term Investment Fund	<u>-4,300.00</u>	<u>12,028,476.25</u>
LESS: Cost of Purchases	-12,015,701.62	
Q2 2019 Investment Counsel Fees - Short Term Investment Fund	-2,046.84	
Q2 2019 Investment Counsel Fees - Long Term Investment Fund	-4,291.67	
Trust Company Charges	-4,144.23	
Capital Withdrawal	<u>0.00</u>	<u>-12,026,184.36</u>
Cash Balance at September 30, 2019		<u><u>15,664.77</u></u>

Martin, Lucas & Seagram Ltd.							
EXTERNAL INDIVIDUAL CREDIT RATING REPORT - SEPTEMBER 30, 2019							
CLLAS - SHORT TERM INVESTMENT FUND							
			Unit	Total		Market	%
Quantity	Security	Rating	Cost	Cost	Price	Value	Assets
1,280,000	Canada Treasury Bill 1.60995%	R-1 (high)	99.57	1,274,491	99.80	1,277,393	17.6%
	due November 14, 2019						
1,270,000	Canada Treasury Bill 1.579898%	R-1 (high)	99.58	1,264,636	99.67	1,265,822	17.4%
	due December 12, 2019						
1,185,000	Canada Treasury Bill 1.610962%	R-1 (high)	99.69	1,181,350	99.99	1,184,829	16.3%
	due October 3, 2019						
1,020,000	CIBC BA 1.81999%	R-1 (high)	99.58	1,015,746	99.86	1,018,524	14.0%
	due October 29, 2019						
1,265,000	Royal Bank BA 1.799592%	R-1 (high)	99.57	1,259,535	99.57	1,259,535	17.3%
	due December 27, 2019						
1,260,000	Toronto Dominion Bank BA 1.775272%	R-1 (high)	99.86	1,258,286	99.86	1,258,240	17.3%
	due October 28, 2019						
				7,254,044		7,264,342	100%

CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)

Portfolio Holdings at September 30, 2019

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
GOVERNMENT BONDS					
250,000	Canada Housing Trust Ser 71 1.25% due June 15, 2021	96.83	99.25	248,118	3,125
200,000	Canada Housing Trust 2.4% Series 48 due December 15, 2022	100.37	102.17	204,342	4,800
200,000	Canada Housing Trust 2.35% due September 15, 2023	105.62	102.44	204,880	4,700
250,000	Canada Housing Trust 2.9% due June 15, 2024	102.64	105.31	263,278	7,250
300,000	Canada Housing Trust Ser. 70 2.25% due December 15, 2025	100.98	102.90	308,703	6,750
250,000	Canada Housing Trust No.1 2.350% due March 15, 2028	103.96	104.33	260,830	5,875
				<hr/> 1,490,150	<hr/> 32,500
PROVINCIAL BONDS					
250,000	British Columbia 3.25% due December 18, 2021	102.30	103.24	258,105	8,125
400,000	Ontario 3.15% due June 2, 2022	100.00	103.58	414,328	12,600
500,000	Ontario 2.85% due June 2, 2023	102.29	103.68	518,375	14,250
400,000	Ontario 2.60% due June 2, 2025	101.08	103.80	415,208	10,400
350,000	British Columbia 2.3% due June 18, 2026	104.40	102.54	358,887	8,050
350,000	Ontario 2.60% due June 2, 2027	97.56	104.21	364,718	9,100
				<hr/> 2,329,620	<hr/> 62,525
CORPORATE BONDS					
300,000	Bank of Montreal 2.84% due June 4, 2020	101.77	100.60	301,788	8,520
250,000	Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	104.57	100.45	251,113	6,408
200,000	Bank of Montreal 3.4% due April 23, 2021	100.65	102.02	204,040	6,800
150,000	Royal Bank 1.968% due March 2, 2022	100.05	99.62	149,429	2,952
250,000	National Bank of Canada 2.105% due March 18, 2022	102.04	99.89	249,730	5,263

Martin, Lucas & Seagram Ltd.

CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)

Portfolio Holdings at September 30, 2019

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
150,000	Wells Fargo 3.46% due January 24, 2023	102.36	103.76	155,642	5,190
250,000	Toronto Dominion Bank Dep. Note 3.226% due July 24, 2024	102.02	104.87	262,183	8,065
250,000	CIBC Deposit Note 3.3% due May 26, 2025	100.24	105.84	264,610	8,250
200,000	Wells Fargo & Company 2.975% due May 19, 2026	102.15	101.51	203,010	5,950
200,000	Bank of Nova Scotia Dep. Notes 2.62% due December 2, 2026	99.23	102.53	205,068	5,240
				2,246,612	62,637
TOTAL PORTFOLIO				6,066,382	157,662

Disclosures:

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Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)
From 07-01-19 To 09-30-19

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
PURCHASES					
07-29-19	07-31-19	200,000	Wells Fargo & Company 2.975% due May 19, 2026	102.15	204,300.00
					204,300.00
SALES					
07-25-19	07-25-19	200,000	Wells Fargo Canada 2.944% due July 25, 2019	100.00	200,000.00
					200,000.00

Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - LONG TERM INVESTMENT FUND
From 06-30-19 to 09-30-19

Cash Balance at June 30, 2019		0.00
ADD: Transfer from Short Term Investment Fund		0.00
ADD: Proceeds from Sales	200,000.00	
Bond Interest Credited (to Long Term Investment Fund)	17,776.25	
Transfer to Short Term Investment Fund	-13,476.25	204,300.00
LESS: Cost of Purchases	-204,300.00	
Accrued Interest Debited (from Long Term Investment Fund)		-204,300.00
Cash Balance at September 30, 2019		0.00

EXTERNAL INDIVIDUAL CREDIT RATING REPORT -SEPTEMBER 30, 2019

CLLAS - LONG TERM INVESTMENT FUND

					Unit	Total		Market	Pct.
Quantity	CUSIP	Security		Rating	Cost	Cost	Price	Value	Assets
GOVERNMENT BONDS									
250,000	13509PFJ7	Canada Housing Trust Ser 71 1.25%	due June 15, 2021	AAA	96.83	242,075	99.25	248,118	4.1%
200,000	13509PDL4	Canada Housing Trust 2.4% Series 48	due December 15, 2022	AAA	100.37	200,740	102.17	204,342	3.4%
200,000	13509PDV2	Canada Housing Trust 2.35%	due September 15, 2023	AAA	105.62	211,240	102.44	204,880	3.4%
250,000	13509PEF6	Canada Housing Trust 2.9%	due June 15, 2024	AAA	102.64	256,600	105.31	263,278	4.3%
300,000	13509PFD0	Canada Housing Trust Ser. 70 2.25%	due December 15, 2025	AAA	100.98	302,940	102.90	308,703	5.1%
250,000	13509PGF4	Canada Housing Trust 2.35%	due March 15, 2028	AAA	103.96	259,900	104.33	260,830	4.3%
						1,473,495		1,490,150	24.6%
PROVINCIAL BONDS									
250,000	110709BJ0	British Columbia 3.25%	due December 18, 2021	AA (high)	102.30	255,750	103.24	258,105	4.3%
400,000	68323AAW4	Ontario 3.15%	due June 2, 2022	AA (low)	100.00	400,000	103.58	414,328	6.8%
500,000	68323ABN3	Ontario 2.85%	due June 2, 2023	AA (low)	102.29	511,430	103.68	518,375	8.5%
400,000	68323ACX0	Ontario 2.60%	due June 2, 2025	AA (low)	101.08	404,305	103.80	415,208	6.8%
350,000	68323AEE0	Ontario 2.60%	due June 2, 2027	AA (low)	97.56	341,460	102.54	358,887	5.9%
350,000	11070TAJ7	British Columbia 2.3%	due June 18, 2026	AA (high)	104.40	365,400	104.21	364,718	6.0%
						2,278,345		2,329,620	38.4%
CORPORATE BONDS									
300,000	06367VCT0	Bank of Montreal 2.84%	due June 4, 2020	AA	101.77	305,307	100.60	301,788	5.0%
200,000	06367VJN6	Bank of Montreal 3.4%	due April 23, 2021	AA	100.65	201,300	102.02	204,040	3.4%
200,000	064151QE6	Bank of Nova Scotia Dep. Note 2.62%	due December 2, 2026	AA	99.23	198,460	102.53	205,068	3.4%
250,000	13596Z3Y9	CIBC Deposit Note 3.3%	due May 26, 2025	AA	100.24	250,600	105.84	264,610	4.4%
250,000	633067C27	National Bank of Canada 2.105%	due March 18, 2022	AA (low)	102.04	255,100	99.89	249,730	4.1%
150,000	780086KD5	Royal Bank 1.968%	due Mar 2, 2022	AA (high)	100.05	150,075	99.62	149,429	2.5%
250,000	891145S47	Toronto Dominion Bank Dep. Note 2.563%	due June 24, 2020	AA (high)	104.57	261,425	100.45	251,113	4.1%
250,000	891145T79	Toronto Dominion Bank Dep. Note 3.226%	due July 24, 2024	AA (high)	102.02	255,050	104.87	262,183	4.3%
150,000	94975ZBN5	Wells Fargo & Company 3.46%	due January 24, 2023	AA (low)	102.36	153,542	103.76	155,642	2.6%
200,000	949746RX1	Wells Fargo & Company 2.975%	due May 19, 2026	AA (low)	102.15	204,300	101.51	203,010	3.3%
						2,235,159		2,246,612	37.0%
TOTAL PORTFOLIO						5,986,999		6,066,382	100.0%

Martin, Lucas & Seagram Ltd.
DATE TO DATE GAINS AND LOSSES
CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)
From 12-31-18 to 09-30-19

Security	12-31-18 Market Value	Additions Withdrawals	09-30-19 Market Value	09-30-19 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
CASH								
Cash Account	0	0	0	0				
GOVERNMENT BONDS								
Canada Housing Trust 1.95% due June 15, 2019	250,190	-252,438	0	0	-238	-190	0	0
Canada Housing Trust Ser 71 1.25% due June 15, 2021	245,248	-1,563	248,118	242,075	0	0	6,043	2,870
Canada Housing Trust 2.4% Series 48 due December 15, 2022	201,298	-2,400	204,342	200,740	0	0	3,602	3,044
Canada Housing Trust 2.35% due September 15, 2023	200,510	-4,700	204,880	211,240	0	0	-6,360	4,370
Canada Housing Trust 2.9% due June 15, 2024	256,938	-3,625	263,278	256,600	0	0	6,678	6,340
Canada Housing Trust Ser. 70 2.25% due December 15, 2025	296,637	-3,375	308,703	302,940	0	0	5,763	12,066
Canada Housing Trust No.1 2.350% due March 15, 2028	0	258,524	260,830	259,900	0	0	930	930
GOVERNMENT BONDS Total	<u>1,450,820</u>		<u>1,490,150</u>	<u>1,473,495</u>	<u>-238</u>	<u>-190</u>	<u>16,655</u>	<u>29,620</u>
PROVINCIAL BONDS								
British Columbia 3.25% due December 18, 2021	257,385	-4,063	258,105	255,750	0	0	2,355	720
Ontario 3.15% due June 2, 2022	410,508	-6,300	414,328	400,000	0	0	14,328	3,820
Ontario 2.85% due June 2, 2023	508,035	-7,125	518,375	511,430	0	0	6,945	10,340
Ontario 2.60% due June 2, 2025	398,984	-5,200	415,208	404,305	0	0	10,903	16,224
British Columbia 2.3% due June 18, 2026	341,919	-4,025	358,887	365,400	0	0	-6,514	16,968
Ontario 2.60% due June 2, 2027	344,908	-4,550	364,718	341,460	0	0	23,258	19,810
PROVINCIAL BONDS Total	<u>2,261,738</u>		<u>2,329,620</u>	<u>2,278,345</u>	<u>0</u>	<u>0</u>	<u>51,275</u>	<u>67,882</u>
CORPORATE BONDS								
Wells Fargo Canada 2.944% due July 25, 2019	200,648	-205,888	0	0	-40	-648	0	0
Bank of Montreal 2.84% due June 4, 2020	301,278	-4,260	301,788	305,307	0	0	-3,519	510
Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	250,005	-3,204	251,113	261,425	0	0	-10,313	1,108
Bank of Montreal 3.4% due April 23, 2021	203,094	-3,400	204,040	201,300	0	0	2,740	946
Royal Bank 1.968% due March 2, 2022	146,163	-2,952	149,429	150,075	0	0	-647	3,266
National Bank of Canada 2.105% due March 18, 2022	243,963	-5,263	249,730	255,100	0	0	-5,370	5,768
Wells Fargo 3.46% due January 24, 2023	152,265	-5,190	155,642	153,542	0	0	2,100	3,377
Toronto Dominion Bank Dep. Note 3.226% due July 24, 2024	253,388	-8,065	262,183	255,050	0	0	7,133	8,795
CIBC Deposit Note 3.3% due May 26, 2025	253,368	-4,125	264,610	250,600	0	0	14,010	11,243

Martin, Lucas & Seagram Ltd.
DATE TO DATE GAINS AND LOSSES
CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)
From 12-31-18 to 09-30-19

Security	12-31-18 Market Value	Additions Withdrawals	09-30-19 Market Value	09-30-19 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
Wells Fargo & Company 2.975% due May 19, 2026	0	205,490	203,010	204,300	0	0	-1,290	-1,290
Bank of Nova Scotia Dep. Notes 2.62% due December 2, 2026	193,196	-2,620	205,068	198,460	0	0	6,608	11,872
CORPORATE BONDS Total	2,197,367		2,246,612	2,235,159	-40	-648	11,453	45,593
TOTAL PORTFOLIO	5,909,925		6,066,382	5,986,999	-278	-838	79,383	143,095
TOTAL DATE TO DATE GAIN OR LOSS								142,257
% CHANGE DURING PERIOD								2.41



CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Investment Policy

Last Updated
December 9, 2015



1. PURPOSE

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

2. CLLAS INVESTMENT ACTIVITIES

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

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

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



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



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

3. ASSETS HELD PURSUANT TO REINSURANCE SECURITY AGREEMENTS

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



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

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

4. CONFLICTS OF INTEREST

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



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

5. ROLES AND RESPONSIBILITIES

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



5.2. The General Manager is responsible for the following:

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

5.3. The Investment Manager is responsible for the following:

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

6. AUTHORITY

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

7. HISTORY OF CHANGES

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

- Addition of accounting classification of investments;



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

Other minor changes were also made.

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