

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

Minutes of a Meeting of the Advisory Board

8:30 a.m.
Davies Ward Phillips & Vineberg LLP
40th Floor, RBC Centre
155 Wellington Street West
Toronto, Ontario

Wednesday, February 22, 2017

Present:

Nick Leblovic (Chair)	Davies Ward Phillips & Vineberg LLP
Barry Bresner	Borden Ladner Gervais LLP
Donald Milner	Fasken Martineau DuMoulin LLP
Ken Crofoot	Goodmans LLP
Bill Scott	McCarthy Tétrault LLP
Dan Macdonald (by phone)	McMillan LLP
Julia Holland	Torys LLP
Mike Swartz (by phone)	WeirFoulds LLP
Reta Coburn (by phone)	WeirFoulds LLP
Patrick Mahoney	Office of the General Manager, CLLAS
Norma Ibbetson	Office of the General Manager, CLLAS
Joe Tontini	Axxima
Ryan Durrell	Axxima

Absent:

Gordon Goodman	Cassel Brock & Blackwell LLP
John Esvelt	Dentons LLP
David Morritt	Osler Hoskins & Harcourt LLP

1. Constitution of Meeting

The Chair brought the meeting to order. The Chair declared that a quorum of the Advisory Board was present in person or by conference telephone and that the meeting was duly constituted.

2. Appointment of Secretary

Norma Ibbetson acted as Secretary.

3. Approval of Minutes of the December 7, 2016 Meeting of the Advisory Board

It was moved by Don Milner and seconded Julia Holland that the minutes of the December 7, 2016 meeting of the Advisory Board be approved. The motion was carried unanimously.

4. Business Arising Out of the Minutes

There were no items to report which will not be covered elsewhere in the agenda.

5. Comments of the Chair

The Chair gave an overview of activities since the last Board meeting. CLLAS has continued with its Associate Member initiative. Stockwoods joined as an Associate Member effective January 1, 2017. Discussions continue with Lenzcnrs with respect to the possibility of joining as a full member of CLLAS.

The Policy Committee has been busy working on updating the Subscribers' Agreement. A lawyer in Alberta with expertise with this type of agreement has been retained to draft the revised agreement.

Discussions with Blakes have continued with respect to the firm's position in CLLAS. These discussions are expected to continue past June 30, 2017, which is the five year anniversary of Blakes' withdrawal.

Cyber coverage continues to be an item under review. There will be an update later in the agenda.

The Chair reported that he had heard from seven of the 10 firms that they were committed to remain in CLLAS for the next underwriting period.

6. Report of the General Manager's Office

Financial Statements for the Year Ended December 31, 2016

Patrick Mahoney reported that CLLAS finished 2016 with a surplus position of \$14.4 million versus \$14.1 million at December 31, 2015. CLLAS experienced a small underwriting gain of \$160,000, which grew to \$264,000 after reflecting investment income. Operating expenses finished the year under budget by \$134,000, or approximately 5.5%.

Exhibit 5 to the financial management report shows the results of various risk metrics that were established as part of the ORSA/ERM process and that are monitored on a quarterly basis. This is a snapshot of CLLAS' performance for the Board's review. The Exhibit shows results for CLLAS at December 31, 2014, 2015 and 2016.

CLLAS remains in solid financial condition. Exhibit 6 to the financial management report shows the results of two regulatory solvency tests that are monitored by CLLAS. The first is the Alberta

Maintenance of Reserve and Guarantee Fund (AMRGF) test. CLLAS continues to comfortably pass this test. The second, CLLAS' MCT ratio, is indicated in the notes to the audited statements and on the annual P&C1 regulatory filing. The ratio at December 31, 2016 was 464%, well above last year and again comfortably above regulatory expectations. The increase is partly due to the phasing in of the transition to a new MCT calculation basis which is more favourable to CLLAS.

Actuarial Report

CLLAS' actuary, Julie-Linda Laforce, presented the results of the 2016 valuation to the Audit Committee at a meeting held on February 16, 2017. The actuary's presentation was included in the Board material as an information item. The presentation highlights, among other things, claim counts and the change in ultimate reserves over the past 12 months. There were no changes in methodology from the previous year. Loss development factors, the discounts rate and various other assumptions were updated, with the net result of the changes being minimal. The full actuarial report is available to the Board members on request.

2017 Operating Budget

Mr. Mahoney presented the proposed operating budget for 2017. He advised that the budget had been reviewed with the Chair and reflects his input. Mr. Mahoney reviewed the operating expenses incurred in 2016 and the budget being proposed for 2017. The proposal is essentially a status quo budget for the Management Services fee, and a modest decrease of 3.5% for Professional Services. As in the past, the Professional Services are provided on a fee-for-service basis, while the Management Services are fixed fee.

Other Operating Expenses are a best estimate of costs for operating CLLAS in 2017.

It was moved by Ken Crofoot and seconded by Barry Bresner that the 2017 budget be approved. The motion was carried unanimously.

7. Report of the Audit Committee

Mike Swartz reported on behalf of the Audit Committee. The year-end meeting with CLLAS' auditor and actuary took place on February 16, 2017. An unqualified audit opinion will be issued. The Audit Committee had an opportunity to meet with the auditor without management and no issues or concerns were identified. Copies of the Audit Findings Report and Audited Financial Statements were included in the Board meeting materials. There is one change to the draft audited financial statements provided in the Board package. The note disclosure with respect to the departure of Blakes has been moved from Note 10 (Equity) to a new Note 14 (Contingent Liability). The change to the notes was handed out at the meeting and read to the Board members participating by phone. The P&C1 regulatory filing will be signed and filed after today's meeting.

It was moved by Nick Leblovic and seconded by Don Milner that the Financial Statements at December 31, 2016 be adopted. The motion was carried unanimously.

8. Cyber Update

Mr. Tontini and Mr. Durrell reported on this item. The responses to CLLAS' IT Security Survey were collected. The analysis of the results found that while the responding firms all exhibited

good security overall, there was not sufficient homogeneity to recommend that CLLAS further consider risk retention for first party risks at this time.

As reported at the last meeting, the CLLAS Cyber Subcommittee and Policy Committee discussed the potential of a manuscript, CLLAS-exclusive reputation risk cyber policy. It was concluded that the appetite for such coverage is not present at this time at the pricing levels required to implement it. However, given the ever-decreasing premiums for such coverage, firms might be ready to revisit commercially available cyber coverage.

The Cyber Sub Committee and Policy Committee instructed Axxima to put together terms and pricing indications on a cyber insurance group purchase program for the CLLAS firms to consider. The expectation is that by leveraging CLLAS' reputation, the firms can achieve a better result than market rates and coverage. This would be an optional purchase on an individual firm basis. Each firm could select the types of additional coverage typically found under a cyber policy for varying premium. It remains to be seen whether or not selecting ad hoc coverages would in fact reduce the premium.

There will be a more comprehensive report for the June meeting including a summary of various coverages and the premium associated with the coverages. If firms were interested at some point there would be a requirement to complete an application. The intent of this exercise is to see if a CLLAS approach is more cost effective than an off the shelf buy.

9. Report of the Claims Committee

Barry Bresner provided a brief report to the Board. There were a number of new large loss reports generated at December 31, 2016 due to reserve increases at the Law Society level. At the same time, a number of claims have dropped off the large loss radar either because of settlement or a reduction in the underlying reserves. One of the items from the recent Board evaluation survey was a request to make the claims exhibit more useful to the firms. Mr. Mahoney advised that changes to that exhibit are in development and an updated report will be provided at the next Board meeting.

10. Report of the Risk Management Committee

Julia Holland advised that there was no report of the Committee for this meeting.

11. Report of the Policy Committee

Donald Milner reported to the Board. The Committee will continue to move the Subscriber Agreement redraft forward. It is expected that the revised Agreement will be ready for signature effective July 1, 2017, so a final draft will be circulated in the coming months. The Rules of the Reciprocal will also be reviewed.

12. Other Business

Investment Report for Quarter Ending December 31, 2016

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

Chair Succession (Chair stepped out of the room)

Don Milner reported to the Board on the succession discussion once the current Chair departs in 2018. Ken Crofoot's name was put forth and he has indicated he is willing to serve as the next Chair of CLLAS. Ken spoke briefly to the Board to let everyone know that his firm was also supportive of the commitment. There was Board consensus to the nomination. Mr. Crofoot will step into the interim Chair role with a formal transition in February 2018.

(Chair returned to the meeting.)

There was some further discussion on perhaps changing the Subscribers Agreement provisions concerning eligibility for Chair. Mr. Milner reported that minor changes to the Agreement were being made as part of the current redraft.

13. Next Meeting

The next scheduled meeting of the Board is June 21, 2017. The CLLAS dinner is Friday, May 5, 2017.

There being no further business, the meeting was adjourned.

Chairman

Secretary



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

Date: June 14, 2017

To: David Morritt Barry Bresner Ken Crofoot
William Scott Daniel MacDonald Michael Swartz
Donald Milner John Esvelt Gordon Goodman
Nicholas Leblovic Julia Holland

Copy: Patrick Mahoney

From: Joe Tontini and Ryan Durrell

Re: Report on the CLLAS Reinsurance Renewal Placement for July 1, 2017/2018 and Preliminary Rates for CLLAS Members

The purpose of this report is to provide the CLLAS Board with information on the reinsurance renewal placement for July 1, 2017/2018 and the premium rates that CLLAS members are expected to pay for the upcoming term of insurance.

Executive Summary

The end of an underwriting period is always a critical juncture for CLLAS. Member firms have been extremely loyal and 10 out of the 11 member firms were original members when CLLAS was formed in 1987. Except for Dentons Canada LLP (Dentons), CLLAS has had confirmation from all the other 10 current member firms that they will renew their participation in CLLAS by committing to the next five-year underwriting period. We believe that this strong and positive commitment was the direct result of the reinsurance rate reductions that were achieved over the past two years. Reinsurers had agreed to these reductions even though their actuaries could not justify the rates being proposed. This did not go unnoticed by the CLLAS firms who appreciate and value the long-term relationship that they have developed over the years with its reinsurers.

Dentons, following a series of international mergers in 2012, had advised CLLAS that it would not renew its participation on July 1, 2017 because of an insurance program that is in place for Dentons on a global basis.

Earlier this year, two large insurance brokers provided Borden Ladner Gervais LLP (BLG) with indicative quotes. The premium indications were significantly lower than the expiring CLLAS pricing and this was difficult for BLG to ignore. BLG is one of CLLAS' original members and, like the other member firms, appreciates the value (and other services) that CLLAS brings to the table. They had indicated that they would like nothing better than to stay in CLLAS so a meeting with the senior members of BLG's Management Committee was held to see what could be done. BLG indicated that staying in CLLAS would be an easy decision if savings in the order of 25% could be realized within CLLAS. CLLAS immediately prepared a special underwriting submission to request a 20% reinsurance rate reduction and received favourable responses from most underwriters. CLLAS indicated that subject to the approval of its Board and Colchester Reinsurance Limited (Colchester), CLLAS and Colchester could make up the difference in order to reach an overall reduction of 25%. With this outcome, BLG subsequently confirmed that they would stay in CLLAS for the next five-year underwriting period.

In 2015, CLLAS established a working group to review expansion opportunities in CLLAS. The working group launched the "CLLAS Associate Member" initiative that allowed prospective law firms to join CLLAS without having to contribute to the required capital until full membership was attained. So far, CLLAS has been successful in attracting two excellent litigation law firms, Lenczner Slaght Royce Smith Griffin LLP (Lenczner) and Stockwoods LLP, under a CLLAS Associate Member program that included most of the existing CLLAS reinsurers. This initiative is viewed by the Board as a way of adding immediate value to potential new members while pre-underwriting the firms so that they would have easier access to full membership in CLLAS in the future.

The total lawyer count on June 15, 2016 was 4,173. The total projected lawyer count on March 1, 2017 for 2017/2018 is 3,734. This represents a decrease of 10.5% but is mainly due to Dentons leaving CLLAS.

CLLAS Renewal Negotiations

Following the successful CLLAS renewal for the period July 1, 2016/2017 when reinsurers agreed to a 15% rate reduction over the previous term, CLLAS had set some fairly modest objectives. CLLAS and the underwriters had hoped that the 15% reduction would be enough for member firms to commit to another five-year underwriting period. Due to the unexpected BLG situation, CLLAS had to request a further reduction of 20% on all reinsurance layers. In order to reach the overall reduction of 25%, CLLAS and Colchester would then have to make up the difference by way of further reductions in premium that CLLAS and Colchester would charge.

To this end, a special underwriting submission was prepared in March. During that same month, Patrick Mahoney, Joe Tontini and Ryan Durrell were in London and had impromptu face-to-face meetings with some of the key CLLAS underwriters arranged through our London brokers, Mark Popple and Graeme Lynch of Miller Insurance Services LLP.

The main arguments for the 20% reduction that were presented to underwriters were as follows:

- CLLAS believed that many of the markets that would quote the risk to the brokers who had provided the competitive indications are also currently reinsuring CLLAS;
- The reduction, along with an indirect surplus contribution by CLLAS and/or Colchester, would allow CLLAS to charge members a premium that is 25% less than expiring;
- This reduction would allow CLLAS to retain all 10 members for another five-year term which would provide a stable portfolio of business for its underwriters insulated from the worst competitive tendencies in the market.

The meeting results and subsequent negotiations were encouraging. Most underwriters agreed to the requested reduction.

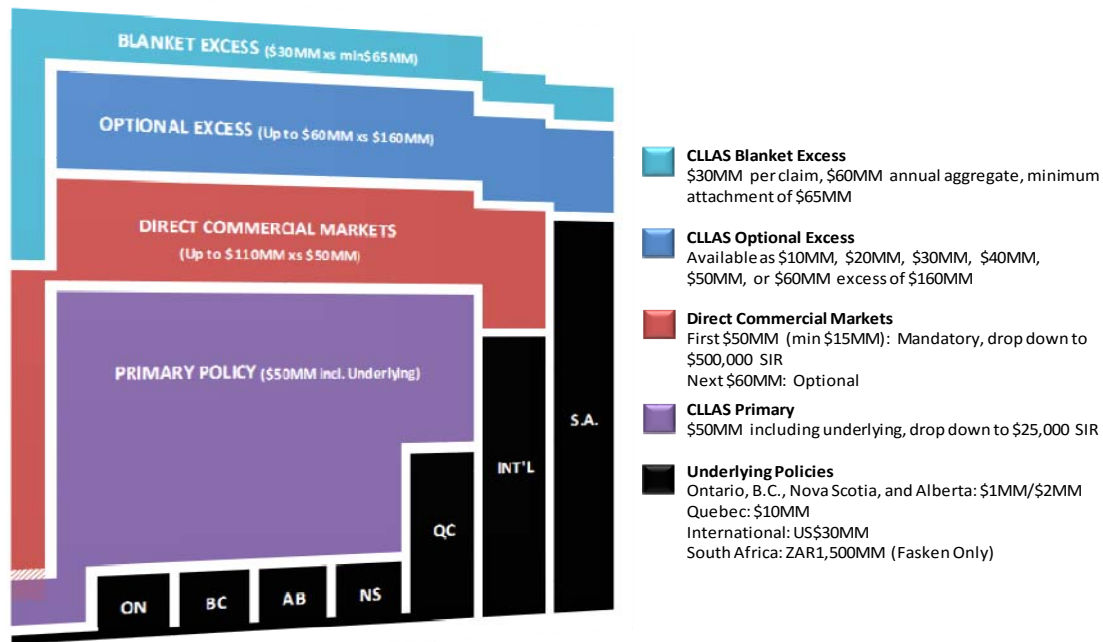
Some of the underwriters required the usual full submission for their record so one was prepared and distributed in May. Nick Leblovic, Patrick Mahoney, Joe Tontini and Ryan Durrell returned to London the same month to finalize the negotiations and thank underwriters for their continued support.

While most of our reinsurers will continue to be involved in CLLAS, there was quite a lot of juggling in terms of participation and support. Most notably:

- Our lead reinsurer on the \$49M excess of \$1M Layer, Argo, reduced its authorization from 35% to 20%. Argo's underwriter, Nigel Dorning, who attended the CLLAS dinner in May, indicated that the 20% reduction was "a difficult position to accept" especially since "actuarially", they are "well and truly under water." Overall, he felt that it was "a bitter pill to swallow when faced with an unrealistic and unsupported quotation from the market to which we have had to react."
- Our lead Lloyd's reinsurer on the Optional Excess Layer reduced its participation to under 2% from its expiring signed line of 10.1%. The underwriter voiced serious concern about the sustainability of these low rates for the future.
- Allied World indicated that they would continue to support the Optional Excess Layer at the reduced rate but they wanted to be replaced on the Umbrella Layer.
- Swiss Re (Westport Insurance) continued to support CLLAS on all their previous layers but could no longer support Colchester on its \$40M excess of \$10M Layer. By far, Swiss Re brings the most capacity to the table and continues to do so by participating in a significant way on the Optional Excess and Umbrella Layers. They also continue to support Colchester on the aggregate stop-loss coverage.
- CLLAS will have a 5% participation in two new layers: \$50M excess of \$50M and \$60M excess of \$100M. These two layers will be fully reinsured by Swiss Re/Westport. We worked closely with Bob Wilson to develop and price these new layers so that the 25% rate reduction to CLLAS members could be achieved. Bob Wilson will place the other 95% with the existing insurers who currently support the layers excess of \$50M up to \$160M.
- As of the date of this report, we have not heard from Beazley, one of the retrocession supporters on Colchester. We expect that they will not renew at rates that are lower than expiring. Nevertheless, Colchester is expected to continue to support CLLAS on the \$49M excess of \$1M Layer for its expiring 20% participation with the appropriate retrocession protection.
- Notwithstanding the many challenges noted above, we will be able to complete all of the CLLAS layers at the reduced reinsurance rates due to:
 - extra capacity that existed from the expiring placement;
 - new reinsurance capacity, including China Re Syndicate, on the Colchester retrocession; and
 - subsidized Colchester premiums.

CLLAS Insurance Structure

At renewal, the CLLAS insurance structure is expected to be changed as depicted below:



One change that we have instituted for the upcoming year is for CLLAS to participate in the commercial layers excess of \$50M. The commercial markets that were participating in these layers in previous years will take a slightly lower line in order for CLLAS to participate. The expiring layers have been consolidated into two large layers of \$50M excess of \$50M and \$60M excess of \$100M. On top of the CLLAS Primary Policy and the \$110M excess of \$50M layers, CLLAS would continue to provide the Optional Excess Policy and the Blanket Excess Policy. In summary, CLLAS expects to issue the following policies for the July 1, 2017/2018 policy year:

1. CLLAS Primary Policy of \$50M – A Primary Policy of \$50M per claim/per year/per firm inclusive of underlying coverage from the law societies or other applicable professional liability policies. CLLAS has asked Colchester and other underwriters to reinsure CLLAS for \$49M excess of \$1M at a renewal rate of 20% less than expiring. Subject to Colchester approval, we expect Colchester to further reduce the \$49M excess of \$1M rate in order to achieve an overall reduction of 25% compared to the rates that CLLAS members currently pay. The rate for lawyers in Quebec would be lower because of the higher underlying limit provided by Barreau du Quebec.
2. CLLAS First Excess Policy of Up to \$50M Excess of \$50M – CLLAS will take a 5% participation on the new First Excess Policy of up to \$50M excess of the CLLAS Primary \$50M and/or other specific underlying insurance arranged by certain CLLAS member firms for their offices in the U.S. and/or other international locations. Swiss Re/Westport has agreed to reinsure CLLAS on this layer. Excluding Dentons, there is currently one firm that purchases less than \$50M excess of \$50M and the firm's rate would be scaled down accordingly.

3. CLLAS Second Excess Policy of Up to \$60M Excess of \$100M – CLLAS will take a 5% participation on the Second Excess Policy of up to \$60M excess of \$100M. Swiss Re/Westport has agreed to reinsure CLLAS on this layer. This policy follows the CLLAS First Excess Policy.
4. CLLAS Optional Excess Policy of Up to \$60M excess of \$160M – This is an existing layer issued by CLLAS. CLLAS asked underwriters to reinsure CLLAS at a renewal rate of 20% less than expiring. There is currently one firm that purchases less than \$60M excess of \$160M and the firm's rate would be scaled down accordingly. This policy follows the CLLAS First Excess Policy and is excess of the CLLAS Second Excess Policy.
5. CLLAS Blanket Excess Policy of \$30M per claim/\$60M aggregate – This policy is shared by all CLLAS member firms. This policy follows the CLLAS First Excess Policy and is excess of the CLLAS First, Second or Optional Excess Policy. CLLAS asked underwriters to reinsure CLLAS at a renewal rate of 20% less than expiring.

CLLAS International Placement

The CLLAS International policies will continue to be placed by Bob Wilson. In order to maximize our use of the marketplace, we have a long standing agreement with Bob Wilson that the London market would be predominantly reserved for the CLLAS reinsurance placement.

Heenan Blaikie LLP (HB) Tail Coverage

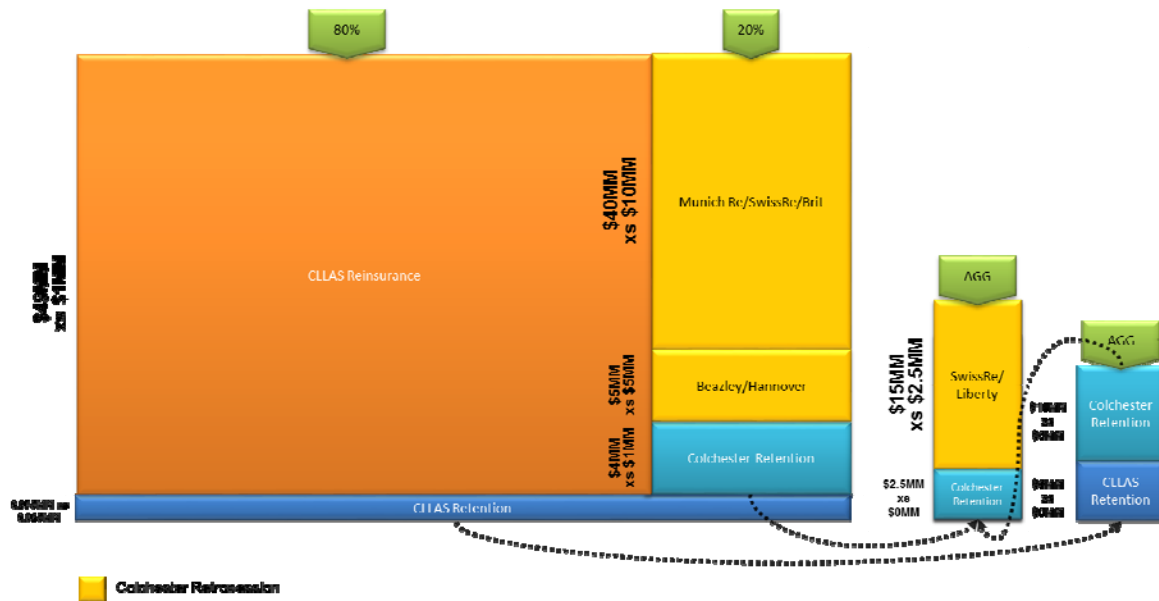
CLLAS and its reinsurers and the underwriters on the commercial excess policies had agreed to provide tail coverage under the CLLAS and commercial excess policies to certain lawyers who had previously been employed by HB. The tail coverage applies from April 30, 2014 to July 1, 2017. Claims made related to professional services provided by former HB lawyers before they joined the CLLAS member firms will attach to the CLLAS policy that is in force at the time the claim is made. The aggregate limit over all policy periods that applies to all CLLAS Primary Policies that cover former HB lawyers for tail coverage related claims will be \$50,000,000. The CLLAS coverage sits on top of a specific two-year tail coverage policy arranged through HB. This coverage was for a two-year period beginning April 30, 2014 for an aggregate limit for the period of \$10,000,000 and has expired.

Endorsements have been issued to have the tail coverage incorporated into the coverage of each respective firm. A premium is charged every year on the Primary Policy of CLLAS member firms acquiring HB lawyers until the end of the current underwriting period.

CLLAS has reassessed the risk and has determined that as of this date, there have been no HB-related claims that are expected to penetrate the CLLAS layer. As a result, it is recommended that CLLAS continue providing tail coverage to former HB lawyers at no additional premium starting July 1, 2017.

CLLAS Reinsurance Structure

The current CLLAS reinsurance structure on the Primary Policy is depicted below:



At renewal, two new reinsurance layers will be added and the structure will be as follows:

- Primary Policy Reinsurance:** \$49M excess of \$1M (\$40M excess of \$1M for Quebec lawyers) – 100% reinsured.
 - 80% of this layer will be proportionally reinsured with Lloyd's and other reinsurers;
 - 20% will be reinsured with Colchester. Colchester's involvement will then be layered and retroceded to various markets. A portion of Colchester's participation which is not transferred to other markets will be retained by Colchester;
 - CLLAS will retain the entire drop-down exposure below \$1M.
- First Excess Policy Reinsurance:** Up to \$50M excess of \$50M – The 5% participation by CLLAS will be fully reinsured.
- Second Excess Policy Reinsurance:** Up to \$60M Excess of \$100M – The 5% participation by CLLAS will be fully reinsured.
- Optional Excess Policy Reinsurance:** Up to \$60M excess of \$160M – 100% reinsured.
- Umbrella Policy Reinsurance:** \$30M/\$60M excess of \$65M (minimum) – 100% reinsured.

- f) **Aggregate Stop-Loss Reinsurance:** CLLAS aggregate protection of \$10M excess of \$5M in aggregate losses – 100% reinsured by Colchester.
- g) **Loss Portfolio Transfer Reinsurance:** Claims reserves and IBNR as at June 30, 2012 – 100% reinsured by Colchester.

Reinsurance Security

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

- **Lloyd's** has a significant participation in all layers of coverage and also participates in Colchester's retrocession protection. The Argo Syndicate at Lloyd's currently leads Reinsurance Layer 1 and is the most exposed among the Lloyd's syndicates with an expected 20% of the layer for the upcoming year. Lloyd's is A rated by Best and A+ rated by S&P;
- **Swiss Re/Westport** has a significant participation in all of the CLLAS excess layers and in the Colchester aggregate stop-loss protection. Swiss Re is A+ rated by Best and AA- rated by S&P;
- **Colchester** participates in Reinsurance Layer 1, and the Optional Excess Layer, and provides CLLAS with aggregate stop-loss and loss portfolio transfer protections. Colchester is not registered in Canada and is not rated by the rating agencies but CLLAS is protected through a Reinsurance Security Agreement with Colchester.

Risk Retention Strategy

The following highlights the risk retention strategy adopted by CLLAS over the past several years. The retention strategy is largely market driven. In a hard market when CLLAS' actuarially determined rates are lower than the market rates, CLLAS would take on more risk. In a soft market when actuarially determined rates are higher than market rates, CLLAS should take less risk and transfer as much of the risk as practical to third party reinsurers. We have been in a prolonged soft market so CLLAS retention remains relatively low.

Due to the change in regulatory jurisdiction and the loss portfolio transfer which was put into effect in 2012, CLLAS was able to retain less risk and transfer more risk to Colchester subject to Colchester approval. CLLAS currently retains only the drop-down exposure (\$975,000). Colchester has been willing to follow the rates established by the lead London underwriters on the \$49M excess of \$1M Layer. In order to follow the London lead and to further reduce the CLLAS premium reductions for the upcoming year to 25%, Colchester will have to subsidize a significant portion of the CLLAS reinsurance premium. How much is subsidized depends on how much risk Colchester retains and how much is transferred through retrocession protection arranged on behalf of Colchester. Colchester's current participation is 20% but with retrocession protection, its net retention per claim is less than \$2,00,000. With the availability to CLLAS of additional reinsurance capacity from the London and the domestic markets, Colchester could reduce its retention even more but it may not be strategically advisable to do so since Colchester's net retention is already low and reinsurers expect CLLAS and Colchester to participate in the risk.

Premium Reductions Through CLLAS Surplus Contributions

As we gained a better understanding of regulatory surplus requirements from the Alberta regulator, CLLAS members enjoyed a premium reduction in the last few years due to a reduction in reinsurance rates and a return of surplus by CLLAS. The current CLLAS surplus status will allow CLLAS to continue to provide members with a premium reduction.

Proposed CLLAS Structure and Rates – July 1, 2017/2018

As discussed above, there will be certain changes to the existing insurance and reinsurance structures and participations at the upcoming renewal. CLLAS will continue to only retain 100% of the drop-down exposure.

While we have heard from most of our reinsurers, the signed lines are still being finalized. We are confident that:

- a) there will be sufficient authorized capacity to renew existing layers at the proposed reduced rates;
- b) reinsurers on the new layers will be on board with the proposed rates;
- c) Colchester will continue to support 20% of the \$49M excess of \$1M placement;
- d) Colchester will continue to support the aggregate stop-loss protection for CLLAS at expiring or slightly better rates.

On the basis of the above and on the assumption that CLLAS will continue to provide a surplus distribution in the form of a premium credit, the premiums for CLLAS members at renewal should be approximately 25% lower than expiring.

Proposed Policy Wording Changes at Renewal

Other than issuing the First and Second Excess Policies, which will be new for 2017/2018, CLLAS does not expect to amend any of the policy wordings for the coming year. The wordings for the two new policies are still being finalized but they should not be too different from the existing wordings used for the policies purchased from the commercial market.

The CLLAS Associate Member Initiative

In 2015, a working group was established to review expansion opportunities in CLLAS. The working group launched the “CLLAS Associate Member” initiative that allowed prospective law firms to join CLLAS without having to contribute to the required capital until full membership was attained. The support needed to create the CLLAS Associate Member facility was subsequently secured. This was made up 80% by London underwriters and 20% by CNA Canada through Binding Authorities for which Axxima Insurance Services (Axxima) is the Coverholder. These underwriters also participate on the CLLAS Program. Axxima then approached and held meetings with several Ontario-based law firms to outline the program. Currently, there are two CLLAS Associate Members:

1. On January 1, 2016, Lenczner became the first CLLAS Associate Member. Lenczner purchased total limits of \$95,000,000. The Primary Excess Policy of \$50,000,000 was an 18-month policy (to coincide with the expiry of the CLLAS policy). \$45,000,000 excess of \$50,000,000 was placed through Pro-Form/Hub. The policies will expire on July 1, 2017 and we are in the process of renewing them.
2. On January 1, 2017, Stockwoods LLP became the second CLLAS Associate Member. This firm is comparatively smaller and they only purchased a limit of \$30,000,000. An 18-month policy was issued to coincide with the expiry of the CLLAS policy.

Over the course of the next few months leading up to the January 1, 2018 renewals (a common anniversary date for most Ontario firms), Axxima will be selectively approaching a number of other law firms to explore the prospect of joining CLLAS either as full members or as Associate Members.

Cyber Risks

Cyber risks continue to be of prime concern to CLLAS members. CLLAS was ahead of the curve when it amended its professional liability policy to clarify that cyber coverage would be included as it related to professional services. Since then, we have had a number of inquiries about the extent of the coverage; some initiated by clients of the CLLAS member firms and some initiated because of member firms' concern about the potential for reputation damage in the event of a significant cyber event. Under a separate report, CLLAS has summarized its findings on its recent market approach and its success in obtaining premium indications from some of the leading insurers in the Canadian marketplace.

Conclusions

This report should provide the Board with a clear summary of the renewal terms and conditions for the first year of the new underwriting period. A 20% reduction in reinsurance rates and, subject to CLLAS and Colchester approval, a 25% reduction in insurance rates paid by CLLAS members will have been achieved. The insurance market continues to underprice its risk and CLLAS continues to reap the benefits of a competitive insurance marketplace.



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

Date: June 14, 2017

To: David Morritt Barry Bresner
William Scott Daniel MacDonald
Donald Milner John Esvelt
Gordon Goodman Julia Holland
Ken Crofoot Michael Swartz
Nicholas Leblovic

Copy: Patrick Mahoney

From: Joe Tontini and Ryan Durrell

Re: Report on the CLLAS Cyber Insurance Initiative

Introduction

The CLLAS Board deliberations on cyber risk goes back to before July 1, 2012 when CLLAS decided to be pro-active with respect to the cyber risk as it relates to lawyers' professional liability. On July 1, 2012, CLLAS modified its policy wording to make it clear that the safeguarding of personal and confidential client information is a professional service and that a professional negligence claim alleging a cyber breach of such information would be covered by the policy. This change was effected even before LawPro introduced its limited cyber coverage endorsement.

While this action by CLLAS went a long way towards addressing the cyber risk, it did not address the law firms' first- and third-party risks that are not related to professional services. For this reason, the CLLAS Board discussions continued and in 2014, CLLAS invited Matthew Davies of Chubb Insurance Company to speak about the risk and coverage that was available. Shortly after the Board presentation, Chubb provided premium indications for each of the CLLAS firms and the firms almost unanimously found the price too expensive for the coverage being offered, especially since CLLAS had already extended the CLLAS coverage to specifically address what the firms believed was the most critical risk.

Today, the cyber discussions continue and cyber risk seems to be on everyone's radar. Law firms are considered a high target group for cyber criminals and law firm clients are beginning to insist that specific cyber coverage be secured along with professional liability coverage. Attachment A sets forth a number of articles relating to law firms and cyber risk and exposures. The Board, through the Policy Committee, recently asked us to put together cyber coverage specifications to test the market for updated premium indications. At the same time, CLLAS conducted a cyber security protection benchmark survey to determine the extent and variance of cyber protection among the CLLAS firms. Armed with cyber specifications and the cyber protection benchmark survey results, we were able to approach the leading cyber insurance markets on a confidential basis to determine how the various markets would compare when asked to provide premium indications on a group purchasing basis.

This report summarizes the results of this market exercise.

Cyber Security Protection Benchmark Survey

Late last year, we conducted a cyber security protection benchmark survey and 6 out of 11 firms responded. Part of the reason for the survey was to check the sophistication level of the firms to see if there was enough uniformity to allow firms to feel comfortable about potentially sharing the cyber risk and broadening the scope of coverage through CLLAS. The responses were sufficiently diverse that risk retention by CLLAS was not recommended. Since we could not present a uniform group to the cyber insurance market, we summarized the protection levels of two hypothetical firms to determine what the difference in premium might be between “Firm A” with average cyber security protection and “Firm B” with above-average cyber security protection. Attachment B sets forth typical questions that a cyber application may ask and the responses from the two hypothetical firms, i.e. Law Firm A and Law Firm B.

Cyber Coverage Specifications

A review of wordings from the leading cyber insurance carriers was conducted and Attachment C highlights the main insuring agreements and other terms and conditions of each of the wordings that were reviewed. Cyber coverage is an evolving discipline and wordings differ, sometimes quite dramatically, from carrier to carrier. Cyber coverage is also negotiable and while an insurer may have a restriction in a particular area in their basic wording, that restriction can often be lifted to match someone else’s wording. Following a review of Attachment C, we list below some of the key cyber coverage issues and questions that CLLAS firms might want to consider:

1. A cyber event can result in first-party loss and expenses, including business interruption as well as third-party liability claims. In theory, a CLLAS firm can pick and choose the extent of coverage it wants, but in practice, there may be little difference in premium between very broad and very narrow coverage. It is important to recognize that if a firm chooses narrow coverage, those expenses and coverages that are not covered by the policy would be self-insured and would be in addition to the deductible or retention on the cyber policy. The factors that have a more significant effect on the premium are:
 - a. Size of the firm (usually measured in revenues);
 - b. Extent of the cyber security protection;
 - c. The limit being purchased; and
 - d. The deductible or retention that the law firm is willing to absorb.
2. Computer crime, cyber extortion, telephone hacking, and social engineering fraud are all exposures that can be covered under a cyber policy. Social engineering fraud, however, should also be secured under a crime policy. While both cyber and crime policies provide coverage for social engineering fraud, the trigger for coverage on a cyber policy is a breach of the firm’s computer systems. However, social engineering fraud is frequently perpetrated without a breach in security. For this reason, it is important to recognize what other policies interconnect with cyber coverage and how the CGL, crime, property, management liability and professional liability policies might overlap with and/or complement a cyber policy. Equally important is to determine, preferably before a loss occurs, which policy responds first.

3. Business interruption and reputation damage are key concerns for law firms. Understanding the extent of business interruption coverage is very important and can be a deciding factor when choosing among different options. For example, some carriers will limit coverage to loss of income only while systems are down. In practice, there may be significant loss of income and reputation damage long after the system is back up and running.
4. Prior acts coverage should be another concern for law firms. An underwriter would ideally like to effect coverage with a full prior acts exclusion or retroactive date inception. This means that if a known or unknown breach occurred prior to the inception of the policy, the policy would not respond to a future claim related to such breach. It is possible to cover prior acts subject to a special security breach audit and/or additional premium.
5. Worldwide coverage will be important to those CLLAS firms with international offices. While most policies offer worldwide coverage, some will then restrict coverage such that claims have to be brought in Canada.
6. Claims management will also be important for CLLAS firms. Each carrier has a panel of experts that are called upon in the event of a claim. The experts would provide some or all of the following breach response services: notification services; forensic auditing; support, credit and identity theft services; call handling; legal services; and event management services. Some of the CLLAS firms are actually listed as panel experts for at least one of the carriers.

Request for Premium Indications

We asked the following leading cyber markets to provide premium indications:

- AIG
- Allianz
- Berkley
- Chubb
- CNA
- Elliot Special Risks (Markel)
- Encon
- Liberty
- Ridge Canada (London markets including Argo, Ascent, CFC, Novae and Tarian)
- Sovereign General

We did not mention CLLAS by name but we did indicate that the group we represented included 12 mid-sized to large law firms with approximately 4,000 lawyers in total. A few of the markets declined because they were not prepared to offer terms on a group basis and would only be willing to look at individual risks with completed applications. A few others (including AIG, Chubb and CFC) did not have sufficient time to respond (although we had given them at least four weeks). The indications that we did receive are summarized in Attachment D. For ease of comparison, the following table sets forth the premium indications for a limit of \$10,000,000. These are preliminary indications and can be further refined.

Note:

- Allianz provided a range of deductibles and premiums. Presented below are the mid-points of those ranges;
- Ascent did not differentiate between Law Firm A (average cyber security protection) and Law Firm B (above-average cyber security protection);
- Novae did not provide specific deductibles and we are following up; and
- Tarian only provided indications for Law Firm B.

Insurer	Law Firm Revenue	Law Firm A		Law Firm B	
		Deductible	Premium	Deductible	Premium
Allianz	\$50,000,000	\$75,000	\$57,500	\$75,000	\$47,500
	\$250,000,000	\$175,000	\$80,000	\$175,000	\$62,500
	\$500,000,000	\$175,000	\$111,250	\$175,000	\$78,750
Ascent	\$50,000,000	\$10,000	\$18,575	\$10,000	\$18,575
	\$250,000,000	\$25,000	\$37,125	\$25,000	\$37,125
	\$500,000,000	\$50,000	\$49,275	\$50,000	\$49,275
Novae	\$50,000,000		\$60,000		\$54,000
	\$250,000,000		\$80,000		\$72,000
	\$500,000,000		\$92,000		\$82,500
Tarian	\$50,000,000			\$25,000	\$38,750
	\$250,000,000			\$50,000	\$60,450
	\$500,000,000			\$50,000	\$86,025

The above table presents a wide range of deductibles and premiums, but Ascent seems to be significantly more competitive than the other markets. This is consistent with our market intelligence, which suggests that Ascent is a major player in the cyber insurance space, and is the product offering of choice for some well-respected carriers who are not yet ready to offer a product of their own.

There may be a few areas where the Ascent wording could be improved and modified specifically for the CLLAS group. For example, Ascent has come up with a draft endorsement that recognizes the fact that the CLLAS policy has some cyber coverage built into the professional liability policy. The endorsement attempts to address when the Ascent policy would act as the primary insurer and when the CLLAS policy would act as the primary insurer. The draft endorsement is set forth in Attachment E. The market, in general, is very receptive to modifying its wordings to be more competitive.

CLLAS firms may want to take advantage of this group buy opportunity while the market, and specifically Ascent, is engaged and interested. As a next step, CLLAS firms may want to complete the attached cyber application (Attachment F) so that we can obtain firm quotes from Ascent (through Ridge Canada). For more information on the Ascent cyber product offering, please refer to Attachment G for their detailed brochure.

Major law firms fall victim to cyber attacks

JEFF GRAY - LAW REPORTER

The Globe and Mail

Published Tuesday, Apr. 05, 2011 6:49PM EDT

Last updated Thursday, Aug. 23, 2012 4:50PM EDT

Hackers have penetrated four major Bay Street law firms in the past seven months with highly sophisticated cyber attacks designed to destroy data or to steal sensitive documents relating to impending mergers and acquisitions.

Daniel Tobok, president of Toronto-based Digital Wyzdom Inc., who investigated the attacks, would not name the firms. The attacks, which he said appeared to originate from computers in China, show that Canadian law firms are a target for hackers and potentially, state-sponsored cyber espionage. They follow similar attacks on governments and major corporations in recent years.

"They were harvesting information," Mr. Tobok said of the hackers who penetrated the computers of the four Toronto law firms. He said it was hard to say if any sensitive data actually went missing, but said the attacks were at least successful at getting inside the firms' systems. "This was probably one of the most sophisticated attacks we have seen."

In the most devious attacks, Mr. Tobok said, lawyers at a major Canadian law firm working on a proposed deal involving the acquisition of a Chinese company received e-mails that appeared to be from a partner working on a deal. The e-mail was a fake, and its attachment launched a hidden computer program known as malware that infected dozens of the law firm's computers.

The attack was traced to computers in China, but Mr. Tobok said it was not possible to be certain that the Chinese government, or an element of the Chinese government, had a hand in the attack.

Malware of this kind can sit in a target's computers undetected for months, Mr. Tobok said, stealing reams of information before anyone realizes security has been breached. And there is no question that sensitive information stolen from a law firm's files on an impending merger deal has value: It could be used to sabotage a deal, it could sold to give rival bidders an advantage, or it could be used to conduct illegal insider trades.

Mr. Tobok said some in the legal world have been slow to realize just how serious the hacking threat is, although he said IT departments are doing the best they can. "Sometimes they have a false sense of security," he said of companies in general. "After they get attacked, they understand that they have to invest a little more."

Hugh MacKinnon, chief executive officer of Bennett Jones LLP, said he was not aware of his firm ever falling victim to a hacking attack. He said the growing importance of keeping the firm's data safe has prompted it to take a number of measures, including the recent move of all of its computer servers to a third-party, off-site security facility.

He said Canadians in general tend to underestimate the threat from malicious threats such as cyber attacks: "We're Boy Scouts, right? We tend to think that the rest of the world is comprised of Boy Scouts, and it's not."

David Craig, national information security practice leader for PricewaterhouseCoopers Canada, said law firms are a natural target for hackers because they are storehouses of information of interest to everyone from organized crime to spouses in marital disputes. But he said law firms tend to be extra careful about confidential information. Large firms usually have sophisticated IT staff and policies in place to try to keep data secure.

"Problems typically arise when those policies are violated for expediency, such as copying data to a flash drive and then misplacing it, or using a commonplace password that can be easily guessed," Mr. Craig said.

Of course, law firms are not alone when it comes to cyber attacks. On Tuesday, for example, word emerged that e-mail addresses of millions customers of major retailers had been compromised when a Dallas marketing firm, Epsilon, was hit by hackers. Best Buy and the Air Miles Reward Program were among companies sending out warnings to customers.

Earlier this year, it was revealed that several federal Canadian government departments had been hacked. Oil companies, the Pentagon, even Google Inc., have been hit. China's government has denied any involvement, but defence and security experts have long speculated that the Chinese military or other Chinese agencies could be behind such attacks.

The U.S. Federal Bureau of Investigation has repeatedly warned law firms that they are a target. Last year, a Los Angeles law firm representing a U.S. company in a \$2.2-billion suit against the Chinese government and two Chinese computer firms said it was hit by hacking attacks from China.

Hackers have also targeted law firms and others engaged in the fight against websites that offer access to pirated movies, music and video games. Last year, a British law firm that was targeting illegal file-sharers was hounded by cyber-attacks.

For now, IT experts and hackers are engaged in a computer-code arms race. Mr. Tobok's firm, which has 80 employees in Toronto, stores malware that it finds in its clients' computers in its lab and tries to analyze just what the hackers were trying to do.

"We contain them and we play around with them," Mr. Tobok said of the malware programs. "It's like having a cobra in a cage. ... We actually try to see what it's going to do."

Exclusive: China Stole Data From Major U.S. Law Firms

Jeff John Roberts

Dec 07, 2016

A series of security breaches that stuck prestigious law firms last year was more pervasive than reported and was carried out by people with ties to the Chinese government, according to evidence seen by *Fortune*.

The incidents involved hackers getting into the email accounts of partners at well-known firms, and then relaying messages and other data from the partners' in-boxes to outside servers.

In the case of one firm, the attacks took place over a 94 day period starting in March of 2015, and resulted in the hackers stealing around seven gigabytes of data, according to information obtained by *Fortune*. That figure would typically amount to tens or hundreds of thousands of emails.

The information also revealed the thefts took place in one hour increments, and that the hackers returned repeatedly in search of new information.

News of the law firm breaches surfaced earlier this year when the *Wall Street Journal* [reported](#) that hackers had penetrated the computer networks of Cravath Swaine & Moore, Weil Gotshal & Manges and other unidentified firms. The clients of these firms include many of the world's biggest companies, and they are privy to sensitive corporate information. Cravath, for instance, is representing [Time Warner \(TWX, +0.06%\)](#) in its merger plans with [AT&T \(T, +0.22%\)](#).

The *Wall Street Journal's* account suggested the goal of the hackers was to obtain information to facilitate insider trading. Cravath at the time responded that it was not aware that any of the exposed information had been used improperly, while Weil declined comment.

Samsung Group Chief Arrested in Impeachment Scandal Investigation

The earlier news of the law firm breaches did not say who conducted the hacking, but *Fortune* has obtained reliable information that indicates the breach took place as part of a larger initiative by the Chinese government. This initiative also saw the hackers target big U.S. companies, including a major airline. The 2015 attack reflected familiar patterns of hacking employed by individuals with connections to the Chinese government, according to the information obtained by *Fortune*.

[Get Data Sheet](#), *Fortune's technology newsletter*.

The evidence obtained by *Fortune* did not disclose a clear motive for the attack but did show the names of law firm partners targeted by the hackers. The practice areas of those partners include mergers and acquisitions and intellectual property, suggesting the goal of the email theft may indeed have been economic in nature.

Multiple sources in law enforcement and at the law firms declined to go on record for this story, but confirmed the role of China in the email hacking campaign. The sources did not wish to speak publicly in part because the events are the subject of a confidential investigation.

The office of the U.S. Attorney for the Southern District of New York launched the investigation earlier this year, and it is active and ongoing. A spokesperson for the office declined to comment.

An Uncomfortable Issue for Firms

The theft of the partner emails is a serious matter for law firms, which handle a wide variety of sensitive business issues and enjoy a reputation for confidentiality and discretion.

The targets were numerous. In addition to the ones named by the *Journal*, evidence also shows the hackers tried to target other prominent law firms, including Cleary Gottlieb; Mayer Brown; Latham & Watkins; Covington & Burling; Davis Polk & Wardell. The hacking attempts did not always succeed as some firms rebuffed the attacks or prevented the attackers from removing any data.

The firms chose not to comment in part because cyber-security is a sensitive matter and, like other organizations, they do not want to draw attention to themselves—regardless if a breach has occurred or not.

In the case of successful attacks, firms had deployed firewalls and other technical measures to guard their networks, but they failed to detect the email-driven attack. Such attacks, known as “[spear-phishing](#),” target victims with personalized emails. It was this tactic that allowed hackers to penetrate the email accounts of former DNC chair John Podesta and former Secretary of State, Colin Powell, as well as numerous [celebrities](#). Last month, the Homeland Security chief Jeh Johnson described phishing as the [top hacking threat](#) facing the country.

The timing of the breaches is also notable. They occurred in 2015 at a time when hacking by the Chinese government became a major irritant in Sino-American relations. In September of that year, President Obama delivered a blunt [warning](#) to China on the eve of a state visit to Washington by President Xi Jinping, calling such attacks “an act of aggression.”

Shortly after news of the breaches at Cravath and Weil, a threat analysis firm warned that a Russian hacker known as Oleras was recruiting a gang of cyber criminals online in order to [target law firms](#) for economic data that could be traded upon. Oleras, however, does not appear to have been involved in the law firm hacking that took place in 2015.

Meanwhile, there have been fresh attempts to compromise law firms with new forms of phishing attacks. Last week, for instance, New York’s Attorney General, Eric Schneiderman [warned of a scam](#) that involved sending emails to lawyers purporting to be from his office.

Lawyers and accountants are prime targets for cyber attacks

Hackers know to go where money can be found

The Top Line

About \$2bn was spent on cyber insurance worldwide in 2015 © Bloomberg
DECEMBER 30, 2016

by: Brooke Masters

Willie Sutton, the notorious US outlaw, famously said he robbed banks “because that’s where the money was”.

Now hackers are going after law firms for exactly the same reason. This week, US prosecutors charged three Chinese traders with securities fraud, saying they had made more than \$4m trading on information allegedly stolen from two of the US’s best known law firms. Though prosecutors did not identify the firms, the descriptions of them and the work they had done match Cravath, Swaine & Moore and Weil, Gotshal, two firms routinely hired by Fortune 500 companies to help run their big deals. Both firms have declined to comment.

The US Securities and Exchange Commission said the hackers targeted seven firms known for their mergers and acquisitions work, hitting them with more than 100,000 attacks over a three-month period. They then struck gold with two organisations. After installing malware on each law firm’s computer network, they gained access to their IT departments and from there broke into the files and emails of senior M&A lawyers. They ended up stealing nearly 60 gigabytes of data related to at least 10 potential deals.

In several cases, the information bore fruit — the hackers gained early word of Pitney Bowes’ 2015 offer for ecommerce group Borderfree and Intel’s 2015 purchase of Altera, and were able to trade ahead of them.

“This case of cyber meets securities fraud should serve as a wake-up call for law firms around the world: you are and will be targets of cyber hacking because you have information valuable to would-be criminals,” said Preet Bharara, the US attorney for Manhattan.

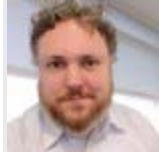
Other professional services firms should take note. This is not the first time the industry has been hit by hackers who specialise in what is becoming known as “outsider trading”. Last year federal prosecutors charged nine people in the US and Ukraine with trading ahead of earnings [press releases](#) that had been provided to Marketwired, PR Newswire and Business Wire. That case inspired other Ukraine-based hackers [to try their luck](#) with law firms, according to intelligence firm Flashpoint, which put out a warning in March.

Accounting firms that provide tax advice on mergers, boutique advisory firms, and consultants who weigh in on synergies and downsizing plans are almost certainly on the criminals’ hit list. Retailers, telecoms groups and internet companies, including [Target](#), [TalkTalk](#) and Yahoo, have already had to pay the price for weak defences.

But in some ways, they got off easy. Most of the stolen passwords were old and the account details rarely included immediately usable information. At most, the hacks involved theft of credit card numbers, which come with fraud defences. So customers have rarely felt much need to hold hacked companies accountable. Yahoo, for example, seems to have suffered very little drop off in [customer loyalty](#) after announcing the first of two giant hacks, although the jury is still out after the second one.

Professional services firms will not be so lucky. Banks and companies pay extremely high prices for outside advice. They expect professionalism and confidentiality in return. Getting hacked by a bunch of Chinese traders is hardly a strong recommendation of either. Faced with a choice of five law firms that invested in cyber defences that were strong enough to withstand a pointed attack, and two who did not, which would you choose?

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Dan Raywood Contributing Editor, Infosecurity Magazine

A quarter of all legal firms have been the subject of a cyber-attack.

According to the [*NatWest 2017 Legal Benchmark Report*](#), London-based firms in particular suffered at the hands of cyber-criminals, with 36% affected, while 24% have experienced a fraud-related loss or cyber-attack in the last year.

Steve Arundale, head of commercial professional sectors at NatWest, said in the report that NatWest remains committed to supporting legal firms "in developing a successful and sustainable business."

In an email to *Infosecurity*, Jonathan Armstrong, partner at [*Cordery*](#), said that law firms generally are the target for an increasing number of attacks. "There are a number of fraud scams doing the rounds and lawyers - especially those involved in M&A and real estate handle a lot of money which makes them special targets," he said.

"At the same time lawyers are often regarded as the weak link in trying to get client data as the sense is that some are less well protected than their clients. This has been on the ICO's radar for some time but also on the radar of the SRA who regulate Solicitors. It's clear that lawyers need to take their responsibilities seriously both for their own business and that of their clients."

According to [*PwC's*](#) 2016 Law Firms Survey, 73 of the top 100 firms experienced an attack during the financial year 2015-2016, up from 62 in 2014-15.

Writing for the [*Law Gazette*](#), *Edward Donne*, director of [*Howden*](#), said: "We all have a duty to make these crimes as difficult as possible for the perpetrators. We would not like to be considered anti-competitive, but, at the same time, complex and valuable transactions need to be undertaken professionals alert to the problems."

Steven Malone, director of security management at [*Mimecast*](#), added: "The fact that a quarter of law firms have been hit by a cyber-attack or fraud over the last 12 months is bad; but what is worse is that this is only half the story.

"Our [*research reveals*](#) that 20% of UK organizations have experienced impersonation attacks from their legal departments last year - these involve hackers falsely assuming the identity of high level people within an organization. What's clear is that in addition to traditional threats, businesses must also lookout for these types of attacks as this could affect customers and other key stakeholder without businesses realizing until it's too late."

Cyber Security Attacks Focused On Law Firms And Small/Mid Sized Businesses

Cyber Security Law Firms are a key target for hackers as they house large amounts of sensitive and confidential client data. Cyber specialist practitioners believe there will come a time when a prominent legal practice will be brought down due to a cyber attack breaching client confidentiality.

Law firms that hold large quantities of confidential information are targets for hackers due to the belief that firms are behind the times with regards to cyber security and technology. However, there has been an increased awareness of the potential harm to a law firm's reputation caused by data loss.

According to Ashley Hurst, an internet-related dispute partner at Olswang, the biggest risk for a legal profession is modern working practices. Use of devices such as mobile phones, memory sticks and laptops as well as working from home and using social media, are increasing the ways that confidential personal data can be disclosed outside the organization.

Jane Jenkins, a partner and co-head of the cyber security team at Freshfields Bruckhaus Deringer, says clients want to know that law firms are putting security measures in place.

Cyber specialist practitioners believe the time will come when bank and corporate general counsel will insist on law firm security audits as part of routine panel reviews.

Are other industries at risk?

According to Ed Butler, Executive Director at the Salamanca Group, in the past 18 months there has been a 40 per cent rise in cyber attacks on UK businesses. In 2012, those attacks cost the economy roughly 28bn Pounds.

Researchers claim that roughly 2.7 million attacks a week were made in the oil and gas sector. According to Butler, a multinational US bank claims it fends off a million attacks a day.

The biggest misconception is that hackers focus their attacks on large global companies, financial institutions, energy and pharmaceutical companies. The research shows otherwise with half of last year's cyber attacks in the UK targeting businesses employing fewer than 2,500 people.

Butler believes if your company is smaller, you are more vulnerable. Hackers believe the smaller companies don't have the protection in place that larger companies do.

For more information on this topic, please visit the original article [here](#).^[1]

Derek May
HUB International Professional

Don't Let Your Law Firm Get Served with Cyber Attacks

Neill Feather July 18, 2016 In The Know, Security 0 Comments

There are over 4,000 cyber attacks every day. That's 170 attacks every hour, or nearly three attacks every minute. That alone is a scary thought for anyone running a business,

but for law firms whose currency is built on the inherent trust they receive from clients, it is especially troubling. Yet, most firms do not even know they have been compromised when an attack occurs. By the time firms have realized a breach has happened, significant damage has already been done and most are not sure where to turn to for help.

Law firms today are increasingly being targeted for the sensitive information, trade secrets and client data that they hold for companies and organizations of all sizes. As cyber criminals become ever more sophisticated and efficient, firms are repeatedly being targeted for the valuable information they hold. In fact, at least [80 of the 100 biggest law firms in the country](#), by revenue, have been hacked since 2011 and the [2015 Legal Technology Survey Report](#) from the American Bar Association found that 15 percent of firms have been the victims of a breach.

The cost is substantial too. According to the recently released [2016 Ponemon Cost of Data Breach Study](#), the total average organizational cost of a data breach has reached a new high—\$7.01 million. A breach now costs organizations an average of \$221 per compromised record. For large firms, this is still a burden, but for smaller firms, a cyber attack could threaten the core of their business from the sheer cost of the attack alone.

But, the cost to a firm does not just include the monetary impact of a breach. A firm's reputation is also at stake. Confidentiality and trust are the cornerstones of the legal profession. Whether it is client details, lead generation, case specifics or firm correspondence—stakeholders put their trust in their legal counsel and expect their information and shared confidences to be protected by their attorney and, by extension, the firm's technological infrastructure.

Large firms are not the only firms that are being besieged. Smaller firms are just as much targets as larger firms and it is just as important that they also have cyber security protections in place. Cyber criminals may actually see smaller firms as an easier target because they lack the infrastructure to prevent and respond to a cyber attack. The ABA's [2015 Legal Technology Survey Report](#) actually found that firms with 10 to 49 attorneys were most often infiltrated by malware and other tools used by cyber criminals. Solo practitioners and boutique firms followed closely behind these smaller firms with two to nine attorneys. Over 43 percent of these types of firms reported a breach and that rate was at 52 percent for firms with 10 to 49 attorneys.

Regardless of size, law firms are starting to wake up to the dangers of cyber attacks as their prevalence increases, but there is a lack of understanding over what protections to put in place. Enterprise solutions do not work for smaller firms and existing solutions are expensive, complicated and require high technical skill. These options may be ideal for large firms, but small firms need solutions that fit within their means. In this void, consumer antivirus is pervasive. Often, firms assume server protections for data centers and endpoint security provide sufficient protection. While they do protect parts of the IT infrastructure, their scope is limited. These products fail to adequately protect websites and web applications from external threats. The face of a law firm is its website. With cyber attacks on the rise, complete security measures, including website protection, have never been more important. But, this is an often-overlooked entry point that cyber criminals will exploit to infiltrate a firm's network.

With such significant risks to firms, fortunately there are ways to prevent future attacks and mitigate them if and when they occur.

Utilize security experts

Firms should consult with outside security partners who can help protect all entry points from breach including web applications, server and endpoint. In most cases, it will take more than one partner to fully protect against an attack, as solutions are focused and limited in scope. It takes multiple pieces to complete the security puzzle of full protection that ensures solutions are in place to protect all possible entry points.

Protect your infrastructure like you protect clients

You spend significant capital on hiring top talent to provide clients with the best possible counsel. Ensure you are helping your talent succeed by protecting your firm against outside attacks. Every attorney knows the importance of information sharing between client and counsel, so ensure that privilege is protected by fortifying where that information is stored.

Having multiple partners who can secure your network and systems from outside attack is crucial. In addition to these partners, all employees should practice good cyber security hygiene by frequently changing passwords, utilizing different passwords for different systems, keeping the most sensitive information off the cloud, among others.

Have a response plan

Even with the best protection in place, breaches can happen. Cyber criminals are constantly innovating new ways to infiltrate systems, so it's important to have a security partner that evolves rapidly to meet these ever changing demands. But, it's just as crucial to have a plan to address an attack when it happens. Yet, when [surveyed by the American Bar Association](#), 47 percent of attorneys said their firms have no plan in place should a breach occur. Notify your security partners if you suspect a breach has occurred immediately so they can begin to investigate and mitigate the problem. Then, take steps to minimize the amount of data that can be accessed. Lastly, prepare for how to communicate the breach to your clients and future prospects.

Cyber criminals are smart and getting smarter, but it is possible to thwart them as long as you have the right pieces in place. Don't let criminals exploit weaknesses and unprotected entry points, to breach your network. Instead of letting criminals infiltrate your systems, have a strong defense and serve them with proper protection.

Expert Analysis

A Brief History Of Law Firm Cyberattacks

June 2, 2016, 4:32 PM EDT

Law360, New York (June 2, 2016, 4:32 PM EDT) --

The legal industry is the latest gold mine for hackers, whose attacks continue growing in sophistication, frequency and motivation. This, coupled with the fact that so many law firms have branches and associates located around the world, means the entry points for hackers have become even more numerous.

Mark Stevens

Over the past few months alone, major law firms including [Cravath Swaine & Moore LLP](#), [Weil Gotshal & Manges LLP](#), and most recently, Mossack Fonseca, have all fallen victim to simple, easily preventable data breaches. In the case of Mossack Fonseca, more than 2.6 terabytes of data were stolen without the firm detecting any sign of theft, and overall, a whopping 11.5 million sensitive records were confiscated.

Most law firms do not have basic cybersecurity controls in place for detecting and mitigating data breaches. The incident at Mossack Fonseca just scratched the surface of

demonstrating the lack of cybersecurity resources within the legal sector, as 90 percent of law firms have five or fewer employees dedicated to information security and safeguarding the business' crown jewels.

The fact that the law firms entrusted with so much sensitive information have such poor cybersecurity policies, procedures and technologies should be alarming to just about every business, as the quickening pace of breaches could put thousands of businesses at risk. The [FBI](#) has reacted by issuing warnings to firms, but overall, the legal industry is — and always has been — lagging. Here's a look at the history of events leading up to the Mossack Fonseca incident:

According to Vincent I. Polley, former deputy general counsel for [Schlumberger Ltd.](#) for 20 years and co-author of a recent book for the [American Bar Association](#) on cybersecurity, "A lot of firms have been hacked, and like most entities that are hacked, they don't know that for some period of time. Sometimes, it may not be discovered for months and even years."

History has a tendency of repeating itself, and given the aforementioned cybersecurity events, law firms must take proactive measures to properly secure the sensitive data. Through actions such as regular employee and third-party contractor training, cybersecurity audits, and investing in data protection technology tools and resources, firms can avoid falling victim to the next data breach — which could happen at any second.

—By Mark Stevens, Digital Guardian

[Mark Stevens](#) is senior vice president of global services at Digital Guardian. He previously worked as area services director for [BMC Software](#), a \$2 billion company in the business service management space, and prior to that served as senior director of professional services for [Progress Software](#), a \$550 million provider of application infrastructure software and services.

The opinions expressed are those of the author(s) and do not necessarily reflect the views of the firm, its clients, or Portfolio Media Inc., or any of its or their respective affiliates. This article is for general information purposes and is not intended to be and should not be taken as legal advice

Law firm cyber attacks on the rise with 73 of UK top 100 targeted

James Booth and Chris Johnson

25 October 2016

Cyber attacks on UK law firms climbed by nearly 20% between 2014-15 and 2015-16, according to new research that found that 73% of the UK top 100 were the target of attacks last year.

The prevalence of cyber attacks has now grown by more than 60% in two years, according to PwC's 25th annual Law Firms Survey, with the number of top 100 firms experiencing an attack rising from 45 in 2013-14 to 62 in 2014-15, and 73 during the most recent financial year.

The numbers were highest among larger firms, with almost 90% of firms in the top 25 facing attacks last year.

The most common security incidents faced by firms were email phishing attacks to try to gain access to client money, which 84% of firms that had been victims of attacks had suffered.

Patrick Hill, a partner at DAC Beachcroft and head of the firm's professional risk team, said: "There has been a huge rise in these types of attacks over the last couple of years."

He explained that in these attacks, "the hacker poses as a third party when emailing or getting in contact with a firm and specifies that purchase money should be sent to a different account".

Fifty-five percent of firms targeted by cyber attacks had been victims of attacks with viruses or other malware, while 16% of those targeted had faced significant attempts to break into their firm's network.

Hill said: "You can see a big reputational threat to law firms on the wrong end of these data breach incidents. If you are a major law firm, the ability to ensure your clients' data is kept confidential is absolutely key to your standing."

Firms also face an internal threat, with 41% of those that suffered security incidents victim to incidents caused by staff.

In March, security company Flashpoint [released a report naming 48 leading law firms that had been targeted by cyber criminals](#) looking to steal M&A information. The report named firms such as Allen & Overy, Hogan Lovells, Freshfields Bruckhaus Deringer, Kirkland & Ellis and Sullivan & Cromwell as potential targets. However, there was no evidence that any of the law firms targeted by the attacks had any information stolen.

The security information was contained within a wider report into the financial performance of the UK's largest law firms by PwC.

The report found that a combination of growing pressure from clients on fees, increasing associate salary costs and declining productivity is causing profit margins to fall at the UK's largest law firms.

The challenging market conditions are also resulting in decreasing revenues at a quarter of the UK top 100, the study found – up from around 18% last year. Firms are largely maintaining average equity partner profits through “tight control” of their equity, however.

David Snell, the head of PwC's law firms advisory group, said that while the sector was in “good shape” overall, many firms have been left with too many lawyers (the total number of lawyers at the UK top 50 increased 7.6% during the past 12 months) after overestimating client demand.

“As confidence returned to the sector last year, firms increased headcount in anticipation of continued improving market conditions,” he said. “However, with the market turning out to be more challenging than expected and with increased competition from US firms and new entrants, spare capacity is now an issue for firms. “

This situation is likely to be “exacerbated” by market uncertainty following the Brexit vote, he added.

Snell said firms are now facing a period of “significant financial investment” in order to keep up with technological advancements, and predicts that the use of artificial intelligence will become “widespread” across the industry.

Cyber Security Measures

1. Cyber Security Assessments and Evaluations

	Sample Firm A	Sample Firm B
Assessment – Frequency [internal and external cyber attacks]	Yes [less than once per year or annually]	Yes [more than once per year]
Assessment – Documented for Compliance	Informal [inherent in regular process]	Formal [report created or updated]
Evaluation – Third Party Providers or Sub-contractors [contracts and performance]	Yes [evaluated but not addressed]	Yes [evaluated and addressed]

2. Connectivity and Access

	Sample Firm A	Sample Firm B
Web Hosting on Internal Network and Systems with Sensitive Data	Yes	No
Web Hosting with Client Access on Internal Network and Systems with Sensitive Data	Yes	No
Password Policy Enforced	Yes	Yes [password change required every 90 days]
Password Policy Audits	Yes	Yes [strong passphrases – 6 character, alpha numeric, special character password]
Use of User Groups for Employee Access Restriction	No	Yes
Use of Nested Firewalls	Yes [nested firewalls only]	Yes [nested firewalls and user groups]

3. Data Encryption and Storage

	Sample Firm A	Sample Firm B
Retention of Private Client Records and Information	Yes	No
Use of Encryption [at rest and in transit]	Some [in transit only]	Yes [at rest and in transit]

4. Network and Systems Protection

	Sample Firm A	Sample Firm B
Installed Endpoint Protection	Some	Yes
Active Intrusion Protection	No	Yes
Passive Intrusion Protection	Some	Yes
Physical Security for IT Systems	No	Yes
Automatic Software Updates Across All Endpoints	Some	Yes
Automatic Software Updates Across All Servers	Some	Yes
IT Infrastructure Routinely Tested	Yes [less than once per year or annually]	Yes [more than once per year]

5. Protocols and Procedures

	Sample Firm A	Sample Firm B
Formal Process in Place for Log Review [systems and security]	Yes [either systems or security]	Yes [both systems and security]
Log Review Process [visual and technology]	Yes [either visual or technology]	Yes [both visual and technology]
Regularity of Log Review	Some [monthly or annually]	Yes [real time, daily or weekly]
Regular Staff IT Awareness Training	No	Yes
Formal Procedure for Data Destruction and Device Disposal	No	Yes
Formal Procedure for Removal of Access for Employees Exiting the Company	Yes [access revoked within 24 hours or more of employee exit]	Yes [access revoked before employee exit]

6. Response and Recovery

	Sample Firm A	Sample Firm B
Formal Incident Response Plan	Yes	Yes
Off-Site Backup Tested	No [testing or testing done less than once per year]	Yes [more than once per year or annually]
Formal Disaster Recovery Plan	No	Yes
Incident Response Plan and Disaster Recovery Plan Tested	No	Yes [in the last 12 to 24 months]

7. Business Interruption

	Sample Firm A	Sample Firm B
Third Party Providers or Sub-contractors Provide Hold-Harmless/Indemnity	No	Yes
Business Continuity Plan [required for key third party vendors or suppliers]	No	Yes

Cyber Coverage Specifications

Cyber Security & Privacy Liability Insuring Clauses	Ascent	CFC	Novae	Tarian	Allianz	AIG
Network Security/Cyber Liability: Covers damages and claims expenses associated with the unauthorized access to, degradation of, or disruption to the insured's network.	✓ Yes – Insuring Agreement 1	✓ Yes – Insuring Agreement 4. Section A. (Network Security Liability)	✓ Yes -Insuring Agreement H. Section II.	✓ Yes -Insuring Agreement 3.	✓ Yes -Insuring Agreement 1.1 (Item 5) Network Security & Privacy Liability	
Privacy Liability: Covers the unauthorized collection, disclosure, use, access, destruction, or modification of personal protected Information.	✓ Yes – Insuring Agreement 1	✓ Yes – Insuring Agreement 4. Section B. (Privacy Liability)	Same as above. Embedded	✓ Yes -Insuring Agreement 3.	✓ Yes -Insuring Agreement 1.1 (Item 5) Network Security & Privacy Liability	

Privacy Breach Event Expense Insuring Clauses	Ascent	CFC	Novae	Tarian	Allianz	AIG
Notification Costs: The costs associated with letting all those affected by the breach know that it has occurred. This would include costs such as: mailing campaigns, credit monitoring, call centres to handle questions.	✓ Yes – Insuring Agreement 6. (Notification Costs)	✓ Yes – Insuring Agreement 1. Section A. (Privacy Breach Management Costs)	✓ Yes -Insuring Agreement A. Section I. (Breach Costs: a.)	✓ Yes -Insuring Agreement 6.	✓ Yes -Insuring Agreement 1.2 (Item 5) Security & Privacy Incident Expense – Associated Costs	
Forensic Investigative Costs: The costs associated with hiring a professional third party to determine where, when, and how the breach occurred; also, to ensure that no future problems occur as a result of that particular system issue.	✓ Yes – Insuring Agreement 5. (Network Expenditure)	✓ Yes – Insuring Agreement 1. Section C. (IT Security and Forensics costs)	Same as above. (Breach Costs: e.)	✓ Yes -Insuring Agreement 4. (Section VII Definition U. First party insured event)	✓ Yes -Insuring Agreement 1.2 (Item 5) Security & Privacy Incident Expense – Associated Costs	
Business Interruption: Lost income as a result of the breach during the period of restoration.	✓ Yes – Insuring Agreement 5 (Loss of Business Income)	✓ Yes – Insuring Agreement 3. Section B. (System Business Interruption)	✓ Yes -Insuring Agreement C. Section I.	Same as above. Related to Section VII. Definition X. Loss of Business Income	✓ Yes -Insuring Agreement 1.2 (Item 5) Business Interruption – Associated Costs	

Privacy Breach Event Expense Insuring Clauses (Cont'd)	Ascent	CFC	Novae	Tarian	Allianz	AIG
Crisis Management Expenses: The costs incurred in hiring a professional team to help prevent reputational harm to your business. This could include a PR team, lawyer to draft a press release, etc.	✓ Yes – Insuring Agreement 6. (Event Management Costs)	✓ Yes – Insuring Agreement 1. Section D. (Crisis Communication Costs)	✓ Yes -Insuring Agreement A. Section I. (Breach Costs: d.)	✓ Yes -Insuring Agreement 6.	✓ Yes -Insuring Agreement 1.2 (Item 5) Security & Privacy Incident Expense – Associated Costs	
Data Restoration: The cost to restore the network and data to the point it was at before the event occurred. This can include both hardware and software replacement.	✓ Yes – Insuring Agreement 5. (Network Expenditure)	✓ Yes – Insuring Agreement 3. Section A. (System Damage and Rectification Costs)	✓ Yes -Insuring Agreement B. Section I.	✓ Yes -Insuring Agreement 4.	✓ Yes -Insuring Agreement 1.2 (Item 5) Digital Asset Loss	
Regulatory Proceedings Coverage: Coverage to provide for costs associated with being called in front of a civil, administrative, or regulatory proceeding (can also be recognized as a Third Party Coverage)	✓ Yes – Insuring Agreement 7. (Claims Expenses and Regulatory Compensation Award)	✓ Yes – Insuring Agreement 1. Section B. (Legal and Regulatory Costs)	✓ Yes -Insuring Agreement I. Section II. (Liability)	✓ Yes -Insuring Agreement 5.	✓ Yes -Insuring Agreement 1.1 (Item 5) Regulatory Proceeding, Fines and Penalties	

Cyber Crime Insurance Clauses	Ascent	CFC	Novae	Tarian	Allianz	AIG
Computer Crime: Covers hacker malfeasance resulting in theft of confidential information, unauthorized electronic funds transfer, wire fraud, theft of money or other financial assets from insured bank account or corporate credit cards by electronic means, theft of any of the insured's digital assets, and any fraudulent manipulation of electronic documentation.	✓ Yes – Insuring Agreement 9. (Electronic Theft and Computer Fraud)	✓ Yes – Insuring Agreement 2. Section A. (Funds Transfer Fraud)	✓ Yes -Insuring Agreement G. Section I.	✓ Yes - By endorsement	☒ No	☒ No
Cyber Extortion: Costs associated with an attack or threat against the company, when there is a demand for compensation to stop the attack.	✓ Yes – Insuring Agreement 8. (Network Extortion Monies)	✓ Yes – Insuring Agreement 2. Section D. (Extortion)	✓ Yes -Insuring Agreement E. Section I.	✓ Yes -Insuring Agreement 7.	✓ Yes -Insuring Agreement 1.2 (Item 5)	
Telephone Hacking: Covers loss as a result of the insured's telephone system being hacked by a third party including the cost of unauthorized calls or unauthorized use of the insured's bandwidth.	✓ Yes – Insuring Agreement 9 (Telecommunications Fraud)	✓ Yes – Insuring Agreement 2. Section F. (Telephone Hacking)	✓ Definition of Network extends to mobile devices.	✓ Definition of Computer Network extends to mobile devices.	☒ No	
Social Engineering Fraud: Covers any fraudulent electronic communications or websites designed to impersonate the insured or any of the insured's products for the costs of creating a specific press release or establishing a specific website to advise the insured's customers and prospective customers of the fraudulent communications, reimbursement of the insured's clients for their financial losses arising directly from the fraudulent communications and the insured's loss in profits as a direct result of the fraudulent communications.	✓ Yes – Insuring Agreement 10. (Social Engineering Fraud)	✓ Yes – Insuring Agreement 2. Section A. (Funds Transfer Fraud) + Section G. (Phishing)	✓ Definition of Network Security Breach (b) . Extends only to an attack, and E-Theft Loss has conditions precedent language.	✓ Yes - By endorsement	☒ No	

Multimedia & Advertising Liability Insuring Clauses	Ascent	CFC	Novae	Tarian	Allianz	AIG
Libel, Slander & Defamation: Covers actual or alleged claims against the insured for defamation, including but not limit to libel, slander, trade libel, product disparagement, injurious falsehood, emotional distress or outage based on harm to the character of reputation of any person or entity arising out of social or multimedia content or user generated content.	✓ Yes – Insuring Agreement 2. (Multimedia and Intellectual Property Wrongful Acts)	✓ Yes – Insuring Agreement 5. Section A. (Defamation)	✓ Yes -Insuring Agreement J. Section II. (Multimedia Wrongful Act – e.)	✓ Yes -Insuring Agreement 2. Section A.	✓ Yes -Insuring Agreement 1.1 (Item 5) Media Liability – Trigger Event A.	
Intellectual Property Rights Infringement: Covers actual or alleged infringement of any intellectual property rights including but not limited to copyright, trademark, trade dilution, trade dress, design rights, domain name rights, moral rights, service mark, or service name including patent, misappropriation of a trade secret, act of passing-off, piracy or plagiarism, or any misappropriation of content, concepts, format rights or ideas or breach of a contractual warranty relating to intellectual property rights, or breach of any intellectual property rights license acquired by the insured or the failure to attribute authorship or provide credit arising out of social or multimedia content or user generated content.	✓ Yes – Insuring Agreement 2. (Multimedia and Intellectual Property Wrongful Acts)	✓ Yes – Insuring Agreement 5. Section B. (Intellectual Property Rights Infringement)	✓ Yes -Insuring Agreement J. Section II. (Multimedia Wrongful Act – a., b. & c.)	✓ Yes -Insuring Agreement 2. Section D.	✓ Yes -Insuring Agreement 1.1 (Item 5) Media Liability – Trigger Event C.	☒ No – except such claims arising from a Media Liability event and does not involve the insureds actual or alleged participation

Multimedia & Advertising Liability Insuring Clauses (Cont'd)	Ascent	CFC	Novae	Tarian	Allianz	AIG
Invasion of Rights of Privacy: Covers actual or alleged invasion, infringement or interference with rights of privacy or publicity including false light, public disclosure of private facts, intrusion, breach of confidence and commercial appropriation of name or likeness, breach of agreement, breach of confidentiality or promissory estoppel in connection with the failure to maintain the confidentiality of a source or materials furnished by a source or the failure to portray a source or a subject in a certain light arising out of social or multimedia content or user generated content.	✓ Yes – Insuring Agreement 2. (Multimedia and Intellectual Property Wrongful Acts)	☒ No	✓ Yes -Insuring Agreement J. Section II. (Multimedia Wrongful Act – d.)	✓ Yes -Insuring Agreement 2. Section B.	✓ Yes -Insuring Agreement 1.1 (Item 5) Media Liability – Trigger Event B.	
Content Liability: Covers actual or alleged negligent act, error, omission, advice, misstatement or misrepresentation arising out of social or multimedia content or user generated content.	✓ Yes – Insuring Agreement 2 (Multimedia and Intellectual Property Wrongful Acts)	☒ No	✓ Yes -Insuring Agreement J. Section II. (Multimedia Wrongful Act – g.)	✓ Yes -Insuring Agreement 2. Section F.	☒ No	

Exclusionary Language	Ascent	CFC	Novae	Tarian	Allianz	AIG
Bodily Injury Exclusion	Yes, Exclusion H – carve back for wrongful infliction of emotional distress or mental anguish	Yes, Exclusion 5	Section VI. 4.	Section VIII. G.	Yes, Exclusion 4.1 – carve back for mental injury, anguish, tension, emotional distress, pain, suffering or shock	Yes

Exclusionary Language (Cont'd)	Ascent	CFC	Novae	Tarian	Allianz	AIG
Punitive and Exemplary Damages	No, included in definition of damages – covered as permitted by law	Yes, excluded unless insurable by law	Available by law	Available by law	No, included in definition of Loss – covered as permitted by law	
Anti-Spam Legislation	Yes, Exclusion N	Yes, Exclusion 27	Section VI. 24.	None	Yes, Exclusion – Regulated Business Activities	
Confidential Information, Privacy Policy	None	None	Section VI. 17. Sub-sections b & c	None	None	
Contractual Liability	Yes. Carve-backs for unintentional breach of contract, breaches of your privacy policy, and any liability you might have had in the absence of such contract.	None	Yes. Unless coverage is provided under agreement 1.5 for PCI related matters.	Yes. Carve back under Section VIII. K. 1-4.	Yes – carve back for liability you might have had in the absence of such contract	
Infrastructure/Utility Services Interruption	Yes, however amended by Ridge Endorsement to include coverage on Insuring Agreement 3 & 4 (Misc E&O + Tech E&O)	No, however Exclusion 7 excludes 'Core Internet Infrastructure Failure'	Section VI. 10.	Yes, Section VII. X. Carve-back for Professional Services	Yes – Exclusion 4.6 – Infrastructure Failure	

Exclusionary Language (Cont'd)	Ascent	CFC	Novae	Tarian	Allianz	AIG
Insured v. Insured	Yes, however carve-backs for employees, customers, and additional insureds	None	None	Section VIII. D. Carve backs for Insuring Agreements 3, 5, and 6.	Yes – Exclusion 4.7 – Insured Organization versus Insured – carve back for cross claim or third-party claim	<input checked="" type="checkbox"/> No – except claims due to security or privacy event or breach of privacy regulations
Intentional Acts	Yes, Exclusion G	Yes, Exclusion 29	Section VI. 13.	Section VIII. E.	Yes, Exclusion 3.11 – Cyberterrorism and 4.2 – Conduct	
Prior Acts	No – Retroactive Date and Prior Knowledge exclusions exist; however Prior Acts would be covered if Full Prior Acts coverage granted (i.e. no Retro Date)	No – Prior Knowledge exclusion only	Section VI. 2. – Full Prior Acts available with Additional Premium	Section VIII. B. – Full Prior Acts available with Additional Premium	No – Exclusion 4.11 Pending and Prior Date coverage available	
War/Terrorism	Yes, however Cyber Terrorism carved back by Cyber Terrorism Endorsement	Yes, however carved-back from Exclusion 28 - War & Terrorism & included in definition of 'Cyber Event'	Section VI. 14. (Unless Insuring Agreement M. applies)	Section VIII. R. Full carve back for cyber-terrorism found in R. & S.	Yes – Exclusion 4.20 – carve back for Cyberterrorism coverage	
Securities	Yes, Exclusion Y	None	Section VI. 23.	Section VIII. M.	Yes, Exclusion 4.15 – Securities Claims	

Negotiated Extensions of Coverage Available	Ascent	CFC	Novae	Tarian	Allianz	AIG
Law Firm Difference In Conditions (DIC) Language	Available via endorsement	Available via endorsement	Available via endorsement	Available via endorsement	Available via endorsement	
Extension of Contingent BI	<p>No – BI related to Computer Network does not include 'cloud computing', outsourced data centre, or other 3rd party premises. Also 'Network Event' excludes 'coverage for any claim made by a third party or any claim resulting from an incident occurring on the computer infrastructure of an outsourced entity or third-party service provider.</p> <p>Available via endorsement - subject to underwriting</p>	<p>No – Exclusion 1 – Business Interruption Liability</p> <p>Available via endorsement - subject to underwriting</p>	Available via endorsement – subject to underwriting	Available via endorsement - subject to underwriting	Available via endorsement – subject to underwriting	

Negotiated Extensions of Coverage Available (Cont'd)	Ascent	CFC	Novae	Tarian	Allianz	AIG
System Failure Trigger Language for BI	Yes – as per definition of 'Network Event', which includes accidental corruption / disruption via human error, damage or destruction of hardware, and natural disaster	Yes – as per definition of 'System Outage'. Must be direct result of 'Cyber Event'	Section I. Insuring Agreement C. Subsection b. – not full system failure, but Operational Error	Section VII. U. Subsection 7. Full trigger language for first party insured event relating – trigger for BI.	Yes – must be caused by a defined " Denial of Service Attack "	
Claims Vendor Flexibility	No – CyberScout is the assigned provider	No – CyberScout is the assigned provider	Yes. No prior written consent if panel is used.	Yes	Yes - several claims vendors to choose from as per Allianz panel	
Notification Expenses Outside of Limits	Available via endorsement - subject to underwriting	'Incident Response Limit' is in addition to policy limit	TBD	TBD	Included in the Limits of Liability – expenses outside of limit available by endorsement at additional premium	
Prior Knowledge Exclusion Limited to Control Group	Yes – 'Chief Information Officer, Risk Manager, General Counsel, Chief Operations Officer, Chief Executive Officer or their functional equivalents'	Yes – as defined by Definition 30 "Senior Executive Officer" means 'board members, C-level executives, in-house lawyers and risk managers of the company'	Yes, but Section VI. 1. Limits to after any retroactive date	Section XI. A. – C. "As soon as practicable" language.	Yes – "Knowledgeable Person" – President, Chairman, CIO, CTO, CSO, CFO, Risk Manager, General Counsel or their functional equivalents	

Negotiated Extensions of Coverage Available (Cont'd)	Ascent	CFC	Novae	Tarian	Allianz	AIG
Hammer Clause	Soft Hammer Clause. 70% Company / 30% Insured	Soft Hammer Clause. 80% Company / 20% Insured	Yes. 50/50.	Yes. 50/50.	Soft Hammer Clause – Defense Costs incurred to date of proposed settlement, plus amount of recommended settlement, plus 50% of all future loss	
Worldwide Coverage	Wrongful Acts – Worldwide Claims - Brought in Canada	Wrongful Acts – Worldwide Claims – jurisdiction of company registration	Yes.	Section V.	Yes	
Voluntary Notification Costs	“reasonable and necessary...expenses you incur with our consent and which are approved by us to mitigate damage to your brand or comply with governmental privacy legislation mandating notification to affected individuals”	“any reasonable sums necessarily incurred as a direct result of a cyber event”	Yes – language reads: “...potentially impacted by a breach”	“Approval not to be reasonably withheld”	“Approval not to be reasonably withheld”	
Cyber Terrorism Carve Back	Yes, carved back in Cyber Terrorism Endorsement	Yes, included in definition of ‘Cyber Event’ and carve-back from Exclusion # 28 - War & Terrorism	Section IV.	Section VIII. R. Full carve back for cyber-terrorism found in R. & S.	Yes	

PRELIMINARY INDICATIONS

ALLIANZ

Limit/Revenue	Law Firm A		Law Firm B	
	Lower VRI	Upper VRI	Lower VRI	Upper VRI
Limit \$5,000,000 each claim				
Revenue \$50M	\$ 25,000	\$ 40,000	\$ 20,000	\$ 35,000
Revenue \$250MM	\$ 35,000	\$ 60,000	\$ 30,000	\$ 45,000
Revenue \$500MM	\$ 55,000	\$ 85,000	\$ 45,000	\$ 60,000
Limit \$10,000,000 each claim				
Revenue \$50M	\$ 45,000	\$ 70,000	\$ 35,000	\$ 60,000
Revenue \$250MM	\$ 60,000	\$ 100,000	\$ 50,000	\$ 75,000
Revenue \$500MM	\$ 82,500	\$ 140,000	\$ 67,500	\$ 90,000
Limit/Revenue	Low Retention		Upper Retention	
Limit \$5,000,000 each claim				
Revenue \$50MM	\$ 25,000	\$ 50,000		
Revenue \$250MM	\$ 50,000	\$ 50,000		
Revenue \$500MM	\$ 50,000	\$ 100,000		
Limit \$10,000,000 each claim				
Revenue \$50MM	\$ 50,000	\$ 100,000		
Revenue \$250MM	\$ 100,000	\$ 250,000		
Revenue \$500MM	\$ 100,000	\$ 250,000		

ASCENT

One option provided as a starting point. Subject to receipt of more information.

\$5,000,000 Limit Options		
Revenue	<u>Premium</u>	<u>Deductible</u>
50mm	\$13,750	\$10,000
250mm	\$27,500	\$25,000
500mm	\$36,500	\$50,000

\$10,000,000 Limit Options		
Revenue	<u>Premium</u>	<u>Deductible</u>
50mm	\$18,575	\$10,000
250mm	\$37,125	\$25,000
500mm	\$49,275	\$50,000

NOVAE

<u>Limit/Revenue</u>	<u>Law Firm A</u>	<u>Law Firm B</u>
<u>Limit \$3,000,000 each claim</u>		
Revenue \$50MM	\$ 28,000	\$ 25,200
Revenue \$250MM	\$ 37,500	\$ 33,750
Revenue \$500MM	\$ 42,500	\$ 38,250
<u>Limit \$5,000,000 each claim</u>		
Revenue \$50MM	\$ 40,000	\$ 36,000
Revenue \$250MM	\$ 54,000	\$ 48,600
Revenue \$500MM	\$ 60,000	\$ 54,000
<u>Limit \$10,000,000 each claim</u>		
Revenue \$50MM	\$ 60,000	\$ 54,000
Revenue \$250MM	\$ 80,000	\$ 72,000
Revenue \$500MM	\$ 92,000	\$ 82,500

Sublimit:

Computer Crime	\$ 250,000	\$ 250,000
Social Engineering Fraud	\$ 250,000	\$ 250,000

Telephone Hacking:

To be discussed

To be discussed

TARIAN

\$5,000,000 Limit Options				
	FIRM A		FIRM B	
Revenue	<u>Premium</u>	<u>Deductible</u>	<u>Premium</u>	<u>Deductible</u>
50mm	\$35,000	\$25,000	\$25,000	\$25,000
250mm	More information required		\$39,000	\$50,000
500mm			\$55,000	\$50,000

\$10,000,000 Limit Options				
	FIRM A		FIRM B	
Revenue	<u>Premium</u>	<u>Deductible</u>	<u>Premium</u>	<u>Deductible</u>
50mm	More information required		\$38,750	\$25,000
250mm			\$60,450	\$50,000
500mm			\$86,025	\$50,000

It is hereby understood and agreed that:

With respect to any actual or alleged **privacy event, security event** or breach of **privacy regulations**, the following will apply:

If a **claim** is first made against **you** during the **policy period** or any **extended reporting period** arising solely out of any actual or alleged **privacy event, security event** or breach of **privacy regulations** which occurs on **your computer network** and is otherwise covered under this Policy, then this policy will apply as primary insurance in respect of **damages and claims expenses**, which you become legally obligated to pay that exceed **your deductible** as stated in Item 4 of the Declarations and are within the Limit of Liability of this Policy.

If a **claim** is first made against **you** during the **policy period** or any **extended reporting period** arising out of any actual or alleged **privacy event, security event** or breach of **privacy regulations** committed by you which does not occur on **your computer network**, and is otherwise covered under this Policy, then this policy will apply as excess insurance in respect of **damages and claims expenses**, which you become legally obligated to pay in excess of **your professional liability policies'** limit of liability provided that **your professional liability policies** are maintained in full effect during the **policy period** of this policy, except for any reduction of the aggregate limit of liability contained therein solely by payment of **claims** by the insurers of **your professional liability policies**, and

Whenever **we** provide coverage in excess of **your professional liability policies**

- i. the **deductible** for this policy shall not apply;
- ii. this policy shall not attach unless and until the insurers of **your professional liability policies** have paid, have admitted liability in writing, or have been held liable to pay, the full amount of their limit of liability, and
- iii. in the event a **claim** is paid by the insurers of **your professional liability policies** that results in the limit of liability of such policy being
 - a partly reduced, then this policy shall apply in excess of the reduced amount of **your professional liability policies** for the remainder of the policy period for claims otherwise covered by this policy
 - b totally exhausted, then this policy shall apply as if it were primary for the remainder of the **policy period** for **claims** otherwise covered by this policy.

VII. DEFINITIONS are amended to include the following definition

Professional liability policies means any primary or excess malpractice insurance policies designed to provide coverage for errors and omissions in the delivery or failure to deliver professional services.

Solely for the purpose of the subject matter of this Endorsement, **XV. OTHER INSURANCE** is deleted in its entirety.

CyberPro Application form

As used throughout this application, “you” means the person signing the application, as well as the entity seeking insurance and the applicant’s principals, partners, directors, risk managers, or employees that are in a supervisory role. The questions contained in this application pertain to all persons or entities seeking insurance, and not just the signatory

Please answer all the questions on this form. Before any question is answered please carefully read the declaration at the end of the application form, which you are required to sign. Underwriters will rely on the statements that you make on this form. In this context, ANY INSURANCE COVERAGE THAT MAY BE ISSUED BASED UPON THIS FORM WILL BE VOID IF THE FORM CONTAINS FALSEHOODS, MISREPRESENTATIONS, OR OMISSIONS. PLEASE TAKE CARE IN FILLING OUT THIS FORM.

You may provide any further additional information by means of a separate attachment if necessary.

1

General Information

a.	Name(s) of Applicant		
b.	Names of any wholly owned subsidiaries		
c.	Address	d. Website	
e.	Date business established	DD	MM
f.	If you have been involved in any mergers and acquisitions within the last three years then please provide full details.		
g.	Detail your main business operations		

2

Operational Information

a.	Date of next financial year end	DD	MM	YY	b.	Accounting currency	c.	Current no. of employees
d.	Annual gross revenue/turnover	Last year	Current year	Next year (est.)	e.	Gross profit	Last year	Current year
f.	What percentage of gross annual revenue/turnover is accounted for by sales or operations through your website or ecommerce platform?							%

2

Section 2 Continued

g. What is the percentage of annual transactions undertaken by payment card? %

h. Percentage of last year's annual revenue generated from the following jurisdictions:

1. US	<input type="text"/> %
2. Canada	<input type="text"/> %
3. UK	<input type="text"/> %
4. Europe	<input type="text"/> %
5. Clients anywhere else in the world	<input type="text"/> %

i. How many PII's are retained within your computer network, databases and records?
(PII is defined as a personally identifiable record on an individual that can be used to identify, contact or locate a single individual)

j. Identify the type of PII retained on your network

1. Payment card data	Yes <input type="checkbox"/>	No <input type="checkbox"/>	2. Healthcare data	Yes <input type="checkbox"/>	No <input type="checkbox"/>	3. Other PII	Yes <input type="checkbox"/>	No <input type="checkbox"/>
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If you have answered 'Yes' to j3. please provide details of the nature of this PII.

3

Technology Activities / Professional Services

PLEASE ONLY COMPLETE THIS SECTION IF APPLYING FOR ERRORS AND OMISSIONS COVERAGE OTHERWISE GO STRAIGHT TO SECTION 4

a. Percentage of gross annual revenue by services performed in the last financial year:

Hardware	Sales	<input type="text"/> %
	Installation	<input type="text"/> %
	Design	<input type="text"/> %
Software	Off the shelf product sales	<input type="text"/> %
	Software installation and configuration	<input type="text"/> %
	Development of bespoke software products	<input type="text"/> %
	Maintenance	<input type="text"/> %
Services	Project Management	<input type="text"/> %
	Consultancy	<input type="text"/> %
	Facilities Management	<input type="text"/> %
	Data Management	<input type="text"/> %
	Web design	<input type="text"/> %
Other work (please provide details)	<input type="text"/>	<input type="text"/> %
	<input type="text"/>	<input type="text"/> %
Total must add up to 100%		<input type="text"/> %

3

Section 3 Continued

b. Detail your three largest contracts which you have undertaken in the last three years:

Client/Business	Services provided	Contract value	Contract length

c. If you provide services/products to the following industries please provide full details; military, utility, adult entertainment, gaming, financial trading, aerospace, social media, music or video streaming.

d. If you use outside consultants/contractors, or subcontract work to others then what percentage of last year's gross annual revenue does this represent?

 %

e. Do you require consultants/contractors to hold errors & omissions coverage?

Yes ☐ No ☐ NA ☐

f. Do you enter into written contracts with all clients?

Yes ☐ No ☐

g. Do your written contracts with clients contain the following clauses/provisions:

Limitations of liability

Yes ☐ No ☐

Disclaimer of warranties

Yes ☐ No ☐

Arbitration clause

Yes ☐ No ☐

Customer acceptance/sign off

Yes ☐ No ☐

h. Do you ensure that changes to the original contract are agreed by both parties and documented in writing, which is then incorporated into the main contract?

Yes ☐ No ☐

i. Are all contracts reviewed by legal counsel prior to commencing any work?

Yes ☐ No ☐

j. Value of average client contract

k. Are variations to contracts reviewed by legal counsel?

Yes ☐ No ☐

l. Where you develop software, please confirm that this has been reviewed by legal counsel prior to release

Yes ☐ No ☐ NA ☐

m. Do you have quality control procedures in force to test all software and products prior to release?

Yes ☐ No ☐

n. Is the failure of any of your products or any of your services likely to result in any of the following outcomes?

Yes ☐ No ☐

Damage or destruction to physical property, or bodily injury

Yes ☐ No ☐

Immediate and significant financial loss

Yes ☐ No ☐

o. If you anticipate any change in the nature or size of your business over the next 12 months please provide full details

--

3

Section 3 Continued

- p. Over the past three years, have any customers refused to pay, requested a refund or invoked contract penalty clauses outside the normal course of business? (please provide full details) Yes ☐ No ☐

- q. Do you have a formal process in place for resolving disputes with clients? Yes ☐ No ☐

- r. Have you ever instituted adversarial proceedings in order to recover unpaid fees from a client? Yes ☐ No ☐

4

Network Dependency

- a. Usual daily hours of operation

- b. Indicate time after which the inability for staff to access your internal computer network and systems would have a significant impact on your business:

Immediately ☐ After 6 hrs ☐ After 12 hrs ☐ After 24 hrs ☐ After 48 hrs ☐ Never ☐

- c. Indicate time after which the inability for customers to access your networks would have a significant impact on your business:

Immediately ☐ After 6 hrs ☐ After 12 hrs ☐ After 24 hrs ☐ After 48 hrs ☐ Never ☐

- d. Provide brief details below, of the impact on your business if your internal network or applications should fail or be disrupted (include commercial relations, revenues and image):

5

Business Continuity

- a. Briefly describe your recovery/continuity plans to mitigate or avoid business interruption due to network failure, which may include outsourcing, additional employment, system redundancy etc.

- b. Is this plan regularly tested and updated? Yes ☐ No ☐

- c. Have you recently carried out a network security audit? Yes ☐ No ☐

If 'Yes', who performed the audit and when was it remediated

Audited by	DD	MM	YY
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- d. Was any serious concern raised with any aspect of the network? Yes ☐ No ☐

If 'Yes' to (d) above, please confirm that concerns were remediated. Yes ☐ No ☐

6

Third Party Service Providers

If you outsource any element of your network please provide details

a. Web hosting	(Name of Service Provider) <input type="text"/>	d. Data processing	(Name of Service Provider) <input type="text"/>
b. Security services	(Name of Service Provider) <input type="text"/>	e. Point of sale/Payment card processing	(Name of Service Provider) <input type="text"/>
c. ASP	(Name of Service Provider) <input type="text"/>	f. Other	(Detail of service) <input type="text"/>

7

Network Security

a. Do you employ a Chief Privacy Officer or Chief Information Officer who has responsibility for meeting your worldwide obligations under privacy and data protection laws?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
b. Does your security and privacy policy include mandatory training for all employees?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
c. Are all employment positions analysed and employees assigned specified rights, privileges and unique user ID and passwords, which are changed periodically?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
d. Do you have user revocation procedures on user accounts and inventoried recovery of all information assets following employment termination?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
e. Do you conduct regular reviews of your third party service providers and partners to ensure that they meet your requirements for protecting sensitive information in their care?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
f. Do you have antivirus software on all computer devices, servers and networks which are updated in accordance with the software providers' recommendations?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
g. Do you have firewalls and intrusion monitoring detection in force to prevent and monitor unauthorized access?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
h. Do you ensure that all wireless networks have protected access?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
i. Do you have access control procedures and hard drive encryption to prevent unauthorized exposure of data on all laptops, PDAs, smartphones and portable devices?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
j. Do you encrypt all sensitive information that is transmitted within and from your organization?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
k. Is sensitive information stored on segregated servers with separate access controls?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
l. Is all sensitive and confidential information stored on your databases, servers and data files encrypted?	Yes <input type="checkbox"/>	No <input type="checkbox"/>

If you answer 'No' to questions (h), (i), (j), (k) above, please provide details below, briefly describing the nature of the unprotected information and what security measures are in force to protect this information in the absence of encryption.

m. When you operate Point of Sale devices are they regularly scanned for malware or skimming devices?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
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8

Information and Data Management

- | | | |
|--|------------------------------|-----------------------------|
| a. Does your information asset programme include a data classification standard (e.g. public, internal use only, confidential)? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| b. Do you post a privacy policy on your website which has been reviewed by a qualified lawyer? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| c. Does your privacy policy include a legally reviewed statement advising users as to how any information collected will be used, and for what purposes? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| d. Do you have procedures in force for honouring the specific marketing "opt-out" requests of your customers that are consistent with the terms of your published privacy policy? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| e. Do you have procedures in place to monitor the period for which customer data is held and have processes for deleting this information at the end of that period? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| f. Do you have procedures in force for deleting all sensitive data from systems and devices prior to their disposal from the company? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| g. Is all information held in physical form (paper, disks, CD's etc) disposed of or recycled by confidential and secure methods, which are recognized throughout the organisation? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| h. Do you keep an incident log of all system security breaches and network failures? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| i. Have you identified all relevant regulatory and industry compliance frameworks? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
- If 'Yes' please provide details:

Compliant

Gramm-Leach Bliley Act of 1999

Yes ☐

Date of latest audit

Health Insurance Portability & Accountability Act of 1996

Yes ☐

Payment Card Industry (PCI) Data Security Standard

Yes ☐

If 'Yes' What level requirement

1 ☐ 2 ☐ 3 ☐ 4 ☐

Other (please provide details)

9

Multimedia and Intellectual Property Procedures

- | | | | |
|---|------------------------------|-----------------------------|-----------------------------|
| a. Do you have a process in force to obtain a legal review of all media content and advertising materials prior to release? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | |
| b. Do you have a process in force to vet all content and media releases for trademark and copyright clearance and ensure consent of use is obtained before release? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | |
| c. If you use freelance designers or obtain content from third parties do you have legally reviewed contracts in force outlining the rights and responsibilities of each party and ensure that you are held harmless in respect of content provided to you? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | NA <input type="checkbox"/> |
| d. Do you have customer acceptance/sign off for content | Yes <input type="checkbox"/> | No <input type="checkbox"/> | |
| e. Do you have appropriate take down procedures in respect of any user generated content? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | |

If 'No' to any questions within this section, please provide full details:

10

Claims and Circumstances

During the last three years have you:

- Sustained any unscheduled or unintentional network outage, intrusion, corruption or loss of data?
- Received notice or become aware of any privacy violations or that any data or personally identifiable information has become compromised?
- Notified any customers that their information may have been compromised?
- Been subject to any disciplinary action, regulatory action, or investigation by any governmental, regulatory or administrative agency?
- Received any injunction(s), lawsuit(s), fine(s), penalty(s) or sanction(s)?
- Become aware of any circumstance or incident that could be reasonably anticipated to give rise to a claim against the type of insurance(s) being requested in this application?
- Have you or any of the applicant's principals, partners, directors, risk managers, or employees, during the last five years, sustained any loss or had any claim made against them, whether insured or otherwise, involving the type of insurance(s) being requested in this application?

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
Yes	<input type="checkbox"/>	No	<input type="checkbox"/>

If 'Yes' to any questions within this section, please provide full details:

11

Previously Purchased Coverage

- Do you have insurance in place for the type of coverage being requested in this application? Please provide details.

Insurer	Limits	Deductible	Expiry date			Premium	Retroactive Date		
			DD	MM	YY		DD	MM	YY

- Have you ever been refused insurance or had any special terms or conditions imposed by any insurer?
- Has any insurance for the type of coverage requested in this application been declined or cancelled?

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
Yes	<input type="checkbox"/>	No	<input type="checkbox"/>

If 'Yes' to (b), or (c) above, please provide full details

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- Do you maintain general liability insurance coverage?

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
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If 'Yes,' please provide the limits of liability and whether this coverage includes advertising injury and/or products and completed operations coverage.

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Disclosure

You are not required to disclose convictions regarded as 'spent' by virtue of any rehabilitation of offenders legislation. Any other facts known to you, which are likely to affect acceptance or assessment of the risks proposed for insurance must be disclosed. Should you have any doubt about what you should disclose, do not hesitate to tell us. We recommend you keep a record (including copies of letters) for your future reference, of any additional information given. Making sure we are informed is for your own protection, as failure to disclose may mean that your policy will not provide you with the cover you require, or could invalidate the policy. We reserve the right to decline any proposal.

Data Protection

By accepting this insurance you consent to Ascent Underwriting using the information we may hold about you for the purpose of providing insurance and handling claims, if any, and to process sensitive personal data about you where this is necessary (for example health information or criminal convictions). This may mean we have to give some details to third parties involved in providing insurance cover. These may include insurance carriers, third party claims adjusters, fraud detection and prevention services, reinsurance companies and insurance regulatory authorities.

Where such sensitive personal information relates to anyone other than you, you must obtain the explicit consent of the person to whom the information relates both to the disclosure of such information to us and its use by us as set out above. The information provided will be treated in confidence and in compliance with relevant Data Protection legislation. You have the right to apply for a copy of your information (for which we may charge a small fee) and to have any inaccuracies corrected.

IMPORTANT – Cyber Pro Policy Statement of Fact

By accepting this insurance you confirm that the facts contained in the proposal form are true. These statements, and all information you or anyone on your behalf provided before we agree to insure you, are incorporated into and form the basis of your policy. If anything in these statements is not correct, we will be entitled to treat this insurance as if it had never existed. You should keep this Statement of Fact and a copy of the completed proposal form for your records.

This application must be signed by the applicant. Signing this form does not bind the company to complete the insurance. With reference to risks being applied for in the United States, please note that in certain states, any person who knowingly and with intent to defraud any insurance company or other person submits an application for insurance containing any false information, or conceals the purpose of misleading information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime.

The undersigned is an authorized principal, partner, director, risk manager, or employee of the applicant and certifies that reasonable inquiry has been made to obtain the answers herein which are true, correct and complete to the best of his/her knowledge and belief. Such reasonable inquiry includes all necessary inquiries to fellow principals, partners, directors, risk managers, or employees to enable you to answer the questions accurately.

Name
Signed

Position
Date

Additional Notes

CyberPro: Insurance, Risk Management and Breach Response Services

CyberPro is a unique and proprietary insurance product based on a modular form concept which combines comprehensive professional services coverage for technology and miscellaneous professionals with a cutting edge cyber liability solution, providing unique non-tangible risk insurance, covering network business interruption, ecommerce trading exposures, crime and protection from media and intellectual property risks. CyberPro also includes loss control education and training; and full post breach crisis management assistance.

CyberPro: Insurance

CyberPro is suitable for nearly all clients in most industry sectors, and can be adapted to specific needs and requirements. Coverage is provided on a modular basis, with independent insuring agreements so that a policy holder can “pick and choose” their coverage according to requirements.

Standard key coverage

- ▲ Liability coverage extended to cloud providers and external vendors
- ▲ Voluntary notification
- ▲ Reputational harm
- ▲ Crisis management and brand reestablishment
- ▲ Most favourable venue language
- ▲ 70/30 hammer clause
- ▲ Computer crime, electronic theft & telecommunications fraud
- ▲ Forensic costs up to the full policy limit
- ▲ Programming and human error
- ▲ Social engineering coverage
- ▲ Pre and post breach risk management services
- ▲ Cyber terrorism
- ▲ Full Prior Acts

Additional coverage

- ▲ Costs to cover Payment Card Industry fines and penalties
- ▲ Business interruption and data restoration coverage extension to external vendors
- ▲ Notification costs outside of policy limits
- ▲ Media coverage extended to physical products
- ▲ Contingent bodily injury/property damage

CyberPro Coverage modules

- ▲ **Security and privacy liability** provides coverage for an Insured's failure to protect private or confidential information and associated legal liability.
- ▲ **Multimedia and intellectual property liability** provides coverage for an insured's liability arising from advertising and intellectual property risks.
- ▲ **Technology services** covers any actual or alleged breach of duty, error, or omission in the rendering of technology services.
- ▲ **Miscellaneous professional services** covers actual or alleged breach of duty, neglect, error, or omission in the rendering of non technology professional services.
- ▲ **Network interruption and recovery** provides coverage for a company's own losses and rectification costs from network interruption or following a security breach.
- ▲ **Event support expenses** provides coverage for the costs of averting or mitigating public relations damage following a network event, including notification, and the offering of a credit monitoring service to individuals whose personal information may have been compromised.
- ▲ **Privacy regulatory defense and penalties** provides coverage for an organization defending itself in the event of a regulatory action following a privacy breach or breach of privacy regulations.
- ▲ **Network extortion** provides coverage to pay for an extortion threat against the insured's network.
- ▲ **Electronic theft, computer fraud & telecommunications fraud** provides coverage for loss of an insured's money or asset arising from network security breach.
- ▲ **Social engineering fraud** provides coverage for loss of money or asset arising from phishing or other electronic scams.
- ▲ **Reputational damage** provides coverage for business income loss arising from loss of a services contract and reduction in brand value following a network event.

CyberPro: Loss control, education and training

CyberPro has not only been designed to provide crucial insurance protection but also to respond to constantly evolving regulation and legislation that places increasing responsibilities on businesses and how they are required to manage and mitigate Cyber risk.

Ascent provides this service by partnering with relevant, expert professionals who provide up to date advice and information that helps policyholders avoid or minimize breach events and, should such events occur, manage them appropriately and effectively.

On-line Learning and Resources

Ascent has partnered with the leading breach response company CyberScout and their employees on the key areas of data risk management. The CyberScout Learning Management System (LMS) is an online training program that equips policyholders with the basic knowledge they need to mitigate and manage risk and keeps them informed of the latest legal, regulatory developments affecting their business. The LMS can also be used to train Ascent's brokers, underwriters and claims handling staff.



Formerly  NIDT911

CyberScout eLearning tool offers:

- ▲ Three separate learning modules lasting from 25-60 minutes.
- ▲ Topics on Data Security and Privacy 101; Data Risk and Privacy Management; and Data Breach Forensics, Liability and Remediation.
- ▲ Material relevant to small and medium-sized businesses perceived to have low to high-risk exposure, and their employees and brokers.
- ▲ Dynamic assessments that test users with new questions every time they undertake one of the eLearning modules.
- ▲ Printed certificates upon course completion.
- ▲ Access to breach specialists to fully prepare and equip policyholders to meet regulatory response deadlines, government rules and other key steps required to protect their business from potential fines and lawsuits and to preserve their reputation.

Breach Response Web Portal

The Breach Response website enables users to:

- ▲ Prepare for the worst by sharing data protection best practice via educational tips, breach scenarios and a risk assessment calculator.

- ▲ Review privacy laws and guidelines for each state and province outlined in a quick summary guide.
- ▲ Develop an incident response plan that walks users through breach discovery and assessment, internal and external communication protocols and steps to establish a process for handling a breach to minimize impact.
- ▲ Access the Knowledge Center which provides informative and up to date educational content on relevant topics, industry trends and regulatory change via news articles, white papers and blog posts.

CyberPro: Breach Response Services

Depending on the nature of the breach, Ascent will work with a broad range of expert firms and individuals to ensure policyholders receive the specific advice they need to take decisive action, mitigate further loss or exposure and protect their customers:

Breach Response

We help our policyholders react swiftly and comprehensively to a data privacy breach by using the CyberScout Breach response team. This team of experts assists with outlining a clear response strategy and supports our policyholders following a data loss incident.

A breach counselling service is also available to help evaluate the incident and to determine whether a privacy breach has occurred. In the event of a confirmed breach the team will help assess the severity of the event, explain breach response requirements and share best practices to respond to the situation and mitigate further risk to the policyholder's business.

Notification Expenses

CyberPro provides cover for reasonable and necessary legal expenses, postage expenses and related advertising expenses, to mitigate damage to a policyholder's brand and/or comply with governmental privacy legislation in the event that personal information has, or could be, compromised. Reimbursement of all such expenses is subject to Ascent's approval.

These expenses may be handled by CyberScout or a number of other service providers dependent on the specific nature of the breach.

In the event of a breach, our partners will to guide policyholders through the process of notifying the individuals affected, whether they are their employees, customers, or patients. Our advisers will help policyholders determine the best method of notice (for example, direct mail, email or media disclosure) and select the most appropriate supplier to help them remain compliant and record their actions so that they meet or exceed federal, state and regional requirements. Our suppliers may also provide the following services if relevant to policyholders needs:

Breach Response Services continued...

- (1) Provision of notification letter template(s) and/or service enrolment documents;
- (2) Management, handling, printing and mailing of letters;
- (3) Ensure that policyholders customer information is up to date by analyzing their customer address database against multiple national databases (such as Coding Accuracy Account System (CAAS), National Change of Address (NCOA), and Locatable Address Conversion System (LACS);
- (4) Identify incorrect contact information and resolve; or establish alternative notification methods to ensure that as many of the policyholders customers as possible are notified;
- (5) Return mail handling, reporting and additional address changing. Printing and mailing of notification letters for returned mail when new addresses are available;
- (6) Advertising Services.

Forensic Auditing

Under the CyberPro Network Interruption and Recovery module, cover is provided for the costs of hiring appropriate forensic auditors to review all details relating to a breach and to determine the cause and extent of any theft or unauthorized disclosure of information. This may involve digital and network investigations of hacking incidents, lost and stolen property, Cyber extortion, database fraud, offensive communication, and other risks. Through appropriate forensic investigation the existence, cause and impact of the event may be established, together with the extent to which there may have been unauthorized access or disclosure. All necessary steps to prevent future breaches can also be identified.

In conjunction with CyberScout, we will identify appropriate expert providers to investigate an event and where they need to be PCI approved, we would work with providers selected from the following list:

https://www.pcisecuritystandards.org/approved_companies_providers/pfi_companies.php

Where there is no PCI approval required, we will select providers we have worked with before and whom we know provide the necessary expertise and service.

These providers including the following;

Secureworks (Dell):

<http://www.secureworks.com/incident-response>

Trustwave:

<https://www.trustwave.com/home>

Security Metrics:

<https://www.securitymetrics.com>

Support, Credit and Identity theft Services

To mitigate the impact on policyholder's customers following a compromise or potential compromise of personal information, it may be necessary to deploy certain identity and/or credit management and monitoring services. This is to ensure compliance with certain federal, state and regional requirements and/or provide additional protection and security to affected individuals. These services may include:

- (1) Credit file review and report translation, interpreting policyholder's customer credit files and reports and helping them understand the data.
- (2) Activation of fraud alerts, to notify potential creditors or lenders to individuals/entities that may be victims of identity theft.
- (3) Monitoring policyholder's customer credit and/or personal data, which may include but is not limited to, multiple bureau credit reporting or monitoring, court records monitoring, change of address monitoring, social security number tracing, payday monitoring and/or cyber monitoring.
- (4) Promptly alerting individuals of changes detected through monitoring services, such as new credit applications, new financial accounts, credit enquiries or loans.
- (5) Provide individuals with access to electronic education and alerts via email.
- (6) Assistance in creating a customer affidavit in the event of fraud.
- (7) Dedicated fraud specialists working to gather evidence and help creditors reduce damages and resolve identity theft events. This includes follow up to include tracking of activity and steps taken to resolve the issue.
- (8) Systematic notification to any relevant government and private agencies (including but not limited to Social Security Administration, Internal Revenue Service, Department of Motor Vehicles, Federal Trade Commission, Attorney General Office, Financial Institutions, Check Systems, Collection Agencies)
- (9) Assistance with credit file freezes (in States where it is available and in situations where it is warranted)
- (10) In the event an affected victim is the subject of a complex identity theft or financial fraud scheme, further investigation and action that goes beyond routine remediation activities may be necessary.

All of the above services can be provided through CyberScout and/or other agreed providers, as required by the nature and details of the breach.

Breach Response Services continued...

Call Handling Services

These services may be provided by CyberScout or providers selected in consultation with policyholders depending on the specific requirements and nature of the breach. This will provide policyholders customers with a point of contact to obtain information relating to the breach, how it could potentially affect them and pre-agreed related information. Depending on the specific breach and the providers selected to handle it, these services may include:

- (1) Working with policyholders towards scripted responses via FAQs from customer service representatives to affected parties, including information regarding the breach. For matters not addressed within the pre-approved FAQs, queries may be redirected to policyholder. Experienced fraud specialists can answer questions about the notification letter, calm fears and provide pre-approved remediation services such as placing fraud alerts or enrolling breach victims in credit monitoring.
- (2) Calls answered in line with established service levels
- (3) Toll-free access for breach notification recipients
- (4) Support for English, Spanish and other languages
- (5) Unlimited one-on-one access to a dedicated fraud specialist
- (6) Identification of groups that may need special call handling (i.e., the elderly, minors, foreign language, etc.)
- (7) Reporting capabilities, which may include number of calls received, duration of the calls, calls abandoned, top 10 most frequently asked questions, type of information requested, number of individuals with a true identity theft, type of identity theft and resolution assistance provided.

Event Management Services

Where applicable, and if policyholders reasonably consider that they need to avert or mitigate damage to their brand following a covered event, reasonable and necessary fees for hiring a public relations consultant will be covered subject to our agreement.

We will work with policyholders to appoint a public relations consultant to interact with the public and media and protect their company's reputation after an incident. In many cases we will consider hiring a local firm or one that policyholders have worked with previously, subject to the right experience and expertise.

For policyholders larger customers with international operations we have worked with Fleishman Hillard.

Legal Services

In the event that legal advice is required we have worked with many of the best privacy lawyers in their capacity as breach coaches and defence counsel; providing advice on the best course of action to take and how to comply with the applicable Breach Notice Laws and other credit card related regulations. Our experience shows that it is imperative to have the right experts and professionals acting as breach coaches and defence counsel and that they have a successful track record in handling matters with state AGs. We work with a number of expert lawyers, some of which are listed below.

USA

Theodore J. Kobus III

Baker Hostetler
45 Rockefeller Plaza
11th Floor
New York, NY 10111
tkobus@bakerlaw.com

Melissa K. Ventrone, Partner

Wilson Elser Moskowitz
Edelman
& Dicker
55 West Monroe Street
Suite 3800
Chicago, IL 60603
312-821-6105

David Navetta, Partner

Info Law Group
1117 S. Clarkson Street
Denver, CO 80210
303-325-3528

Linn F. Freedman, Partner

Nixon Peabody
One Citizens Plaza
Suite 500
Providence, RI 02903
P: 401-454-1108

Joseph J. Lazzarotti, Esq.

Jackson Lewis LLP
220 Headquarters Plaza
East Tower, 7th Floor
Morristown, NJ 07960
973-538-6890

Todd Carlisle

Attorney at Law
Sirote & Permutt, PC
2311 Highland Avenue South
Birmingham, AL 35205
P: (205) 930-5154

Canada

Eric Dolden

Dolden Wallace Folick LLP
888 Dunsmuir St
10th Floor
Vancouver, BC V6C3K4
T: 604-891-0350

Andrea York

Blake, Cassels & Graydon
LLP
199 Bay Street
Suite 4000,
Commerce Court
West Toronto, ON M5L1A9

CyberPro: Key Contacts

In the event of a breach policyholders should check their policy or certificate and then, depending on the nature of the claim, or in the event of a privacy breach, they will need to contact the Counsel specified in their policy and/or seek advice from the following:

CyberScout Breach Hotline open 24/7:

Call: 1-800-493-0943

Email: Breach@CyberScout.com

Attn: Mr Eduard Goodman



About Us

Ascent is a specialist Managing General Agent underwriting on behalf of a number of Lloyd's Syndicates. We provide innovative insurance solutions either face to face or via our proprietary electronic underwriting platform, and commit to offering an excellent and efficient level of service to our broking partners.

Our team have an in depth level of experience and expertise in our markets, which is reflected within our cutting edge market leading insurance products. We have the ability to offer both off the shelf solutions, and bespoke policies which can be finely tailored to the needs of a specific client.

Ascent believes that all insurance products should be complemented by value added solutions and for this reason we partner with market leading professionals, including risk assessors, forensic experts, and proactive claims management companies, that assist our clients in making informed choices and ensure the claims process is smooth and efficient.



Formerly IDT911

About CyberScout

CyberScout is North America's premier identity management and data risk management services provider. Since 2003 they have been leading the charge against hackers, thieves and even simple human error. They provide unrivalled solutions that deliver valuable prevention education, proactive protection services and swift and appropriate incident remediation for more than 770,000 businesses and 17.5million households.

Their services are provided through various client partners, including Ascent, insurance carriers, major credit unions, banks and numerous Fortune 500 companies.

CyberScout's longstanding reputation, industry expertise and scalable approach offer businesses and their customers a trusted ally for:

- ▲ Identity Management
- ▲ Breach Education, Preparation, Response and Remediation
- ▲ Fraud, Credit and Reputation Monitoring
- ▲ Cyber Security and Data Privacy Consulting

Through their consulting operations, CyberScout's experienced professionals help businesses identify their most valuable information assets and the specific vulnerabilities that put their business at risk. Their team can immediately enhance a business' security posture in critical areas to help them comply with privacy regulations, improve the probability of preventing an data breach

This document is only intended to provide a brief summary of coverage and a full version of the wording is available upon request.

CyberScout and risk management services available in key jurisdictions only, please refer to quotation and policy documentation for further information.

Ascent Underwriting LLP is authorised and regulated by the Financial Conduct Authority.



MEMORANDUM

DATE: June 12, 2017
TO: CLLAS Advisory Board
FROM: Patrick Mahoney
COPY:
RE: March 31 2017 Financial Management Report

CLLAS' financial management report for the quarter ended March 31, 2017 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 loss (premiums minus claims and expenses) of \$915,000 in the quarter. After taking into account investment income (including unrealized gains arising during the period) the loss was reduced to \$850,000. The loss was primarily due to a case reserve on a "drop down" claim, i.e. a claim in the layer below \$1 million which is fully retained by CLLAS. As shown on Exhibit I, CLLAS' surplus increased at March 31, 2017 stood at \$13.6 million.

The Budget Variance (Exhibit IV) shows that expenses for the year are about 8.8% (\$60,000) over budget for the period. This overage is attributable to Axxima's professional services fees related to the special underwriting submission that led to CLLAS securing reinsurance renewal terms in April, CLLAS' revised subscribers agreement and the cyber initiative.

Risk Metrics

Exhibit V presents the results of various "risk metrics" monitored by CLLAS based on what have been identified through the ORSA process as its material risks. The Exhibit shows results for CLLAS at December 31, 2014, December 31, 2015, December 31, 2016 and March 31, 2017 against risk targets and risk limits. The results for March 31, 2016 are within CLLAS' risk tolerances with two exceptions (Lines 1b and 10, discussed below). Items of note include:



- Line 1b: Prior year development on CLLAS' retained losses was 59%. This is the result of a single reserve of \$650,000 and so is not a cause for concern. As can be seen from Line 1a, overall losses (including reinsured losses) were stable in the period.
- Lines 4&5: The March 31, 2017 information shows as n/a. While no changes were made to the reinsurance structure in the quarter, and we continue to monitor ratings, the formal reinsurance security review will not be updated until after the July 1, 2017 renewal.
- Line 10: CLLAS held a highly rated money market investment that on March 31, 2017 comprised more than 5% of its non-cash investment portfolio. This type of investment is not subject to the 5% regulatory restriction.
- Line 13: The key regulatory solvency test that CLLAS is required to comply with is known as the Alberta Maintenance of Reserve and Guarantee Fund ("AMRGF"). Details of this calculation are included in Exhibit VI, with the result summarized in Line 13 of Exhibit V. CLLAS must maintain "cash and approved securities" in excess of the reserve fund plus the guarantee fund required by the Alberta regulator. Exhibit VI shows that the CLLAS held cash and approved securities well in excess of the AMRGF requirement at March 31, 2017.
- Line 14: CLLAS also monitors its Minimum Capital Test ratio. At March 31, 2017, CLLAS' MCT ratio was 444%, down slightly from 464% at December 31, 2016.

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

Sincerely,

Patrick Mahoney
General Manager

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

FINANCIAL MANAGEMENT REPORT

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

QUARTERLY FINANCIAL MANAGEMENT REPORT

March 31, 2017

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
March 31, 2017

	As at March 31, 2017	As at March 31, 2016
ASSETS		
Cash	5,409,026	3,857,542
Short term investments	11,645,006	11,923,743
Bonds	5,167,951	4,805,287
Interest income due and accrued	28,254	26,272
Premium receivable	0	0
Other receivable	28,458	0
Prepaid expenses	116,085	124,352
Deferred policy acquisition costs	77,110	86,607
Unearned reinsurance premium ceded	2,102,643	2,492,424
Reinsurance recoverable	390,517	563,001
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	96,448,000	96,403,000
	<u>121,413,051</u>	<u>120,282,226</u>
LIABILITIES		
Accounts payable & accrued charges	258,402	148,680
Premium taxes payable	0	0
Unearned premium	2,645,319	3,092,644
Due to reinsurers	1,249,403	0
Provision for unpaid claims and adjustment expenses	103,658,000	102,868,000
Premium deficiency liability	0	0
	<u>107,811,124</u>	<u>106,109,324</u>
SUBSCRIBERS' EQUITY		
Surplus	13,520,681	14,033,909
Accumulated Other Comprehensive Income (Loss)	81,246	138,993
	<u>13,601,927</u>	<u>14,172,902</u>
	<u>121,413,051</u>	<u>120,282,226</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF COMPREHENSIVE INCOME
For the Period Ending March 31, 2017

	Current Year		Prior Year	
	Quarter March 31, 2017	Year to Date March 31, 2017	Quarter March 31, 2016	Year to Date March 31, 2016
Written Premium	-	-	-	-
Gross Written Premiums	-	-	-	-
Less: Reinsurance Ceded	-	-	-	-
Net Written Premiums	-	-	-	-
Change in Unearned Premiums	536,712	536,712	600,221	600,221
Earned Premiums	536,712	536,712	600,221	600,221
Claims Paid	(50,648)	(50,648)	(54,653)	(54,653)
Change in IBNR	115,000	115,000	80,000	80,000
Change in Case Reserve	642,000	642,000	(3,000)	(3,000)
Premium Deficiency Expense	-	-	-	-
Incurred Claims	706,352	706,352	22,347	22,347
Management and operating expenses	598,104	598,104	484,181	484,181
Reinsurance fees	69,750	69,750	69,750	69,750
Premium taxes	77,110	77,110	86,607	86,607
Total Operating Expenses	744,964	744,964	640,538	640,538
Underwriting Gain (Loss)	(914,604)	(914,604)	(62,664)	(62,664)
Investment Income	45,055	45,055	36,534	36,534
Income on Claim Related Matters	-	-	-	-
Interest Income on Premium Tax	-	-	-	-
NET GAIN/(LOSS)	(869,548)	(869,548)	(26,130)	(26,130)
Other comprehensive income (loss)				
Unrealized gains (losses) on available for sale financial assets arising during the year	19,635	19,635	11,566	11,566
Recognition of realized (gain) loss included in income	-	-	-	-
Other comprehensive income (loss) for the year	19,635	19,635	11,566	11,566
Total comprehensive income (loss)	(849,913)	(849,913)	(14,564)	(14,564)

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF CHANGES IN EQUITY
March 31, 2017

	Minimum Surplus	Additional Surplus	Unrealized gains and losses on AFS financial assets	Total Equity
Balance, beginning of year	50,000	14,340,229	61,611	14,451,840
Prior year adjustment		-		-
Comprehensive income (loss) for the year				
Net gain (loss) for the year		(869,548)		(869,548)
Other comprehensive income (loss)				
Change in unrealized gain on available-for-sale assets			19,635	19,635
Recognition of realized (gain) loss on available-for-sale assets			-	-
Total comprehensive income (loss) for the year		(869,548)	19,635	(849,913)
Balance at March 31, 2017	50,000	13,470,681	81,246	13,601,927

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS
FOR THE PERIOD ENDED March 31, 2017

	Annual Budget	Year to Date Budget % Accrued to Date	Year to Date Budget \$	Year to Date Actual \$	Fav/(Unfav) Variance \$
MANAGEMENT SERVICES* (See Note 1)	579,500	25%	144,875	144,984	(109)
PROFESSIONAL SERVICES					
Actuarial Services	80,000	21%	16,800	33,285	(16,485)
Reinsurance Matters	310,000	21%	65,100	94,724	(29,624)
Strategic Matters	<u>160,000</u>	21%	<u>33,600</u>	<u>54,641</u>	<u>(21,041)</u>
Sub-Total Professional Services	550,000		115,500	182,649	(67,149)
GST/HST on Consulting Fees	146,835		33,849	42,592	(8,744)
Total Management & Professional Services * (See Note 2)	<u>1,276,335</u>		<u>294,224</u>	<u>370,225</u>	<u>(76,001)</u>
OTHER EXPENSES					
Audit Expenses	107,000	25%	26,750	26,750	0
Annual Dinner	7,000	25%	1,750	-	1,750
Premium Taxes	289,000	25%	72,250	77,110	(4,860)
Chairman's Expenses	3,000	25%	750	-	750
Chairman's Honourium	150,000	100%	150,000	150,000	-
Reinsurance Expense	8,500	25%	2,125	-	2,125
D&O Insurance	20,000	25%	5,000	-	5,000
Office Expenses	25,000	25%	6,250	4,826	1,424
Office Expenses - Website management software license	3,000	25%	750	-	750
Claims: Borderaux (LawPro/LIF)	14,600	90%	13,140	13,600	(460)
Special Services	50,000	25%	12,500	17,110	(4,610)
Miller Insurance Fees (Reins. Comm.) (See Note 3)	279,000	25%	69,750	69,750	-
I.B.C Statistical Plan Fees	4,000	25%	1,000	521	479
Assessment Fees	3,000	25%	750	-	750
Investment counsel fees	30,000	25%	7,500	6,940	560
Investment - Custodial	18,000	25%	4,500	4,631	(131)
Risk Management/Loss Prevention	50,000	25%	12,500	-	12,500
License Fee	6,500	50%	3,250	3,500	(250)
Insurance: Sundry	-		-	-	-
Sub-total	<u>1,067,600</u>		<u>390,515</u>	<u>374,739</u>	<u>15,776</u>
TOTAL	<u>2,343,935</u>		<u>684,739</u>	<u>744,964</u>	<u>(60,225)</u>

* NOTE 1: MANAGEMENT SERVICES

The actual budget of \$612,00 has been reduced to \$579,500 as s result of Commissions received 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	43%
Third Quarter, ending September 30th	16%
Fourth Quarter, ending December 31st	20%
	<u>100%</u>

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

The annual budget is based upon the annual fee estimated for the policy period 2016/2017.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
For the Period Ending March 31, 2017

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

	Current Year to Date 3/31/2017 (in \$000's)	Prior Year End 3/31/2016 (in \$000's)
<u>Reserve Fund</u>		
Premiums collected or credited having one year or less to run	(1) -	-
Less: Amount paid to licensed reinsurers	(2) -	-
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) -	-
Reserve Fund Required (50% of Line 5)	(6) -	-
<u>Guarantee Fund</u>		
Total Liabilities	(7) 107,811	106,109
Less: Unearned Premiums	(8) 2,645	3,093
Less: Recoverable from licensed reinsurers	(9) 95,352	95,261
Plus: Statutory Margin	(10) 50	50
Guarantee Fund Required (Line 7 minus Lines 8 and 9 plus line 10)	(11) 9,864	7,805
TOTAL RESERVE & GUARANTEE FUND REQUIRED (Line 6+11)	(12) 9,864	7,805
Cash & Approved Securities	(13) 22,222	20,586
Excess of Cash & Securities over Reserve & Guarantee Fund (line 13 minus line 12)	(14) 12,358	12,781

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
SUMMARY OF RISK METRICS
March 31, 2017

Exhibit V

	Risk Category	Risk Metric	December 31, 2014	December 31, 2015	December 31, 2016	March 31, 2017	Target	Limit
(1a)	Insurance	Prior year development - Gross of reinsurance	-6%	27%	-13%	0%	≤ 0%	> 20%
(1b)		Prior year development - Net of reinsurance	-33%	-29%	-45%	59%	≤ 0%	> 10%
(2a)		3-year net combined ratio	84%	79%	91%	108%		
(2b)		3-year net combined ratio before surplus adjustments via premiums	81%	74%	78%	88%	≤ 100%	> 125%
(3)		Maximum allocation to a single jurisdiction	57%	56%	56%	56%	n/a	> 67%
(4)	Reinsurance	Reinsurer credit rating	BBB+ to A+	BBB+ to A+	A- to A+	n/a	≥ A	< A-
(5)		Maximum concentration with a single reinsurer excl. Colchester	13.3%	11.6%	12.2%	n/a	≤ 10%	> 15%
(6)	Interest Rate	Interest rate risk per MCT formula at 1.25%	\$201,667	\$162,000	\$112,000	\$126,000	≤ \$250,000	> \$600,000
(7)	Liquidity	Ratio of cash and short-term investments to gross claim liabilities	21%	13%	16%	16%	≥ 15%	< 10%
(8)		Ratio of short term funds to total short & long term funds	69%	64%	69%	69%	≥ 40%	< 20%
(9a)	Asset Default	Credit rating of invested assets	AA to AAA	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	< R1-High
(10)		Maximum allocation to a single non-government security	1.6%	2.4%	6.7%	6.7%	n/a	> 5%
(11)	Strategic	Annual Advisory Board turnover	0	0	0	0	≤ 2 members	> 4 members
(12)	Operational	Key management/advisor turnover	0	0	0	0	≤ 1 per 3 years	> 1 per year
(13)	Regulatory Solvency Indicators	AMRGF - Excess of cash and approved securities over required reserve and guarantee fund	\$8,020,000	\$6,934,000	\$9,595,000	\$12,358,000	\$3,500,000 to \$7,000,000	< \$3,500,000
(14)		MCT	346%	359%	464%	444%	≥ 210%	< 210%

Notes

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

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

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

(3) Based on insured lawyer counts

(4) Based on A.M. Best. information from report on reinsurance security (October 21, 2016). Note that in 2013 and 2014, there was only one reinsurer with credit rating of BBB+ (Alleghany Corporation, formerly Transatlantic Reinsurance Company

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

(10) Maximum allocation does not consider cash and cash equivalents. At March 31, 2017, the largest non-government security is a money market investment rated R1-High maturing on April 6, 2017.

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

(14) For Provincially Regulated Insurance Entities that are required to file the MCT on an annual basis, the capital impact of the revised Guideline must be phased-in over three years, starting with the first year ending in 2015. The 2014 MCT ratio shown above calculated based on the old MCT guidelines.

Color Code
Meets Target
Between Target and Limit
Exceeds Limit

MEMORANDUM

DATE: June 9, 2017
TO: File
FROM: Patrick Mahoney
COPY:
RE: ASOI Reciprocal Roundtable – May 30, 2017

I attended the annual Reciprocal Insurance Exchange Information Sharing Session put on by the Alberta Superintendent of Insurance (ASOI) on May 30, 2017. The session was well-attended, with about 30 participants. Attached is the presentation used by the ASOI as a framework for discussion> (Apologies for the handwritten notes scrawled on it.)

The key points coming out of the discussion are as follows:

1. The Supervisory Framework (which was handed out separately, let me know if you would like a copy) is the framework the ASOI uses when doing audits. It has been made public for the first time, in the interest of transparency. The ASOI does not have the resources to conduct too many audits so it is in the process of determining a “composite risk rating” for each entity (which will not be made public) and will use that to determine the audit focus.
2. The ASOI is launching an on-line filing portal to replace the current “email everything to Laurie” approach. It will customize requirements by entity (e.g. if you don’t have to do quarterly filings or a DCAT, you won’t see those requirements). The portal should be up and running shortly. It is exclusive to Alberta, i.e. it is not harmonized with other jurisdictions as that was seen as unwieldy.
3. Some findings from the ORSA reports are presented on the attached slides. The ASOI was surprised at how labour-intensive it has been to review some of the ORSA reports. (This is the reason that annual review letters have not yet send out for the 2016 filings.) Laurie said we should check with her office before doing another full ORSA as the requirements will be tailored to each entity, i.e. it may not be necessary to redo every three years.
4. OSFI Guideline E-13 (Regulatory Compliance Management) was discussed. It focuses on expectations for management to have controls to manage regulatory compliance risk which are proportionate to their risks.
5. OSFI Guideline E-21 (Operational Risk) was discussed. A new self-assessment template was released by OSFI but the ASOI considers this to be an information tool for entities, not a requirement.

6. Other regulatory jurisdictions: Laurie said that Ontario was proceeding to implement FSRA and that Quebec is looking to introduce reciprocal legislation.
7. Regulation Consultation – The Group Two consultation (re auto regs) is proceeding first, then the other regulations (including the general and the reciprocal regulations) will be done. There was some discussion of the investment rules and in particular the 5% limit that is applied to pooled funds versus underlying holdings, and Laurie advised that we take the opportunity to provide feedback even if it does not seem like the regulations are what need to be changed.
8. IFRS 17 is coming. Laurie think it could be a bigger deal for P&C companies than people initially thought. One thing to be aware of is the concept of “onerous contract” i.e. a contract in which the economic benefit obtained by the insurer is lower than its cost) as this may come into play in the case of a reciprocal depending on how it deploys its surplus.

Sincerely,





CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Business Plan Projected for the
Fiscal Years Ending December 31, 2017, 2018 and 2019

Final Report
March 27, 2017



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1. Executive Summary

This report summarizes the business plan for the Canadian Lawyers Liability Assurance Society (“CLLAS”) for fiscal years 2017 to 2019. A copy of this report was submitted to the Alberta Superintendent of Insurance (“Superintendent”), the regulatory authority responsible for the supervision of CLLAS under the Alberta Insurance Act.

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

Operations and Operating Environment

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

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

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

Summary of Financial Projections for Fiscal Year 2017

The underwriting income and investment income for fiscal year 2017 are projected at (\$593,000) and \$307,000 respectively, for a total net income of (\$286,000). The surplus at December 31, 2017 is projected at \$14,104,000. The projections assume that the premiums reflect surplus distributions of \$750,000 per year from 2017 to 2019, consistent with the surplus distribution in the 2016/2017 premium rates.

CLLAS is expected to meet the Alberta Maintenance of Reserves and Guarantee (“AMRGF”) Funds requirement with an excess margin of \$8,756,000 at December 31, 2017. The Minimum Capital Test (“MCT”) ratio at December 31, 2017 is projected at 587%, an increase over the MCT ratio of 464% at December 31, 2016 which is mainly due to the decrease in the mandatory phase-in adjustment. The MCT ratio is expected to remain comfortably above CLLAS’ internal target and regulatory expectations of 210%.



This business plan report is organized as follows:

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

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

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

2. Overview of CLLAS Operations

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

Insurance Operations

CLLAS was formed on December 22, 1986 under the Reciprocal Insurance Exchange Agreement for Select Canadian Law Firms. CLLAS started its insurance underwriting operations in June 1987 and was regulated by the Financial Services Commission of Ontario. Effective July 1, 2012, CLLAS' lead regulator was changed from Ontario to Alberta. CLLAS is licensed in Alberta, British Columbia and Ontario, and since March 4, 2015, it is also licensed in Nova Scotia.

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

In the fiscal year ending December 31, 2016, CLLAS issued 21 insurance policies issued to 11 Canadian law firms providing a combined maximum limit of liability insurance per occurrence of \$139,975,000 to cover the cost of damages that an insured is legally obligated to pay as a result of single or related



act, error, omission or negligent act in the performance of or failure to perform professional services by the insured or by any person for whose acts, errors, or omissions the insured is legally responsible. The maximum limit provided by CLLAS on a per-claim basis is provided as follows:

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

Reinsurance

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

In addition, for its treaty underwriting year from July 1, 2016 to June 30, 2017, CLLAS purchased an annual stop-loss coverage that provides \$10,000,000 of coverage in excess of \$5,000,000. Annual stop-loss coverage limiting CLLAS' overall annual net retained losses in any one treaty year was also purchased in prior treaty years.

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

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

Operational Results for Fiscal Year 2016

In 2016, CLLAS generated written premium volumes of \$10,610,000 and \$2,177,000 on gross and net of reinsurance bases respectively. \$8,434,000 of written premium volume was ceded to proportional and aggregate stop loss reinsurers.

The net income was \$330,000 and the net subscribers' equity inclusive of accumulated other comprehensive income was \$14,452,000 at December 31, 2016.



At December 31, 2016, CLLAS held \$21,469,000 in invested assets comprised of cash and fixed-income securities. CLLAS' main liability was its net provision for unpaid claims in the amount of \$6,453,000.

3. Operating Environment

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

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

Reinsurance

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

Regulatory Environment

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

4. Short-Term Opportunities and Threats

CLLAS offers professional liability insurance coverage to a select number of law firms in Canada. One firm representing approximately 12% of CLLAS' insured lawyers, Blake, Cassels & Graydon LLP, withdrew from CLLAS at June 30, 2012. CLLAS' Reciprocal Insurance Exchange Agreement, obligates it pay to Blakes the amount of declared credits (or alternatively obligates Blakes to pay to CLLAS the amount of declared assessments) based on Blakes' participation in the Society. Any such payment obligation is to be determined and paid subsequent to the fifth anniversary of the date of the Subscriber's departure. Accordingly, the determination of any payment obligation to or by Blakes will be made subsequent to June 30, 2017. In the event that it is determined that CLLAS has a payment obligation to Blakes, then depending on the amount of such payment obligation and the amount of the Society's equity at that time, such payment obligation may have a material effect on the equity position of the Society.



CLLAS' seventh five-year underwriting period commences on July 1, 2017. Prior to the inception of the underwriting period, Subscribers have the opportunity to provide notice of withdrawal from CLLAS. CLLAS expects that Dentons LLP will withdraw on this date due to the international merger that took place a few years ago. CLLAS has received positive indications from most, but not all, of the other current Subscribers and expects to know the status of firm participation in the seventh underwriting period for certain by April 30, 2017. CLLAS has invited one additional firm to become a Subscriber to CLLAS and again, expects to know by April 30, 2017 whether this firm will be joining CLLAS. Additional efforts to grow CLLAS' Subscriber base continue.

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

5. Short-Term Priorities and Initiatives

During 2017, CLLAS will focus on the following initiatives in addition to the management of its usual insurance operations:

1. Development of a budget and business plan for fiscal year 2017;
2. Review and update of CLLAS' Reciprocal Insurance Exchange Agreement;
3. Consideration of additional cyber insurance protection (likely on a group purchase basis);
4. Transition of Chair responsibilities to the incoming Chair, expected to take over in February 2018;
5. Determination of expected loss costs and premium rates for the policy year starting July 1, 2017;
6. Negotiation of reinsurance contracts and costs for the policy year starting July 1, 2017;
7. Periodic review of reinsurance concentration and risk;
8. Quarterly valuation of policy liabilities;
9. Interim update to Own risk and solvency assessment ("ORSA") and quarterly risk monitoring;
10. Development of a formal equity management policy;
11. Development of a formal medium- to long-term strategic plan.

6. Financial Performance Measures

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

- **Claims development:** All open case files are reviewed quarterly and case reserve estimates are adjusted accordingly. The provision for Incurred but not Reported ("IBNR") claims is reviewed quarterly by CLLAS' Appointed Actuary. Claims development is compared against the actuary's



prior estimates (i.e. estimates from prior actuarial valuations and estimates of expected loss costs underlying premium rates);

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

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

Quarterly financial statements are provided to the Advisory Board.

7. Financial Condition Measures and Regulatory Solvency Requirements

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

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

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

CLLAS must maintain cash and securities in excess of the regulatory requirement to avoid a retroassessment. At December 31, 2016, CLLAS met this requirement with an excess margin of \$9,596,000.

The AMRGF is shown in Exhibit 3.

b. Minimum Capital Test (“MCT”)

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

The MCT ratio is calculated as follows:



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

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

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

At December 31, 2016, CLLAS's MCT ratio was 464%. CLLAS' internal target MCT ratio is 210%.

The MCT is shown in Exhibit 4.

8. Financial Projections

The expected financial performance over fiscal years 2017 to 2019 is presented in Exhibits 1 to 4 as follows:

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

These projections are based on a starting financial position at December 31, 2016 and were completed in accordance with the directives of the Superintendent issued for the completion of the 2016 P&C-1 Annual Return filed by CLLAS. We present below details of the analysis for the 2017 projection. Similar assumptions were taken to project the results for 2018 and 2019.



Data

To develop the expected financial performance, we relied on the following information developed by CLLAS at December 31, 2016:

- The 2016 P&C-1 Annual Return and AMRGF worksheet filed by CLLAS with the Alberta Superintendent of Insurance;
- The 2016 Auditor's Report issued by Deloitte LLP;
- The Report on the Valuation of the Policy Liabilities as at December 31, 2016 issued by Ms. Julie-Linda Laforce, the Appointed Actuary for CLLAS; and
- The operating expense budget for 2017 approved by the Advisory Board.

Projection of Premiums

Net premiums written in 2017 are expected to be \$2,226,000, up from \$2,177,000 in 2016. Renewal premiums were assumed to increase based on a trend of 5% in retained loss costs and inflation of 3% on operating expenses. In addition, net premiums reflect an annual surplus distribution of \$750,000, in line with the surplus distribution reflected in the 2016/2017 rates.

Projection of Investment Income

The expected investment income for 2017 is \$307,000 (\$170,000 in 2015). The yield-to-maturity on invested assets at December 31, 2016 was 1.93% gross of investment management expenses and the investment yield gross of investment management expenses was projected at 1.93% for 2017.

Projection of Claims

Claims were projected on bases gross and net of reinsurance. These projections assume, to a large extent, that the reinsurance structure in effect at December 31, 2016 is maintained on renewal. Gross and net incurred losses for 2017 were projected in two steps:

a. Settlement of claim liabilities incurred on or prior to December 31, 2016

Paid claims during 2017 and undiscounted claim liabilities at December 31, 2017 were projected based on the Appointed Actuary's estimates at December 31, 2016 and CLLAS' historical claims settlement patterns. There is no expected gain or loss relative to the actuary's ultimate estimates at December 31, 2016.

Per accepted actuarial practice in Canada, undiscounted claim liabilities were then discounted and a provision for adverse deviation ("PfAD") was added. The assumptions used in the December 31, 2016 actuarial valuation were used. PfADs are assumed to be gradually released as losses are paid.



On a gross of reinsurance basis, CLLAS' expected payments in 2017 are \$17,865,000 and the claim liabilities on a discounted basis including PfAD at December 31, 2017 are expected to be \$83,245,000.

On a net of reinsurance basis, CLLAS' expected payments in 2017 are \$148,000 and the claim liabilities on a discounted basis including PfAD at December 31, 2017 are expected to be \$5,484,000.

b. Projected claims incurred after December 31, 2016 on policies in-force at December 31, 2016 and on policies expected to be renewed on July 1, 2017 under the new 2017/2018 policy year

Ultimate gross and net incurred claims for those policies were estimated based on the projected loss cost per layer estimated by the Appointed Actuary at December 31, 2016 with a 5% loss severity trend. These loss costs were then applied to the estimated in-force lawyers at December 31, 2016, since no growth at renewal was assumed for the underlying number of insured lawyers.

The expected projected loss costs per layer for the first and second half of 2017 are as listed in the following table.

Projected Loss Costs by Reinsured Layer for Fiscal Year 2017

Reinsurance Layers	Estimated loss cost for 1st Half of 2017	Estimated loss cost for 2nd Half of 2017
\$975,000 xs \$25,000	\$ 116	\$ 122
\$49,000,000 xs \$1,000,000	3,485	3,659
\$30,000,000 xs Umbrella	10	11
\$40,000,000 xs \$160,000,000	23	24
\$60,000,000 xs \$160,000,000	29	30

On a gross of reinsurance basis, CLLAS' expected payments in 2017 are \$598,000 and the claim liabilities on a discounted basis including PfAD at December 31, 2017 are expected to be \$15,304,000.

On a net of reinsurance basis, CLLAS' expected payments in 2017 are \$19,000 and the claim liabilities on a discounted basis including PfAD at December 31, 2017 are expected to be \$1,243,000.

Total Claims

Total net claim liabilities at December 31, 2017 were estimated at \$6,727,000, which represents an increase of \$274,000 over the December 31, 2016 net claim liabilities of \$6,453,000. Net paid losses were projected at \$167,000 during 2017.



Estimated incurred claims for fiscal year 2017 are estimated at \$441,000 as the sum of net paid claims in the year and the change in net claim liabilities.

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

Summary of Outstanding Claim Liabilities Projections for December 31, 2017

Net Amounts	Occurrences on or prior to Dec. 31, 2016	Occurrences after Dec. 31, 2016	Total
(1) Net Payments during 2017	\$ 148,000	\$ 19,000	\$ 167,000
(2) Net Claim Liabilities at December 31, 2017 *	5,484,000	1,243,000	6,727,000
(3) Net Claim Liabilities at December 31, 2016 *	6,453,000	n/a	6,453,000
(4) Net Incurred Claims in 2017 [(1) + (2) – (3)]	\$ (821,000)	\$ 1,262,000	\$ 441,000

* Liabilities on a discounted basis including PfAD.

Projection of Operating Expenses

Operating expenses are projected at \$1,758,000 for general management fees, \$279,000 for reinsurance fees and \$307,000 for premium taxes. Premium taxes vary by province and are expected to average 2.9% of direct written premiums. A portion of premium taxes is deferred in order for the expense to be recognized as the premium is earned. At December 31, 2017, the deferred policy acquisition cost asset is estimated at \$155,000.

Summary of Results

Based on the foregoing assumptions, the underwriting income and investment income for fiscal year 2017 are projected at (\$593,000) and \$307,000 respectively, for a total net income of (\$285,000) as shown in Exhibit 2. The surplus at December 31, 2017 is projected at \$14,104,000 as shown in Exhibit 1.

CLLAS is expected to meet the AMRGF requirement with an excess margin of \$8,756,000 at December 31, 2017, as shown in Exhibit 3.

CLLAS' MCT ratio at December 31, 2017 is projected at 587%, an increase over the MCT ratio of 464% at December 31, 2016, as shown in Exhibit 4. The increase is mainly driven by the phasing-out of the transitional adjustment required under the MCT rules. The MCT ratio is expected to remain above CLLAS' internal target of 210%.

Exhibit 1
Canadian Lawyers Liability Assurance Society

Proforma Statement of Financial Position

	2016 Actual	2017 Projected	2018 Projected	2019 Projected
Assets				
Cash	\$ 4,731,655	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000
Investments				
Short Term	11,587,109	9,972,000	9,944,000	9,899,000
Long Term	5,150,585	5,369,000	5,355,000	5,330,000
Interest Income Due and Accrued	21,122	0	0	0
Premiums Receivable	2,520,380	3,198,000	3,283,000	3,370,000
Unearned Reinsurance Premium Ceded	4,182,181	4,217,000	4,310,000	4,404,000
Prepaid Expenses	139,500	117,000	120,000	124,000
Deferred Policy Acquisition Costs	154,221	155,000	159,000	163,000
Reinsurance and Other Claims Receivable	837,614	800,000	800,000	800,000
Other Receivable	0	0	0	0
Provision for Unpaid Claims and Adjustment Expenses Recoverable from Reinsurers	94,794,000	91,822,000	92,800,000	94,835,000
Total Assets	124,118,367	120,650,000	121,771,000	123,925,000
Liabilities				
Provision for Unpaid Claims and Adjustment Expenses	101,247,000	98,549,000	99,916,000	102,349,000
Premium Deficiency Liability	0	0	0	0
Unearned Premium	5,261,568	5,330,000	5,471,000	5,616,000
Due to Reinsurers	2,514,054	1,708,000	1,746,000	1,784,000
Accounts Payable & Accrued Charges	580,036	844,000	868,000	894,000
Premium Taxes Payable	63,869	53,000	55,000	56,000
Total Liabilities	109,666,527	106,484,000	108,056,000	110,699,000
Subscribers' Equity				
Retained Earnings	14,390,229	14,104,000	13,653,000	13,164,000
Accumulated Other Comprehensive Income (Loss)	61,611	62,000	62,000	62,000
Total Subscribers' Equity	14,451,840	14,166,000	13,715,000	13,226,000
Total Liabilities and Subscribers' Equity	124,118,367	120,650,000	121,771,000	123,925,000

Exhibit 2
Canadian Lawyers Liability Assurance Society

Proforma Statement of Income

	2016 Actual	2017 Projected	2018 Projected	2019 Projected
Premiums				
Gross Written Premiums	\$ 10,610,344	\$ 10,660,000	\$ 10,943,000	\$ 11,233,000
Less: Reinsurance Ceded	8,433,679	8,434,000	8,619,000	8,809,000
Net Written Premiums	2,176,665	2,226,000	2,324,000	2,424,000
Change in Net Unearned Premiums	121,054	(34,000)	(48,000)	(51,000)
Net Earned Premiums	2,297,719	2,192,000	2,276,000	2,373,000
Incurred Claims				
Net Claims Paid	(220,234)	167,000	220,000	273,000
Change in Net Reserves	65,000	274,000	389,000	398,000
Premium Deficiency Expense	0	0	0	0
Net Incurred Claims	(155,234)	441,000	609,000	671,000
Operating Expenses				
Management and Operating Expenses *	1,686,609	1,758,000	1,811,000	1,865,000
Reinsurance Fees	279,000	279,000	287,000	296,000
Premium Taxes	327,434	307,000	313,000	322,000
Total Operating Expenses	2,293,043	2,344,000	2,411,000	2,483,000
Underwriting Gain (Loss)	159,910	(593,000)	(744,000)	(781,000)
Investment Income	170,280	307,000	293,000	292,000
Other Income	0	0	0	0
Comprehensive Income (Loss) for the year	330,190	(286,000)	(451,000)	(489,000)
Retained Earnings, Beginning of Period	14,060,038	14,390,000	14,104,000	13,653,000
Retained Earnings, End of Period	14,390,229	14,104,000	13,653,000	13,164,000

* Includes investment management fees

Exhibit 3
Canadian Lawyers Liability Assurance Society

Proforma Alberta Maintenance of Reserve and Guarantee Fund Requirement

	2016 Actual	2017 Projected	2018 Projected	2019 Projected
Reserve Fund				
(1) Premiums Collected or Credited Having One Year or Less to Run	10,610,000	10,660,000	10,943,000	11,233,000
(2) Less: Amount Paid to Licensed Reinsurers	8,347,000	8,347,000	8,530,000	8,718,000
(3) Premiums Collected With More Than One Year to Run, Less Expired Portion	0	0	0	0
(4) Less: Amount Paid to Reinsurers on Premiums on Line 3, Less Expired Portion	0	0	0	0
(5) Subtotal [(1) - (2) + (3) - (4)]	2,263,000	2,313,000	2,413,000	2,515,000
(6) Reserve Fund Required [50% x (5)]	1,131,500	1,156,500	1,206,500	1,257,500
Guarantee Fund				
(7) Total Liabilities	109,667,000	106,484,000	108,056,000	110,699,000
(8) Less: Unearned Premiums	5,262,000	5,330,000	5,471,000	5,616,000
(9) Less: Recoverable from Licensed Reinsurers *	93,713,000	90,775,000	91,742,000	93,754,000
(10) Plus: Statutory Margin	50,000	50,000	50,000	50,000
(11) Guarantee Fund Required [(7) - (8) - (9) + (10)]	10,742,000	10,429,000	10,893,000	11,379,000
(12) Total Reserve and Guarantee Fund Required [(6) + (11)]	11,873,500	11,585,500	12,099,500	12,636,500
(13) Cash & Approved Securities	21,469,000	20,341,000	20,299,000	20,229,000
(14) Excess of Cash & Securities over Reserve & Guarantee Fund [(13) - (12)]	9,595,500	8,755,500	8,199,500	7,592,500

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

Exhibit 4
Canadian Lawyers Liability Assurance Society

Proforma Minimum Capital Test

	2016 Actual	2017 Projected	2018 Projected	2019 Projected
Capital Available				
Total Equity	14,452,000	14,166,000	13,715,000	13,226,000
Less: Deductions from Capital Available	1,124,000	918,000	700,000	577,000
(1) Capital Available	13,328,000	13,248,000	13,015,000	12,649,000
Capital Required				
Insurance Risk				
Premium Liabilities	196,000	200,000	209,000	218,000
Unpaid Claims	737,000	824,000	906,000	983,000
Catastrophes	0	0	0	0
Margin Required for Reinsurance Ceded to Unregistered Insurers	169,000	164,000	161,000	161,000
Subtotal	1,102,000	1,188,000	1,276,000	1,362,000
Market Risk				
Interest Rate Risk	112,000	118,000	142,000	166,000
Foreign Exchange Risk	0	0	0	0
Equity Risk	0	0	0	0
Real Estate Risk	0	0	0	0
Other Market Risk Exposures	0	0	0	0
Subtotal	112,000	118,000	142,000	166,000
Credit Risk				
Counterparty Default Risk for Balance Sheet Assets	1,660,000	1,607,000	1,624,000	1,659,000
Counterparty Default Risk for Off-Balance Sheet Exposures	0	0	0	0
Counterparty Default Risk for Unregistered Reinsurance Collateral and SIRs	125,000	121,000	123,000	125,000
Subtotal	1,785,000	1,728,000	1,747,000	1,784,000
Operational Risk	731,000	736,000	758,000	783,000
Diversification Credit	(372,000)	(386,000)	(407,000)	(429,000)
(2) Total Capital Required at 150% MCT (Prior to Phase-In Adjustment)	3,358,000	3,384,000	3,516,000	3,666,000
(3) Total Capital Required at 100% MCT (Prior to Phase-In Adjustment) [= (2) / 1.5]	2,239,000	2,256,000	2,344,000	2,444,000
(4) Phase-In Adjustment of Capital Required	632,000	0	0	0
(5) Total Capital Required at 100% MCT (After Phase-In Adjustment) [= (3) + (4)]	2,871,000	2,256,000	2,344,000	2,444,000
(6) MCT Ratio [= (1) / (5)]	464.2%	587.2%	555.2%	517.6%



MEMORANDUM

DATE: June 9, 2017
TO: CLLAS Advisory Board
FROM: Patrick Mahoney
COPY:
RE: Draft Surplus Management Policy

You will recall that as part of CLLAS' initial ORSA Report, the Board established an internal surplus target equal to a Minimum Capital Test (MCT) ratio of 210%. The next step in this process is for CLLAS to consider and adopt a Surplus Management Policy to set out the process by which CLLAS manages its surplus position via premium adjustments, in order to ensure it maintains an appropriate level of surplus.

Attached is a draft policy. The policy simply provides the Board with discretion to approve premium credits if surplus exceeds CLLAS' target, and obligates the Board to declare a premium assessment if surplus falls below regulatory requirements.

The Board is requested to discuss the draft policy at the June 21, 2017 meeting and, if appropriate, to adopt the Policy.

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

Sincerely,

Patrick Mahoney
General Manager



CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Surplus Management Policy

Last Updated
June 21, 2017

DRAFT



SURPLUS MANAGEMENT POLICY

Effective date: **TBD**

1. Purpose and Scope

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

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

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

2. Objectives

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

3. Surplus Target

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

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



4. Surplus Management

CLLAS has adopted the following surplus management plan:

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

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

5. Roles and Responsibilities with Respect to Surplus Management

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

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

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

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

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



6. Authority

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

7. History of Modifications

This policy was first approved by the Advisory Board on **TBD**.



MEMORANDUM

DATE: June 12, 2017
TO: CLLAS Advisory Board
FROM: Patrick Mahoney
COPY:
RE: Revised Subscribers Agreement

As you are aware, over the past year, the CLLAS Policy Committee (Don Milner, Bruce Blain and Natasha MacParland) undertook an initiative to update the CLLAS Subscribers' Agreement. The original agreement had been amended a couple of times, but was largely unchanged from when it was first prepared in the 1980's. The redraft focused on modernizing the agreement, clarifying the wording of various provisions, and ensuring that the agreement is aligned with current CLLAS practices.

Counsel in Edmonton, experienced both with subscribers' agreements and the Alberta insurance regulatory regime, was retained to assist. Counsel prepared a number of drafts which were reviewed by the Policy Committee, the Chair, and me. Counsel also incorporated feedback received from the Alberta regulator. Finally, the agreement, together with a blackline to the July 1, 2012 agreement, was circulated to the Board on May 15, 2017.

Attached is the May 15, 2017 version, which I believe to be final. I suggest that we address any "last minute" questions or comments at the June 21, 2017 Board meeting, and then arrange for execution.

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

Sincerely,

Patrick Mahoney
General Manager

**AMENDED AND RESTATED
RECIPROCAL INSURANCE EXCHANGE AGREEMENT**

THIS AGREEMENT MADE AS OF THE 1ST DAY OF JULY, 2017

AMONG:

THOSE FIRMS THAT SUBSCRIBE TO THIS AGREEMENT BY EXECUTING A COPY HEREOF OR THE FORM OF SUBSCRIPTION ATTACHED HERETO AS SCHEDULE "A" (hereinafter individually called a "Subscriber" and collectively called "Subscribers").

BEING PARTIES TO THIS AGREEMENT

WHEREAS:

- A. Pursuant to a Reciprocal Insurance Exchange Agreement made as of December 22, 1986 (such Agreement, as amended and restated from time to time prior to the date hereof, being herein referred to as the "Original Agreement"), the parties thereto agreed to exchange, and have exchanged, with each other contracts of indemnity or inter-insurance under and pursuant to the *Insurance Act* (Ontario); and the Act;
- B. The Reciprocal became primarily regulated in Alberta in July 2012;
- C. The Act permits parties to exchange reciprocal contracts of indemnity or inter-insurance with each other through a Principal Attorney as defined in Subsection 78(b) of the Act for any class of insurance for which a reciprocal insurance exchange may be licensed to undertake; and
- D. The Subscribers (being all the Firms currently parties to the Agreement) wish to enter into this Agreement to amend and restate the Original Agreement to continue from and after the date hereof to exchange with each other contracts of indemnity or inter-insurance under and pursuant to the Act and to make various other amendments to the Original Agreement as hereinafter provided.

WITNESSETH THAT in consideration of the mutual covenants of the parties hereinafter contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Subscribers hereby agree to amend the Original Agreement as hereinafter provided and to restate the Original Agreement as so amended as follows:

ARTICLE I

INTERPRETATION AND GENERAL

1.01 Definitions

Where used herein or in any amendment hereto, the following terms have the following meanings respectively unless the context otherwise requires:

- (a) "Act" means the Insurance Act of Alberta, R.S.A. 2000, c.I-3, as amended from time to time, and the regulations, guidelines and bulletins made under the Act;
- (b) "Actuary" means the independent qualified actuary, who is a Fellow of the Canadian Institute of Actuaries, or the firm of independent qualified actuaries, at least one of whose members is a Fellow of the Canadian Institute of Actuaries, selected by the Advisory Board for the purposes of this Agreement;
- (c) "Advisory Board" means the board consisting of one member from each Subscriber;
- (d) "Alternate" means a person designated by a Subscriber as an Alternate pursuant to section 3.01;
- (e) "Audit Committee" means a committee consisting of at least three members of the Advisory Board and Alternates appointed by the Advisory Board;
- (f) "Chair" means the Chair chosen by the Advisory Board pursuant to section 3.07;
- (g) "Departing Subscriber" means a Subscriber whose membership in the Reciprocal has terminated pursuant to section 6.04 or section 6.05 hereof, or for any other reason.
- (h) "Extraordinary Resolution" means
 - (i) any resolution passed at a meeting of the Subscribers or the Advisory Board by the affirmative vote of at least eighty percent (80%) of the Subscribers or Advisory Board members present at such meeting; or
 - (ii) any written resolution signed in one or more counterparts by all of the Subscribers or Advisory Board members;
- (i) "Firm" means a law firm in Canada having at least the Minimum Members;
- (j) "Fiscal Period" has that meaning ascribed to it in section 5.01 hereof;
- (k) "Licence" means the licence issued pursuant to the Act to carry on as a reciprocal insurance exchange under the Act;

- (l) "Minimum Members" means that number of lawyers, determined from time to time pursuant to the Rules, that any law firm in Canada must have to qualify for membership in the Reciprocal;
- (m) "Ordinary Resolution" means
 - (i) any resolution passed at a meeting of the Subscribers, the Advisory Board, or a committee, by the affirmative vote of a majority of the Subscribers, Advisory Board members or committee members in attendance at such meeting; or
 - (ii) any written resolution signed in one or more counterparts by eighty percent (80%) of the Subscribers, Advisory Board members or committee members.
- (n) "Principal Attorney" means the Principal Attorney appointed pursuant to section 3.21 hereof;
- (o) "Reciprocal" means the reciprocal insurance exchange created under and by virtue of the Original Agreement and continued under this Agreement;
- (p) "Rules" has that meaning ascribed to it in section 7.09 hereof;
- (q) "Subscriber" means a Firm which has been accepted for membership in the Reciprocal and has executed a copy of this Agreement or the Form of Subscription attached hereto as Schedule "A";
- (r) "Superintendent" means the Superintendent of Insurance appointed from time to time pursuant to the Act;
- (s) "Underwriting Period" means the period of five (5) years commencing 12:01 a.m. on July 1, 1987 and terminating 12:01 a.m. on July 1, 1992 and each successive five (5) year period thereafter, or such other period as the Advisory Board establishes by Extraordinary Resolution, during which the Reciprocal continues to operate.

1.02 Currency

All payments contemplated herein will be made in Canadian funds.

1.03 Gender and Number

Words importing the singular number only include the plural, and vice-versa, and words importing the masculine gender include the feminine gender and neuter gender, and words importing persons include a natural person, firm, trust, partnership, association, corporation, government or governmental board, agency, or instrumentality.

1.04 Headings

The division of this Agreement into articles and sections and the article and section headings are for convenience of reference only and will not affect the interpretation or construction of this Agreement.

1.05 Calculation of Time Periods

Unless otherwise specified herein or in any insurance policy issued pursuant hereto, when calculating the period of time within which or following which any act is to be done or step taken pursuant to this Agreement, the date which is the reference day in calculating such period will be excluded. If the last day of such period is a non-business day, the period in question will end on the next business day.

1.06 Applicable Law

This Agreement will be construed and enforced in accordance with and governed by the laws of the Province of Alberta and the laws of Canada applicable therein and the parties hereto do hereby irrevocably attorn to the non-exclusive jurisdiction of the courts of the Province of Alberta.

1.07 Severable

If any provision of this Agreement is held to be invalid, illegal or unenforceable, the validity, legality or enforceability of the remaining provisions of this Agreement will not in any way be affected or impaired thereby.

1.08 Entire Agreement

This Agreement together with the Schedules attached hereto constitutes the entire agreement among the parties hereto relating to the establishment and operation of the Reciprocal and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, among the parties hereto with respect thereof.

1.09 Amendments

Unless otherwise provided to the contrary in this Agreement, no amendment or modifications of this Agreement, including any Schedules attached hereto, will be binding unless approved by Extraordinary Resolution of the Subscribers who are members of the Reciprocal at that time and the written consent of the Superintendent, if required, is obtained.

1.10 Waiver

No waiver by any party hereto of any breach of any of the provisions of this Agreement by any other party hereto will take effect or be binding upon the party unless in writing and signed by

such party. Unless otherwise provided therein, such waiver will not limit or affect the rights of such party with respect to any other breach.

1.11 Time of Essence

Time is of the essence of this Agreement.

1.12 Successors and Assigns

This Agreement will enure to the benefit of and be binding upon the parties hereto and their respective administrators, successors and permitted assigns.

Neither this Agreement nor any of the rights, benefits, liabilities or obligations hereunder may be assigned or transferred without the prior written approval of the Advisory Board by Extraordinary Resolution.

1.13 Counterparts

This Agreement may be executed in several counterparts each of which when so executed will be deemed to be an original, and such counterparts together will constitute one and the same instrument, which will be sufficiently evidenced by any such original counterpart.

1.14 Further Acts

The parties hereto agree to execute and deliver such further and other documents and perform and cause to be performed such further and other acts and things as may be necessary or desirable in order to give full effect to this Agreement and every part hereof.

ARTICLE II

THE RECIPROCAL INSURANCE EXCHANGE

2.01 Establishment of the Reciprocal

The Subscribers hereby agree to the establishment of the Reciprocal, provided that the Reciprocal will not issue further policies of insurance until the Licence has been granted by the Superintendent.

2.02 Purpose of the Reciprocal

The Reciprocal is established for the purpose of permitting the Subscribers to exchange reciprocal contracts of indemnity or inter-insurance for liability purposes and for no other purpose. The Reciprocal will have the power to do any and every act and thing necessary, proper, convenient or incidental to the accomplishment of its purposes.

2.03 Name of the Reciprocal

The name of the Reciprocal will be "Canadian Lawyers Liability Assurance Society" or "CLLAS". The words "Canadian Lawyers Liability Assurance Society" or "CLLAS" will not be used by any of the Subscribers other than in connection with the affairs of the Reciprocal.

2.04 Registration of Name

The Subscribers will effect such registration with respect to the name "Canadian Lawyers Liability Assurance Society" and "CLLAS" as may be necessary or desirable to preserve the ownership right of the Reciprocal in the name and to ensure use of the name solely in connection with the Reciprocal.

2.05 Term

This Agreement is effective from and after December 22, 1986 and will continue in full force and effect until terminated in accordance with Article VIII hereof.

2.06 Not a Partnership

Nothing in this Agreement will be construed to constitute any of the Subscribers a partner, agent or representative of the others or to create any trust or any commercial or other partnership among the Subscribers.

2.07 No Authority to Bind

Except as expressly provided in this Agreement, neither the Advisory Board, a committee, nor a Subscriber will have any authority to bind any other Subscriber or the other Subscribers.

2.08 Indemnification for Unauthorized Acts

Each Subscriber (in this section 2.08 called the "Indemnitor") hereby irrevocably and unconditionally undertakes and agrees to indemnify and save harmless each and all of the other Subscribers (in this section 2.08 called the "Indemnitees") from and against any and all liability, loss, harm, damage, cost or expense, including legal fees, which the Indemnitees or any one or more of them may suffer, incur or sustain as a result of an act of the Indemnitor outside the scope of or in breach of this Agreement.

2.09 Several Liability

The obligations of each Subscriber with respect to the Reciprocal and contracts and obligations entered into by or on behalf of the Subscribers in connection with the Reciprocal will in every case be several, and not joint and several.

ARTICLE III

ADVISORY BOARD AND PRINCIPAL ATTORNEY

3.01 Members of Advisory Board and Alternates

Each Subscriber will designate in writing from time to time the individual partner, counsel or employee to be its member of the Advisory Board. Any Subscriber will also be entitled to designate in writing from time to time an Alternate. Only individuals meeting the qualifications set out in section 3.02, below, may be so designated.

An Alternate will be entitled to act in the place and stead of the Advisory Board member for whom he or she is the Alternate, when that Advisory Board member is unavailable. If an Alternate is appointed to a committee, he or she will be entitled to full participation in that committee.

If, as a result of a Subscriber failing to designate one of its partners, counsel, or employees as its member of the Advisory Board, the number of members of the Advisory Board falls below five (5), then the partner in that Subscriber with the earliest date of admission to any Law Society in Canada will be deemed to be designated as that Subscriber's member of the Advisory Board, until that Subscriber makes a different designation.

Subject to section 6.02 below, an additional Subscriber or Subscribers will not be accepted, if it would result in the number of members of the Advisory board exceeding twenty (20).

3.02 Qualifications of Members of the Advisory Board

Any individual may be a member of the Advisory Board or an Alternate provided that, and for so long as, he:

- (a) is a person who is twenty-one (21) years of age or more;
- (b) is not a person who is of unsound mind, having been so found by a court in Canada or elsewhere;
- (c) is not a person who has the status of an undischarged bankrupt.

3.03 Resignation

A member of the Advisory Board and any Alternate may resign from office upon giving a written resignation to the Chair and such resignation becomes effective when received by the Chair or at the time specified in the resignation, whichever is later.

3.04 Vacancies

Where there is a vacancy or vacancies on the Advisory Board, the remaining members thereof may exercise all of the powers of the Advisory Board so long as a quorum remains in office.

3.05 Power and Authority of the Advisory Board

Except as otherwise provided for in this Agreement the Advisory Board has the power and authority, and the Subscribers hereby direct the Advisory Board, to give any approvals and to make any decisions and determinations required or permitted to be given or made by the Subscribers with respect to the Reciprocal and any matter arising under or by virtue of this Agreement. Without limiting the generality of the foregoing, it is acknowledged and agreed that unless otherwise provided for in this Agreement, the Advisory Board is authorized on behalf of and without further authority from the Subscribers:

- (a) to make application to the Superintendent for the issue of the Licence;
- (b) in accordance with section 3.21 hereof, to appoint, and where appropriate remove, from time to time, a Principal Attorney as that term is provided for or used in the Act upon such terms and conditions, including remuneration, as the Advisory Board may determine from time to time, and to delegate to such Principal Attorney such duties and responsibilities as are required by the Act, together with such additional duties and responsibilities as the Advisory Board may from time to time determine;
- (c) by its Principal Attorney, to exchange policies of insurance among the Subscribers, to execute and deliver to the Subscribers policies of insurance containing such terms and conditions as the Advisory Board deems proper and to change, cancel, renew, extend or reinsure such policies;
- (d) to reinsure or cede the whole or any part or proportion of any risk incurred or undertaken by the Reciprocal with or to such reinsurers and on such terms as the Advisory Board considers appropriate;
- (e) to demand, collect and receive all moneys which may become due by the Subscribers under this Agreement or under or pursuant to any policy of insurance;
- (f) to give and to receive all notices necessary or proper under any policy of insurance, and to adjust, compromise and settle all claims and losses thereunder;
- (g) to retain such consultants or professional advisors as the Advisory Board considers advisable in order to perform its duties hereunder;
- (h) to open and operate in the name of the Reciprocal a separate bank account or accounts in order to deposit and to distribute funds with respect to the operations of the Reciprocal;
- (i) by its Principal Attorney, to execute and to carry out all other agreements which require execution and performance by or on behalf of the Subscribers;
- (j) to invest funds not immediately required for the operation of the Reciprocal in accordance with the Act;

- (k) to pay all taxes, fees and other expenses relating to the orderly maintenance, management and operations of the Reciprocal;
- (l) to take such steps as are necessary to comply with all applicable provisions of the Act or any other applicable governmental statutes, regulations and rules;
- (m) to set the premium rates and additional assessments required of the Subscribers pursuant to the provisions of this Agreement, which rates will include a Subscriber's proportionate share of the expenses of the Reciprocal;
- (n) to appoint a manager to operate the affairs of the Reciprocal on behalf of the Advisory Board on such terms and conditions, including remuneration, as the Advisory Board may determine from time to time. For greater certainty, the manager and the Principal Attorney may be one and the same person;
- (o) require such additional information from any Subscriber as the Advisory Board deems necessary, including requiring a Subscriber to provide the Advisory Board with proof of its financial capability;
- (p) to establish and appoint such committees as may be required by the Superintendent or as may be deemed by the Advisory Board to be necessary or desirable for the operation of the Reciprocal and to establish the powers and responsibilities of such committees;
- (q) subject to applicable provisions of the Act, to borrow money from any lender in such amounts and upon such terms and conditions as the Advisory Board deems advisable and to pledge any securities or other property, including the Reciprocal's receivables, for the repayment of any such loan, provided, however, that such borrowing will be made for the sole purpose of paying eligible losses under any policy issued by the Reciprocal and to avoid a distress sale of investments or an acceleration of the assessments receivable from Subscribers that would be necessary to make such payment;
- (r) to approve by Extraordinary Resolution, the Rules, with respect to such other matters as may be deemed appropriate for the better operation of the Reciprocal; and
- (s) to do and perform every other act and thing necessary or proper to be done in order to fully carry out and perform the terms hereof.

3.06 (a) Decisions of Advisory Board

All decisions of the Advisory Board require approval by Ordinary Resolution unless otherwise provided for in this Agreement.

(b) Decision Binding

A decision of the Advisory Board with respect to any matter will be binding on all the Subscribers.

3.07 Chair

The Advisory Board will choose a Chair from among its members. The Chair will be the chief executive officer and, subject to the authority of the Advisory Board, will have general supervision of the business and affairs of the Reciprocal and will, subject to the provisions of the Act, have such other powers and duties as the Advisory Board may specify. The Chair will be an ex officio member of all committees established by the Advisory Board pursuant to section 4.01.

The Chair will serve as chairperson of any meeting of the Advisory Board. In the absence of the Chair the members of the Advisory Board in attendance at the meeting will choose a chairperson. The Chair will not have a second or casting vote in respect of any matter voted on by the Advisory Board.

3.08 Secretary

The Chair will appoint a secretary who will keep complete and accurate minutes of all meetings of the Advisory Board.

3.09 Other Officers

The Advisory Board may appoint such other officers and designate such responsibilities to such officers as the Advisory Board determines.

3.10 Minutes of Meetings

The minutes of each meeting of the Advisory Board will be submitted for approval at the next Advisory Board meeting.

The minutes of any meetings of the Advisory Board will, if purported to be signed by the Chair and the secretary, be *prima facie* evidence of the facts therein stated.

3.11 Meetings Generally

The Advisory Board will hold regular meetings at such time as the Advisory Board decides upon from time to time.

The Chair may call additional meetings of the Advisory Board if he or she considers it advisable to do so and will do so if requested by any member of the Advisory Board.

3.12 Conference Telephone Meetings

Any member of the Advisory Board may participate in a meeting of the Advisory Board by means of conference telephone or other communications equipment by means of which all persons

participating in the meeting can hear each other, and a member participating in a meeting in such manner will be deemed to be present in person at the meeting.

3.13 Notice

The Chair will give each member of the Advisory Board written notice of the time and place of each meeting of the Advisory Board not less than ten (10) days before the day on which the meeting is to be held. A meeting of the Advisory Board may be held at any time without notice if all the members thereof are present or those not so present have waived notice of such meeting. Such waiver, whether given before or after the meeting of which notice is required to be given, will cure any default in the giving of such notice.

3.14 Agendas

The notice of each meeting of the Advisory Board will be accompanied by an agenda and any relevant supporting materials sufficiently detailed to inform each member thereof of the matters to be considered at the meeting.

A member of the Advisory Board may require the addition of one or more matters to the agenda of the meeting by written notice thereof to the Chair. Such notice will be accompanied by any relevant supporting materials sufficiently detailed to inform each member of the Advisory Board of the matter or matters to be added to the agenda of the meeting. Such notice and materials will be delivered in sufficient time to enable the Chair to comply with the Chair's obligations under section 3.13 hereof and this section 3.14.

3.15 No Vote on Matters Not in Agenda

Matters which are not referred to in the agenda of the meeting of the Advisory Board will not be voted on at that meeting unless all of the members thereof consent.

3.16 Location of Meeting

Meetings of the Advisory Board will be held in the City of Toronto or at such other place as the members thereof may by Ordinary Resolution agree upon from time to time.

3.17 Quorum

A quorum for a meeting of the Advisory Board will be a majority of the members thereof.

3.18 Duty of Care

The Principal Attorney, every member of the Advisory Board, including the Chair, every Alternate, and every member of a committee, in exercising their powers and discharging their duties, will:

(a) act honestly and in good faith, with a view to the best interests of the Reciprocal; and

- (b) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

3.19 (a) Limitation of Liability

No member of the Advisory Board, including the Chair, or of any committee will be liable for the acts, receipts, neglects or defaults of the Principal Attorney or any other member of the Advisory Board or any committee in any respect, or for any loss, damage or expense happening to the Reciprocal, or for the insufficiency or deficiency of any security in or upon which any money of the Reciprocal is invested, or for any loss or damage arising from the bankruptcy, insolvency or tortious acts of any person with whom any of the moneys, securities or effects of the Reciprocal, or any member thereof, be deposited, or for any loss occasioned by any error of judgment or oversight on that member's part, or for any other loss, damage or misfortune whatever which happens in the execution of the duties of that member's office or in relation thereto, unless the same are occasioned by that member's own willful neglect or default.

The Principal Attorney will not be liable for the acts, receipts, neglects or defaults of any member of the Advisory Board, or any committee in any respect, or for any loss, damage or expense happening to the Reciprocal, or for the insufficiency or deficiency of any security in or upon which any money of the Reciprocal is invested, or for any loss or damage arising from the bankruptcy, insolvency or tortious acts of any person with whom any of the moneys, securities or effects of the Reciprocal, or any member thereof, be deposited, or for any loss occasioned by any error of judgment or oversight on the Principal Attorney's part, or for any other loss, damage or misfortune whatever which happens in the execution of the duties of the Principal Attorney's office or in relation thereto, unless the same are occasioned by the Principal Attorney's own willful neglect or default.

(b) Indemnity of Members

Every member and every former member of the Advisory Board, including the Chair, and any committee, and their heirs and legal representatives will, from time to time, be indemnified and saved harmless by the Subscribers from and against all liabilities, costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment in respect of any action or proceeding to which they are made a party by reason of being or having been a member of the Advisory Board, the Chair, or a member of any committee, if the member acted honestly and in good faith, with a view to the best interests of the Reciprocal.

(c) Indemnity of Principal Attorney

The Principal Attorney and every former Principal Attorney, and their heirs and legal representatives will, from time to time, be indemnified and saved harmless by the Subscribers from and against all liabilities, costs, charges and expenses, including an amount paid to settle

an action or satisfy a judgment in respect of any action or proceeding to which they are made a party by reason of being or having been the Principal Attorney, if that Principal Attorney or former Principal Attorney acted honestly and in good faith, with a view to the best interests of the Reciprocal.

(d) Alternates

In this section 3.19, "member of the Advisory Board" includes "Alternate".

3.20 Payment for Services

Except as determined by the Advisory Board from time to time, no payment will be made to any member of the Advisory Board for services in acting as a member of the Advisory Board, provided that any member of the Advisory Board, including the Chair, will be entitled to reimbursement of any reasonable expenses incurred in acting as a member of the Advisory Board, or as the Chair, as the case may be.

3.21 Appointment of Principal Attorney

The Advisory Board will appoint a Principal Attorney and execute a power of attorney in the form attached hereto as Schedule "B", which power of attorney will provide that the Principal Attorney do such things and sign such documents as are required by the Act, together with such further things and the execution of such other documents as this Agreement may provide or as the Advisory Board may determine.

ARTICLE IV

COMMITTEES

4.01 Establishment of Committees

The Advisory Board may establish one or more committees and delegate to the committee any of the powers of the Advisory Board, other than the decisions and determinations referred to in Article VIII hereof.

The Advisory Board may, by Extraordinary Resolution, appoint from among its members an Executive Committee, and delegate to the Executive Committee such power and authority as it deems appropriate. If an Executive Committee is so appointed, it will follow, with the necessary changes, the procedures set out in sections 4.11 through 4.18, below, excluding section 4.10(b).

4.02 Qualifications of Committee Members

Any member of the Advisory Board and any Alternate may be appointed to a committee, except that an Alternate may not be appointed to the Executive Committee.

No appointment of a person as a member of a committee will be effective unless that person consents to act as a member of such committee before or within ten (10) days after such appointment.

4.03 Appointment and Term

A member of a committee will hold office for a term expiring at the close of the annual meeting of the Subscribers next following that member's appointment or until a successor is appointed. Incumbent members of committees, if qualified, will be eligible for re-appointment. If an appointment of members of a committee is not held at the proper time, the incumbent members will continue in office until their successors are appointed.

4.04 Resignation

A member of a committee may resign from office upon giving a written resignation to the Advisory Board and such resignation becomes effective when received by the Advisory Board or at the time specified in the resignation, whichever is later.

4.05 Removal

The Advisory Board may by Ordinary Resolution remove any member of a committee from office.

4.06 Vacancies

Where there is a vacancy or vacancies on a committee, the remaining members thereof may exercise all of the powers of that committee so long as a quorum remains in office.

Where there is a vacancy or vacancies on a committee, other than the Executive Committee, the Advisory Board may by Ordinary Resolution appoint any eligible person to fill the vacancy for the unexpired term of that position.

Where there is a vacancy or vacancies on the Executive Committee, the Advisory Board may by Extraordinary Resolution appoint any eligible person to fill the vacancy for the unexpired term of that position.

4.07 Decisions of Committees

All decisions of committees will, unless otherwise herein provided for, require the approval by Ordinary Resolution of the committee.

4.08 Committee Procedure

Each committee will choose a chairperson from among its members. The chairperson will not have a second or casting vote in respect of any matter voted on by the committee.

A quorum for a meeting of a committee will be a majority of the members thereof.

Subject to specific requirements for the Audit Committee, Conduct Review Committee and Executive Committee set out below, each committee will set its own procedural rules regarding its meetings and resolutions, including meeting scheduling, notice, agendas, location, format, and minutes.

4.09 Conduct Review

The Advisory Board will take on conduct review responsibilities itself, or delegate them to the Audit Committee or another committee. The conduct review responsibilities will include:

- (a) establishing procedures for the review of transactions with related parties of the Reciprocal;
- (b) reviewing all proposed transactions with related parties of the Reciprocal;
- (c) reviewing the practices of the Reciprocal to ensure that any transactions with related parties of the Reciprocal that may have a material effect on the stability or solvency of the Reciprocal are identified; and
- (d) reporting to the Advisory Board on all transactions and other matters reviewed pursuant to the conduct review responsibilities.

If the Advisory Board delegates conduct review responsibilities to a committee other than the Audit Committee, that conduct review committee will follow, with the necessary changes, the procedures set out in sections 4.11 through 4.18.

4.10 Audit Committee

(a) Appointment

The Audit Committee will be appointed by and report to the Advisory Board.

(b) Powers and Duties

The powers and duties of the Audit Committee will include:

- (i) Review of the annual financial statements, actuarial valuation report and regulatory filing before any such information is considered for approval by the Advisory Board;
- (ii) Review, evaluate and make recommendations to the Advisory Board, if appropriate, with respect to internal financial control procedures of the Reciprocal;
- (iii) Review any investments or transactions that the auditor or management bring to the attention of the committee and make any related recommendations to the Advisory Board if the committee considers it advisable; and

(iv) Such other powers and duties as are approved by the Advisory Board or required by the Act.

(c) Meetings

For the purposes of carrying out its duties under (b) above, the Audit Committee will meet as required as decided by the Audit Committee from time to time but at least annually. Any member of the Audit Committee or the auditor may call a meeting with reasonable notice as may be determined by the Audit Committee. Any member of the Audit Committee may request the auditor to attend any meeting.

At any meeting of the Audit Committee, necessary information will be obtained from the auditor, actuary, management or other party as required.

The Audit Committee may, if considered appropriate, call a meeting of the Advisory Board to consider any matter of concern to the Audit Committee.

The Audit Committee will ensure that accurate minutes are kept of the Audit Committee meetings.

4.11 Secretary

The Audit Committee will appoint a secretary (who need not be a member of the committee) who will keep complete and accurate minutes of all meetings of the Audit Committee.

4.12 Minutes of Meetings

The minutes of each meeting of the Audit Committee will be submitted for approval at the next Audit Committee meeting.

The minutes of any meetings of the Audit Committee will, if purported to be signed by the Chair and the secretary, be *prima facie* evidence of the facts therein stated.

4.13 Conference Telephone Meetings

Any member of the Audit Committee may participate in a meeting by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and a member participating in a meeting in such manner will be deemed to be present in person at the meeting.

4.14 Notice

The chairperson of the Audit Committee will give each member of that committee written notice of the time and place of each meeting of that committee at least twenty-four (24) hours, excluding

any part of a Sunday and a holiday as defined in the Interpretation Act, R.S.A. 2000, C.I--3, as amended from time to time, before the time when the meeting is to be held, save that no notice of a meeting will be necessary if all members thereof are present or if those absent have waived notice in writing to the holding of such meeting. Such waiver, whether given before or after the meeting of which notice is required to be given, will cure any default in giving such notice.

4.15 Agendas

The notice of each meeting of the Audit Committee will be accompanied by an agenda and any relevant supporting materials sufficiently detailed to inform each member thereof of the matters to be considered at the meeting.

A member of the Audit Committee may require the addition of one or more matters to the agenda of the meeting by written notice thereof to the chairperson. Such notice will be accompanied by any relevant supporting materials sufficiently detailed to inform each member of the committee of the matter or matters to be added to the agenda of the meeting. Such notice and materials will be delivered in sufficient time to enable the chairperson to comply with the chairperson's obligations under section 4.15 hereof and this section 4.16.

4.16 No Vote on Matters Not on Agenda

Matters which are not referred to in the agenda of the meeting of the Audit Committee will not be voted on at that meeting unless all of the members thereof consent.

4.17 Location of Meetings

Meetings of the Audit Committee will be held at such place as determined by that committee.

ARTICLE V

OTHER FINANCIAL AND ACCOUNTING MATTERS

5.01 Fiscal Period

Accounts for the Reciprocal will be prepared and settled as of December 31 in each year ("Fiscal Period").

5.02 Books and Records

Proper and complete books, records, reports and accounts of the Reciprocal will be kept at the head office of the Reciprocal and will be open and available for inspection and copying by any one of the Subscribers or its authorized agent, in accordance with section 9.04 below. The said books and records will fully and accurately reflect all transactions of the Reciprocal and will be maintained in conformity with generally accepted accounting principles or customary practices.

The Reciprocal will make available to the Superintendent such documentation as may be required in accordance with the Act.

5.03 Subscribers' Accounts

Individual accounts will be kept for each Underwriting Period showing each Subscriber's participation in the operations and the operating results of the Reciprocal in the manner determined by the Rules.

5.04 Annual Reports

By the last day of February following the end of each Fiscal Period of the Reciprocal, the Advisory Board will cause the auditors of the Reciprocal to furnish to each Subscriber an annual audited report, among other things, consisting of:

- (a) audited financial statements;
- (b) an auditor's report;
- (c) the actuary's report; and
- (d) any additional information that the Advisory Board or the Superintendent may require.

5.05 Annual Statements

The Advisory Board will cause the Reciprocal to furnish to each Subscriber an annual statement of the details of its account as provided for in section 5.03 hereof.

5.06 Other Financial Information

The Advisory Board will provide the Subscribers with such other financial information as it deems necessary or as may be required under the Act.

5.07 Bank Accounts

The bank of the Reciprocal will be such Canadian chartered bank or banks as the Advisory Board may from time to time determine. All moneys from time to time received on account of the Reciprocal will be paid immediately into the bank account of the Reciprocal in the same drafts, cheques, bills and cash in which they are received. All cheques, negotiable instruments and withdrawals from bank accounts will require the signatures of the manager of the Reciprocal, if any, together with one (1) member of the Advisory Board, or if there is no manager of the Reciprocal, two (2) members of the Advisory Board.

The Advisory Board may establish an imprest account for the payment of expenses incurred in connection with the operation of the Reciprocal, which account will be funded by transfers of

funds from the general account as required. The amount of such account and the person or persons authorized to draw thereon will be determined by the Advisory Board from time to time.

5.08 Execution of Documents

All documents, instruments or agreements having a legally binding effect on the Subscribers will be signed by the Principal Attorney designated for that purpose by the Advisory Board from time to time, failing whom any two (2) members of the Advisory Board will sign all such documents, instruments or agreements.

ARTICLE VI

SUBSCRIBERS

6.01 Subscribers

Each Firm whose name appears on Schedule "C" hereto is a Subscriber to this Agreement.

6.02 Additional Subscribers

The Advisory Board may admit additional qualified Firms as Subscribers in accordance with the following provisions:

- (a) Any Firm may apply to become a Subscriber provided that:
 - (i) such Firm submits a written application for membership in acceptable form and remits together therewith such application fee, as may be prescribed by the Advisory Board from time to time;
 - (ii) such Firm provides the historical claims information required by the Rules and the data and other relevant information required by the Rules or that the Advisory Board, the Actuary and the Reciprocal's reinsurer(s) deem necessary or appropriate to properly assess membership qualifications; and
 - (iii) such Firm co-operates with the Advisory Board in providing such information and documentation as it may require;
- (b) The Advisory Board, upon receiving an application for membership, will determine, alone or in conjunction with the Actuary and the Reciprocal's reinsurer(s), if any applicant Firm meets the eligibility requirements for membership in the Reciprocal;
- (c) Upon the approval by Extraordinary Resolution of the Advisory Board, such Firm will be notified in writing of the acceptance of its application for membership subject always to the following:

- (i) receipt of a duly executed Form of Subscription in the form attached as Schedule "A" hereto from such Firm; -
- (ii) receipt of any fees required to be paid by such Firm; and
- (iii) notification to the Superintendent including a copy of the Form of Subscription as executed in (c)(i);
- (d) Commencement of membership in the Reciprocal ("Subscription Date") will be the date specified by the Advisory Board on the notification of acceptance of any Firm's application for membership;
- (e) The number of Subscribers will not exceed twenty (20) unless Article III hereof is amended to increase the size of the Advisory Board.

6.03 Minimum Period of Subscription

Membership in the Reciprocal will be subject to the following minimum periods of subscription:

- (a) If the Subscriber's Subscription Date is coincident with or within two (2) years of the commencement of the then current Underwriting Period, the minimum period of subscription will be such Underwriting Period or the balance thereof, as the case may be;
- (b) If the Subscriber's Subscription Date is not within two (2) years of the commencement of the then current Underwriting Period, the minimum period of subscription will be the balance of such Underwriting Period plus the immediately subsequent Underwriting Period.

6.04 Termination of Membership

- (a) Subject to the approval by Extraordinary Resolution of the Advisory Board, the Chair is empowered to remove a Subscriber as a member of the Reciprocal by providing such Subscriber with a notice in writing to that effect, in the event that the Subscriber:
 - (i) fails to comply with any term of this Agreement or the Rules within thirty (30) days' after having been given written notice by the Chair of the details of its failure to comply;
 - (ii) fails to pay any premium or other fee or assessment promptly when due hereunder and fails to remedy that default within 30 days of written demand; or
 - (iii) fails, in the opinion of the Advisory Board, to continue to meet the eligibility requirements for membership in the Reciprocal;
- (b) The effective date of termination of membership in the Reciprocal in the event of termination:
 - (i) pursuant to subsection 6.04(a)(i) hereof, will be thirty (30) days after receipt of the written notice described in subsection 6.04(a)(i), if the failure has not been rectified; or

- (ii) pursuant to subsection 6.04(a)(ii) hereof, will be the date of the receipt of written notice of termination; or
- (iii) pursuant to subsection 6.04(a)(iii) hereof, will be at the expiration of ninety (90) days following the date of receipt of written notice of termination;
- (c) Subject to the provisions of section 6.03 hereof, a Subscriber may resign from membership in the Reciprocal at the end of any Underwriting Period, provided that it provides the Reciprocal with at least three (3) months' written notice of its intention to resign, in which event such resignation will take effect upon the expiry of such Underwriting Period. In the event there is a failure to give such notice, the Subscriber will be deemed to have elected to participate in the immediately succeeding Underwriting Period for a further period of five (5) years;
- (d) The three month notice period prescribed in section 6.04(c), above, may be shortened by Extraordinary Resolution of the Advisory Board;
- (e) The three month notice period prescribed in section 6.04(c), above, may be lengthened by Extraordinary Resolution of the Advisory Board, but only upon reasonable notice to the Subscribers.

6.05 Dissolution of Firm

If a Subscriber experiences a dissolution or termination of its partnership, its active participation in the current Underwriting Period will cease as of the date it ceases to carry on its practice under its current partnership structure. Notwithstanding such cessation of coverage, the Subscriber will continue to be responsible for future assessments with regard to its participation in the then current Underwriting Period and, if applicable, the immediately preceding Underwriting Period or Periods, as the case may be.

6.06 Continuing Liability

Notwithstanding any provision of this Agreement to the contrary, in the event that a member's participation in the Reciprocal is terminated or it resigns or is removed as a member of the Reciprocal, such Subscriber continues to be liable for any assessment(s) arising during and after it ceases to be a member of the Reciprocal in respect of all Underwriting Periods or portions thereof in which it participated or during which it was insured by the Reciprocal unless satisfactory arrangements are made with the Advisory Board to buy out such liability.

6.07 Annual Meeting

In each calendar year, there will be an annual meeting of Subscribers, at which meeting, among other matters:

- (a) an auditor will be appointed, at such remuneration as the Advisory Board may determine from time to time; and

(b) the financial statements of the Reciprocal for the preceding Fiscal Period will be presented to the Advisory Board for approval.

The annual meeting of Subscribers will be held in the Province of Alberta, unless an exemption is obtained pursuant to section 267(2) of the Act.

Notice of the annual meeting of the Subscribers will be provided to each Subscriber, and to the auditor and Actuary, not more than fifty (50) days and not less than twenty-one (21) days before the meeting and the meeting will be held within six (6) months of the Reciprocal's financial year end.

6.08 Meetings Generally

The Chair may call additional meetings of the Subscribers if he or she considers it advisable to do so and will do so if requested by any Subscriber.

6.09 (a) Decisions of the Subscribers

All decisions of the Subscribers require approval by Ordinary Resolution unless otherwise provided for in this Agreement.

(b) Decision Binding

A decision of the Subscribers with respect to any matter will be binding on all the Subscribers.

6.10 Chair

The Chair appointed by the Advisory Board pursuant to section 3.07 will serve as chairperson of any meeting of the Subscribers. In the absence of the Chair the Subscribers in attendance at the meeting will choose a chairperson. The Chair will not have a second or casting vote in respect of any matter voted on by the Subscribers.

6.11 Secretary

The Chair will appoint a secretary who will keep accurate minutes of all meetings of the Subscribers.

6.12 Minutes of Meetings

The minutes of each meeting of the Subscribers will be submitted for approval at the next Subscribers meeting.

The minutes of any meetings of the Subscribers will, if purported to be signed by the Chair and the secretary, be *prima facie* evidence of the facts therein stated.

6.13 Conference Telephone Meetings

Any Subscriber may participate in a meeting of the Subscribers by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and a Subscriber participating in a meeting in such manner will be deemed to be present in person at the meeting.

6.14 Notice

The Chair will give each Subscriber written notice of the time and place of each meeting of the Subscribers, other than the annual meeting, not less than ten (10) days before the day on which the meeting is to be held. A meeting of the Subscribers may be held at any time without notice if all the Subscribers are present or those not so present have waived notice of such meeting. Such waiver, whether given before or after the meeting of which notice is required to be given, will cure any default in the giving of such notice.

6.15 Agendas

The notice of each meeting of the Subscribers will be accompanied by an agenda and any relevant supporting materials sufficiently detailed to inform Subscriber of the matters to be considered at the meeting.

A Subscriber may require the addition of one or more matters to the agenda of the meeting by written notice thereof to the Chair. Such notice will be accompanied by any relevant supporting materials sufficiently detailed to inform each Subscriber of the matter or matters to be added to the agenda of the meeting. Such notice and materials will be delivered in sufficient time to enable the Chair to comply with the Chair's obligations under section 6.14 hereof and this section 6.15.

6.16 No Vote on Matters Not in Agenda

Matters which are not referred to in the agenda of the meeting of the Subscribers will not be voted on at that meeting unless all of the Subscribers consent.

6.17 Location of Meeting

Meetings of the Subscribers, other than the annual meeting, will be held in the City of Toronto or at such other place as the Subscribers may by Ordinary Resolution agree upon from time to time.

6.18 Quorum

A quorum for a meeting of the Subscribers will be a majority of the Subscribers.

ARTICLE VII

OPERATION OF THE RECIPROCAL

7.01 Issuance of Insurance Policies

- (a) After receipt of the Licence and on a date ("Issue Date") to be determined by the Advisory Board and advised in writing to each Subscriber, the Reciprocal, by its Principal Attorney, will issue a liability insurance policy to such Subscriber in such form as may be prescribed by the Advisory Board from time to time, subject to compliance with the requirements of all regulatory authorities having jurisdiction;
- (b) Notwithstanding any provisions of this Agreement or any provision of any insurance policy issued by the Reciprocal to the contrary, the following will apply:
 - (i) any insurance policy issued by the Reciprocal to a Subscriber will automatically be cancelled on the date ("Cancellation Date") that the Reciprocal is terminated pursuant to Article VIII hereof or the date specified by notice to the Subscriber where such Subscriber has ceased to be a member of the Reciprocal pursuant to section 6.04 hereof; and
 - (ii) each Subscriber will be covered continuously by an insurance policy issued by the Reciprocal from the Subscriber's Issue Date to its Cancellation Date and the Subscriber will be bound by the provisions of any such insurance policy in force from time to time;
- (c) The form of any liability insurance policy may be changed from time to time by the Advisory Board as provided herein, subject to compliance with the requirements of any regulatory authority having jurisdiction in this regard;
- (d) The Reciprocal may in the future issue other liability policies in a form or forms approved by the Advisory Board by Ordinary Resolution to participate in other liability insurance on an actuarially sound basis on the advice of the Actuary and, if necessary, the approval of the Superintendent.

7.02 Terms and Conditions of Issue of Policies

The following terms and conditions apply to the operation of the Reciprocal and the issuance of insurance policies by it:

- (a) the maximum limit of liability for any one loss applicable to any insurance policy ("Policy Limit") will be as determined from time to time by the Advisory Board;
- (b) the maximum limit of liability to be retained by the Reciprocal on its own account for any one loss ("Retention Limit") will be Fifteen Million Dollars (\$15,000,000), provided that such maximum limit of liability to be retained by the Reciprocal for any one loss may be increased or decreased by Extraordinary Resolution of the Advisory Board;
- (c) notwithstanding any provision of this Agreement to the contrary, the Policy Limit may exceed the Retention Limit if and only if the Reciprocal obtains reinsurance for such excess amount; and

- (d) the Reciprocal may enter into other reinsurance to limit in the aggregate its liability in respect of the risk assumed by it pursuant to the Retention Limit in such form and amount as may be considered appropriate from time to time by the Advisory Board in light of the then current market conditions.

7.03 Expected Loss Costs and Premium Requirements

The expected loss costs for the portion of the risk to be retained by the Reciprocal pursuant to the Retention Limit and the premiums to be charged to each Subscriber for each of the five years of any Underwriting Period or portion thereof will be determined by the Advisory Board on the advice of the Actuary. The amount of the premiums will be sufficient to fund the administration expenses, reinsurance premiums and the portion of the risk retained by the Reciprocal.

7.04 Subscriber Participation

Subscriber participation in an Underwriting Period will be accounted for on the basis of, among other things, the number of lawyers, expected loss costs for the portion of the risk retained by the Reciprocal pursuant to the Retention Limit and the actual premiums and premium assessments paid and premium credits given, in the manner provided in the Rules. Actual losses incurred by the Reciprocal for any Underwriting Period will be pooled and apportioned among the Subscribers in the manner provided in the Rules.

Investment income earned on accumulated assets applicable to each Underwriting Period will be apportioned in the manner provided in the Rules.

7.05 Premium Assessments and Premium Credits

- (a) The Reciprocal will be responsible for the portion of the risk retained by it pursuant to the Retention Limit. The Advisory Board may in its discretion on the advice of the Actuary declare a premium assessment or premium credit with respect to a particular Underwriting Period based on:

- (i) the actual loss experience of the Reciprocal in that Underwriting Period pursuant to insurance policies issued to the Subscribers, and
 - (ii) any amounts owing to the Reciprocal which the Reciprocal is unable to collect.

Each Subscriber acknowledges that it may be responsible for additional premium assessments and may be entitled to premium credits based on its participation in the Underwriting Period as set out in the Rules.

- (b) Loss claims experience for each Underwriting Period will be assessed annually. Potential deficits and surpluses will be estimated and an additional premium assessment or premium credit may be declared by the Advisory Board on the advice of the Actuary. Deficits or

surpluses and resulting premium assessments and premium credits will be accounted for on the basis of each Subscriber's participation in the Underwriting Period;

- (c) In the event that a premium assessment or premium credit is declared, the Advisory Board will notify each Subscriber of the amount of the premium assessment or premium credit applicable to each Subscriber, setting out in reasonable detail the reasons therefor and the basis upon which the amount of the premium assessment or premium credit has been determined;
- (d) In the event that the Advisory Board on the advice of the Actuary, in its absolute discretion, determines that the Reciprocal has accumulated funds in excess of those required to meet its regulatory and internal surplus requirements, the Advisory Board may declare a special premium credit in whatever amount it deems appropriate;
- (e) Except as may otherwise be determined by the Advisory Board, any premium credits declared pursuant to this section 7.05 will be applied to reduce premiums payable for policies of insurance in the current or any subsequent Fiscal Period.

7.06 Closure of Underwriting Period

In its discretion, the Advisory Board, based upon the advice of the Actuary that no further liability to or of the Reciprocal exists with respect to a particular Underwriting Period, may close the accounting for an Underwriting Period. In the event of such closure, each Subscriber's surplus or deficit, if any, will be consolidated with its surplus position in the immediately following Underwriting Period.

7.07 Obligation to Pay

Each Subscriber covenants and agrees to pay promptly when due any annual premium or other fee or premium assessment required pursuant to the terms of this Agreement.

7.08 Departing Subscriber

In the event that a Departing Subscriber's membership in the Reciprocal has terminated as at the end of an Underwriting Period,

- (a) upon the closing of the accounting applicable to the Underwriting Period:
 - (i) in the event that the Advisory Board shall assess additional premiums against the Departing Subscriber in respect of such Underwriting Period, the Departing Subscriber shall, forthwith after such assessment, pay to the Reciprocal the amount of such additional premiums and such additional premiums shall be owed to the Reciprocal by the Departing Subscriber in respect of the applicable Underwriting Period; and

- (ii) in the event that the Advisory Board shall declare a premium credit in favour of the Departing Subscriber in respect of such Underwriting Period, the Reciprocal shall, forthwith after such declaration, pay to the Departing Subscriber the amount of such premium credit as a refund of premiums owed by the Reciprocal to the Departing Subscriber in respect of the applicable Underwriting Period;
- (b) notwithstanding the provisions of subsections (a)(i) and (ii) above, the Reciprocal and the Departing Subscriber may, prior to or after the closing of the said Accounting Period, mutually agree as to the amount of the premiums owed by the Departing Subscriber to the Reciprocal or owed by the Reciprocal as a refund of premiums to the Departing Subscriber, as the case may be, in respect of the said Underwriting Period and the terms and conditions of the payment thereof by the Departing Subscriber to the Reciprocal or by the Reciprocal to the Departing Subscriber (which may be paid as a lump sum or in instalments and either before or after the close of the accounting of the said Underwriting Period) and any such payment(s) when made, shall be deemed to satisfy in full the obligations of the Reciprocal or the Departing Subscriber, as the case may be, under subsection (a) above. Any such agreement requires approval by an Extraordinary Resolution of the Advisory Board.

7.09 Rules

For purposes of administering the Reciprocal in accordance with the provisions of this Agreement, the Advisory Board may establish from time to time such rules and regulations as it considers appropriate ("Rules"), provided that the Rules and any amendments thereto will be subject to the approval of the Advisory Board by Extraordinary Resolution.

ARTICLE VIII

TERMINATION

- 8.01** (a) Subject to providing notice to the Superintendent, the Advisory Board may terminate the Reciprocal by an Extraordinary Resolution of the Advisory Board.
- (b) The Reciprocal will terminate in the event that it fails to receive the Licence or in the event that the Licence is revoked or is not renewed;
- (c) Upon termination, the assets of the Reciprocal after payment of all obligations, and after setting aside an adequate reserve for future claims, will be returned to the Subscribers in proportion to each Subscriber's participation in the Reciprocal as shown in the accounts maintained pursuant to section 5.03 hereof;
- (d) Notwithstanding the termination of the Reciprocal, each Subscriber will continue to be responsible for its proportionate share of any claims assessments in future years in respect of

claims made prior to such termination, unless satisfactory arrangements are made to buy out such liability;

- (e) Subject to any conditions imposed by the Superintendent, the Reciprocal is empowered to continue in operation for the limited purpose of winding-up the affairs of the Reciprocal and, for such purpose, this Agreement will remain in full force and effect until all obligations of the Reciprocal have been fulfilled. Notwithstanding the foregoing, once an event of termination has occurred, the Reciprocal may not exchange or cause to be exchanged any further contracts of indemnity or inter-insurance.

ARTICLE IX

GENERAL PROVISIONS

9.01 Notice

All notices, requests, demands or other communications by the terms hereof required or permitted to be given by one party to another will be given in writing and served personally, or sent by registered mail, postage prepaid, or by email, addressed to:

- (a) each Subscriber at the address noted below its signature on the signature page hereof or on the Form of Subscription attached hereto as Schedule "A";
- (b) the Advisory Board or the Reciprocal, c/o the Principal Attorney at the address set out in the policies of insurance exchanged among the Subscribers, in force at the time of the notice;

or at such other address as may be given by any of them to the others in writing from time to time, and such notices, requests, demands, acceptances and other communications will be deemed to have been received when delivered, or if sent by registered mail, will be deemed to have been received on the seventh (7th) day following the date of mailing the letter, or if sent by email, will be deemed to have been received when acknowledged by return email or delivery receipt.

9.02 Arbitration

If any dispute occurs between or among two or more of the Subscribers, the Reciprocal and the Principal Attorney with respect to the interpretation of this Agreement or the operation of the Reciprocal, the matter in dispute will be settled by agreement or arbitration as follows:

- (a) any one or more of the Subscribers, the Principal Attorney and the Reciprocal (the "Applicant") may notify any one or more of the others (the "Respondent") in writing that a dispute (the "Dispute") has arisen;

- (b) the Applicant and the Respondent will exercise their best efforts to resolve the Dispute, through direct negotiation or mediation;
- (c) if the Dispute goes unresolved for thirty (30) days (hereinafter referred to as the "Period of Resolution"), the Applicant and the Respondent (the "Parties to the Dispute") will within ten (10) days from the termination of the Period of Resolution (hereinafter referred to as the "Period of Appointment"), appoint one arbitrator, if they can agree upon one;
- (d) failing such appointment within the Period of Appointment, each of the Parties to the Dispute will have ten (10) days from the expiry of the Period of Appointment to appoint one arbitrator (hereinafter referred to as the "Second Period of Appointment");
- (e) within ten (10) days from the expiry of the Second Period of Appointment, the two (2) arbitrators so appointed will appoint a third arbitrator;
- (f) in the event that one of the Parties to the Dispute fails to appoint its arbitrator within the Second Period of Appointment, or in the event that one of the arbitrators fails, within the time provided herein, to act upon the appointment of a third arbitrator, the arbitrator who has been appointed pursuant to the provisions of this Agreement by one of the Parties to the Dispute and, if such is the case, is prepared to act on the appointment of a third arbitrator, will alone decide any Dispute;
- (g) the decision of the arbitrators or arbitrator in any matter will proceed in accordance with the provisions of the Arbitration Act, RSA 2000, c. A-43, as amended from time to time, and will be final and binding on the Parties to the Dispute; and
- (h) notwithstanding the foregoing, any procedure for settling a dispute which is contained in any policy of insurance issued pursuant to this Agreement and which is inconsistent with the provisions of this section 9.02 will supersede the arbitration provisions of this section 9.02.

9.03 Confidentiality

The Principal Attorney, the Advisory Board members and the committee members will maintain confidentiality with respect to all non-public information received in the course of their duties. In addition, the Advisory Board will adopt appropriate procedures to be implemented by a Claims Committee to ensure that all information received by the underwriters and claims counsel relating to a particular Firm in connection with such Firm's application for insurance or membership and subsequent claims history is kept entirely confidential from the Advisory Board (except to the extent that the Advisory Board has to be involved, because of its fiduciary obligations, on major claims) and from all other persons other than the Actuary and the auditor for the Reciprocal. If any member of the Claims Committee obtains any confidential information in the course of that member's duties, he or she will keep such information confidential and will not divulge or use

such information other than in the course of his or her duties as a member of the Claims Committee.

9.04 Subscribers Right of Inspection

Any Subscriber by its duly authorized agent, upon reasonable notice, will have the right, during regular business hours and subject to the reasonable demands of the business of the Reciprocal, to inspect and, at its own expense, to copy the record books, the books of account, and any other book or document of the Reciprocal other than such documents or categories thereof (i) relating to underwriting and claims data pertaining to particular Firms, and (ii) as the Advisory Board will from time to time designate as confidential.

9.05 Actions Effected Under Original Agreement

Nothing in this Agreement will adversely affect any actions taken by the Subscribers, the Firms, the Principal Attorney, the Advisory Board or any committee (or any member thereof) prior to the date hereof under the Original Agreement, or the rights or obligations of any such persons in respect of such actions.

IN WITNESS WHEREOF the parties hereto have hereunto caused this Agreement to be executed as of the date first above written.

SIGNED AND DELIVERED

In the presence of

Subscriber

Address

CLLAS
CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

INVESTMENT REPORT
MARCH 31, 2017

MARTIN, LUCAS & SEAGRAM LTD.
INDEPENDENT INVESTMENT COUNSEL

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M5E 1G9

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CLLAS
CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

COMMENTARY FOR THE QUARTER ENDING MARCH 31, 2017

Review of Market Yields

Bond yields moved in an erratic sideways pattern during the first quarter. After setting their highest levels early in March, yields trended lower for the balance of the period and closed the quarter near the low end of their three-month trading range. Over the quarter there was little net change across the entire curve, with the 3-Month treasury yield up just 6 basis points, while the 5-year yield stayed practically level. Meanwhile, at the longer end, the 10-year yield was lower by 9 basis points.

As a result of the small uptick in yields at the short end of the curve and the modest decrease at the long end, the yield curve became somewhat flatter. At the end of March, the yield advantage of the 10-year over the Treasury Bill eased to 111 basis points, compared to 126 basis points at the end of December.

	Jan. 1/95	Sep. 30/16	Dec. 31/16	Mar. 31 17
3-Month Treasury Bills	6.80%	0.53%	0.46%	0.52%
5-year Canadas	8.99%	0.62%	1.11%	1.12%
10-year Canadas	9.09%	1.00%	1.72%	1.63%

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

There was no activity in the Long Term Investment Fund.

During the first quarter, the market value of the Long Term Investment Fund holdings increased by \$16,599, which represents a capital increase of 0.3%.

At March 31, 2017, the average term to maturity of the Long Term Investment Fund stood at 4.3 years.

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

<i>Distribution at March 31, 2017</i>	<i>Valuation</i>	<i>%</i>
Short Term Investment Fund	\$11,650,345	69.3%
Long Term Investment Fund	5,166,909	30.7%
TOTAL COMBINED VALUATION	\$16,817,255	100.0%

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CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

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

- Total Returns vs. Benchmarks - Gross and Net of Fees
- Distribution of Securities in the Long Term Investment Fund
by Credit Risk and by Maturity
- Compliance Statement
- Quarterly Performance Report - Gross of Fees: Long Term Investment Fund
- Bond Market Commentary and Future Policy
- Security Holdings in the Short and Long Term Investment Funds
Listed and Valued Separately as at March 31, 2017
- Security Purchases and Sales
- Cash Reconciliations
- External Individual Credit Rating Report

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LONG TERM INVESTMENT FUND

TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIODS ENDING MARCH 31, 2017

	3 Years*	2 Years*	1 Year	Last 3 months
<i>Long Term Investment Fund – Gross of Fees</i>	<i>2.83%</i>	<i>1.30%</i>	<i>1.03%</i>	<i>0.91%</i>
<i>Long Term Investment Fund – Net of Fees</i>	<i>2.54%</i>	<i>1.02%</i>	<i>0.75%</i>	<i>0.84%</i>
Benchmark Portfolio **	3.09%	1.45%	1.39%	0.99%

* Annualized

** The Benchmark Portfolio is based on the sum of the following total return indices:
60% Canada Short Bond Index
40% Canada Mid Bond Index

SHORT TERM INVESTMENT FUND

TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIODS ENDING MARCH 31, 2017

	Since Inception Oct. 1/08 *	3 Years*	2 Years *	1 Year	Last 3 Months
<i>Short Term Investment Fund – Gross of Fees</i>	<i>0.77%</i>	<i>0.65%</i>	<i>0.54%</i>	<i>0.59%</i>	<i>0.14%</i>
<i>Short Term Investment Fund – Net of Fees</i>	<i>0.64%</i>	<i>0.55%</i>	<i>0.44%</i>	<i>0.47%</i>	<i>0.11%</i>
Benchmark Portfolio **	0.72%	0.62%	0.48%	0.48%	0.13%

* Annualized

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

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LONG TERM INVESTMENT FUND

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

	Dec. 17/13	Jun. 30/16	Sep. 30/16	Dec. 31/16	Mar. 31/17
Bonds, Treasury Bills & Cash Less than 1 year term	100.0%	16.6%	21.2%	10.4%	14.2%
Canadas Greater than 1 year term		19.6%	19.2%	23.8%	23.8%
Provincials Greater than 1 year term		31.3%	31.6%	31.9%	32.0%
Corporates Greater than 1 year term		32.5%	28.0%	33.9%	30.0%
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)

	Jun. 30/16	Sep. 30/16	Dec. 31/16	Mar. 31/17
Under 1 year	16.6%	21.2%	10.4%	14.2%
1 - 3 years	33.4%	26.2%	24.7%	20.7%
3 - 5 years	20.7%	16.2%	20.4%	28.2%
5 - 7 years	19.3%	23.4%	24.0%	16.3%
7 - 10 years	10.0%	13.0%	20.5%	20.6%
TOTAL	100.0%	100.0%	100.0%	100.0%
Average Maturity (yrs)	3.47	3.91	4.55	4.31
Average Duration (yrs)	3.23	3.61	4.19	3.97

SHORT TERM INVESTMENT FUND

	Jun. 30/16	Sep. 30/16	Dec. 31/16	Mar. 31/17
Short Term Average Duration (yrs)	0.14	0.08	0.07	0.10

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COMPLIANCE WITH INVESTMENT POLICY STATEMENT

AT MARCH 31, 2017

	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	69.3%	Yes
Minimum Canada & Provincial Percentage	50%	51.7%	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	9.2 years	Yes
Maximum Percentage of Total Fund (Short & Long)	60% of Total	30.7%	Yes
Minimum Canada Percentage	20%	23.8%	Yes
Maximum Provincial Percentage	40%	38.4%	Yes
Minimum Canada & Provincial Percentage	60%	62.2%	Yes
Minimum Provincial Quality *	A	AA (low)	Yes
Maximum Corporate Percentage	40%	37.8%	Yes
Minimum Corporate Quality *	A	AA	Yes

** At time of purchase*

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

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

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Martin, Lucas & Seagram Ltd.
PERFORMANCE REPORT
GROSS OF FEES
CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)
From 12-31-16 to 03-31-17

Portfolio Value on 12-31-16	5,150,310
Accrued Interest	21,122
Contributions	0
Withdrawals	-23,499
Realized Gains	0
Unrealized Gains	16,599
Interest	23,499
Dividends	0
Change in Accrued Interest	7,132
Portfolio Value on 03-31-17	5,166,909
Accrued Interest	28,254
Average Capital	5,162,545
Total Gain before Fees	47,230
IRR for 0.25 Years	0.91%

CLLAS

BOND MARKET COMMENTARY AND FUTURE POLICY

Following a sharp upward shift in North American bond yields during the final two months of 2016 in the wake of the U.S. election, yields settled into an erratic sideways pattern until mid-March. Since then, yields have moved steadily lower and 10-year government yields in both Canada and the U.S. have retraced about half of the sharp rise that followed the election. A corresponding shift in investor sentiment has also been evident in the equity markets, where investor enthusiasm has shifted away from the more economically levered cyclical stocks towards more defensive and interest sensitive issues.

During the first quarter, investors faced a variety of crosscurrents on a number of fronts. Chief among these has been a rather chaotic start for the new U.S. administration, which has been unable to deliver on a number of early policy goals. To date, the contrasting mix of policies and actions have had a negative impact on the president's popularity and caused considerable discord within and across party lines. The failure to repeal and replace the Affordable Care Act has fuelled uncertainty surrounding the administration's ability to translate their key economic policy goals into legislative accomplishments. With health care reform stalled, the administration has turned its focus to an overhaul of the tax code, which has been a key policy plank supporting investor optimism. However, expectations for a speedy passage are being dampened as Senate and House Republicans remain divided on significant issues, particularly a new tax on imports, while the White House sends conflicting signals on this and other key tenets of tax reform.

Meanwhile, beneath the political headlines, news on the U.S. economic front has been mixed. On the one hand, the so called "soft" data, which measures consumer and business confidence and market sentiment has remained buoyant, despite the turbulent political backdrop. However, the "hard" data, which gauges underlying economic activity has been uneven. Recently, both consumer and construction spending have fallen short of expectations. Also, the latest employment report proved disappointing, as job gains in March were less than half the monthly increase posted in the two previous months. Despite this weak result, unemployment fell to a post-recession low of 4.5% and wages increased at a 2.7% year-over-year pace, suggesting that an increasingly tight labour market, along with solid wage growth, will bolster consumers' disposable income going forward. With the economy approaching the Federal Reserve's twin goals of full employment and 2% inflation, policy makers have indicated that two more rate hikes are likely this year and officials have also suggested that the Bank will begin shrinking its \$4.5 trillion balance sheet later this year.

On the domestic front, the Canadian economy has shown signs of improvement lately, with higher-than-expected gains in consumption, retail sales and employment. Based on the latest GDP results, which cover January, aggregate growth has been rising at a 4% annualized rate over the past six months and first quarter growth is on pace to reach 3%, compared to the consensus forecast of around 1-1/2% south of the border. Employment growth has been a particular bright spot, with gains in March well above the most optimistic forecasts, fuelled in part by manufacturing and a surge in housing starts. Yet, the year-over-year increase in wages fell to 1.1%, the slowest increase since the 1990s and the unemployment rate edged up to 6.7%, suggesting that considerable slack remains in the domestic labour market. Furthermore, exports and business investment have been much weaker than expected and the trade balance has deteriorated. Given that the Bank of Canada has keyed on these sectors for confirmation that a higher growth rate is sustainable, along with ongoing concerns surrounding U.S. trade policy, a potential housing correction and extended household debt levels, suggests that the Bank will continue to hold administered rates steady for some time yet.

Turning to Europe, after its economy expanded by 1.7% in 2016, sentiment and survey indicators have been robust during the first quarter of this year. The improvement has been driven by sharp gains in manufacturing business conditions, continued strength in domestic consumption, declining unemployment and accommodative monetary policy. Despite the more promising macro-outlook, growth prospects remain uneven among the individual euro-group members as weaker countries still suffer from stubbornly high levels of debt and youth unemployment. This disparity presents a unique challenge for the European Central Bank (ECB) as it seeks to reduce the volume of its long running asset-purchase program without putting pressure on the fiscal position of these weaker members. That said, any potential tapering from the ECB will likely be gradual and policy is expected to remain stimulative.

Despite the slow start for the U.S. economy, the year-to-date performance of most major and developing economies support forecasts for a modest improvement in global growth this year. However, both the IMF and OECD cite a variety of risks that could derail the projected pick-up in global growth. Chief among these are ongoing political uncertainties, geopolitical risks and a possible rise in protectionism, led by the U.S., which refused to renew a long-standing anti-protectionist pledge at a recent G20 meeting. For now, investors appear to be keying on these issues and the recent downward shift in bond yields likely reflects an increased flow of funds to safe havens, along with growing evidence that the hoped-for rebound in U.S. statistics that measures tangible economic activity has not come through in the first quarter.

CLLAS

In the near term, we expect bond prices will remain in a lower trading range than the levels that prevailed earlier this year, as the political and economic uncertainties are not expected to be resolved quickly. While it is still early in the Trump presidency, his fluid policy positions and unpredictable nature are likely to persist and keep investors on edge, which will be supportive of bond prices until there is more clarity on the policy front. Looking further ahead, we believe bond yields are most likely to trend gradually higher. The global macro backdrop of synchronized moderate growth and strength in equity markets outside of North America suggests there is underlying economic strength that is unrelated to what may or may not be accomplished by the new U.S. administration. Furthermore, it is noteworthy that the new administration has recently reversed course from some of its more economically disruptive campaign promises and seems to be moving towards a more mainstream economic approach that is less likely to be disruptive to the global expansion. The rising influence of more moderate elements in the White House over the populist wing also suggests that the administration will eventually push through growth-supporting policies. Given these expectations, we believe bond investors should maintain a defensive posture and think the portfolio's current duration of 4 years and laddered maturity structure is appropriate.

RWB/mab
April 25, 2017

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 March 31, 2017

<u>Quantity</u>	<u>Security</u>	<u>Unit Cost</u>	<u>Price</u>	<u>Market Value</u>	<u>Annual Income</u>
CASH					
	Cash Account			7,769	0
MONEY MARKET ISSUES					
415,000	Bank of Nova Scotia BA .819% due April 5, 2017	99.82	99.99	414,954	3,393
1,125,000	Toronto Dominion Bank BA .819% due April 6, 2017	99.81	99.99	1,124,848	9,197
885,000	FirstBank BA .82% due April 18, 2017	99.88	99.96	884,647	7,248
1,755,000	Canada Treasury Bill .38% due April 20, 2017	99.91	99.98	1,754,586	6,663
610,000	CIBC BA .75% due April 24, 2017	99.83	99.95	609,671	4,567
1,005,000	Canada Treasury Bill .40% due May 4, 2017	99.91	99.96	1,004,555	4,016
1,070,000	Royal Bank BA .749% due May 8, 2017	99.92	99.91	1,069,087	8,008
635,000	CIBC BA .81% due May 15, 2017	99.81	99.90	634,359	5,134
1,485,000	Canada Treasury Bill .45% due May 18, 2017	99.90	99.93	1,483,984	6,676
1,785,000	Canada Treasury Bill .445% due June 1, 2017	99.90	99.91	1,783,363	7,935
880,000	Bank of Nova Scotia BA .768% due June 13, 2017	99.81	99.83	878,522	6,746
				<hr/> 11,642,576	<hr/> 69,582
TOTAL PORTFOLIO				11,650,345	69,582

Disclosures:

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

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)
From 01-01-17 To 03-31-17

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
PURCHASES					
01-03-17	01-03-17	635,000	CIBC BA .73% due February 17, 2017	99.91	634,429.14
01-04-17	01-05-17	1,060,000	Bank of Nova Scotia BA .80% due February 3, 2017	99.94	1,059,326.90
01-11-17	01-12-17	1,775,000	Canada Treasury Bill .38% due March 9, 2017	99.94	1,773,965.18
01-12-17	01-13-17	1,125,000	Toronto Dominion Bank BA .819% due April 6, 2017	99.81	1,122,907.50
01-13-17	01-16-17	415,000	Bank of Nova Scotia BA .819% due April 5, 2017	99.82	414,265.45
01-24-17	01-25-17	885,000	Royal Bank BA .799% due February 23, 2017	99.94	884,438.03
01-25-17	01-26-17	1,755,000	Canada Treasury Bill .38% due April 20, 2017	99.91	1,753,466.13
01-31-17	01-31-17	610,000	CIBC BA .75% due April 24, 2017	99.83	608,961.17
02-02-17	02-03-17	500,000	Bank of Nova Scotia BA .829% due March 1, 2017	99.94	499,705.00
02-02-17	02-03-17	560,000	Royal Bank BA .832% due February 28, 2017	99.94	559,680.80
02-08-17	02-09-17	1,005,000	Canada Treasury Bill .40% due May 4, 2017	99.91	1,004,075.40
02-14-17	02-15-17	880,000	FirstBank BA .78% due March 16, 2017	99.94	879,455.28
02-16-17	02-17-17	635,000	CIBC BA .81% due May 15, 2017	99.81	633,776.36
02-22-17	02-23-17	1,485,000	Canada Treasury Bill .45% due May 18, 2017	99.90	1,483,463.03
02-22-17	02-23-17	885,000	FirstBank BA .82% due April 18, 2017	99.88	883,929.15
02-28-17	03-01-17	500,000	Royal Bank BA .75% due March 30, 2017	99.94	499,700.00
02-28-17	02-28-17	560,000	Royal Bank BA .75% due March 30, 2017	99.94	559,652.80
03-08-17	03-09-17	1,785,000	Canada Treasury Bill .445% due June 1, 2017	99.90	1,783,172.16
03-15-17	03-16-17	880,000	Bank of Nova Scotia BA .768% due June 13, 2017	99.81	878,354.40
03-29-17	03-30-17	1,070,000	Royal Bank BA .749% due May 8, 2017	99.92	1,069,144.00
					18,985,867.88

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)
From 01-01-17 To 03-31-17

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
SALES					
01-03-17	01-03-17	605,000	Royal Bank BA .698% due January 3, 2017	100.00	605,000.00
01-05-17	01-05-17	550,000	Bank of Nova Scotia BA .75% due January 5, 2017	100.00	550,000.00
01-05-17	01-05-17	510,000	Bank of Nova Scotia BA .751% due January 5, 2017	100.00	510,000.00
01-12-17	01-12-17	1,775,000	Canada Treasury Bill .42% due January 12, 2017	100.00	1,775,000.00
01-13-17	01-13-17	1,125,000	Toronto Dominion Bank BA .78% due January 13, 2017	100.00	1,125,000.00
01-16-17	01-16-17	415,000	Royal Bank BA .74% due January 16, 2017	100.00	415,000.00
01-25-17	01-25-17	885,000	CIBC BA .729% due January 25, 2017	100.00	885,000.00
01-26-17	01-26-17	1,755,000	Canada Treasury Bill .41% due January 26, 2017	100.00	1,755,000.00
01-31-17	01-31-17	600,000	CIBC BA .718% due January 31, 2017	100.00	600,000.00
02-03-17	02-03-17	1,060,000	Bank of Nova Scotia BA .80% due February 3, 2017	100.00	1,060,000.00
02-09-17	02-09-17	1,005,000	Canada Treasury Bill .40% due February 9, 2017	100.00	1,005,000.00
02-15-17	02-15-17	880,000	FirstBank BA .718% due February 15, 2017	100.00	880,000.00
02-17-17	02-17-17	635,000	CIBC BA .73% due February 17, 2017	100.00	635,000.00
02-23-17	02-23-17	1,485,000	Canada Treasury Bill .45% due February 23, 2017	100.00	1,485,000.00
02-23-17	02-23-17	885,000	Royal Bank BA .799% due February 23, 2017	100.00	885,000.00
02-28-17	02-28-17	560,000	Royal Bank BA .832% due February 28, 2017	100.00	560,000.00
03-01-17	03-01-17	500,000	Bank of Nova Scotia BA .829% due March 1, 2017	100.00	500,000.00
03-09-17	03-09-17	1,775,000	Canada Treasury Bill .38% due March 9, 2017	100.00	1,775,000.00
03-16-17	03-16-17	880,000	FirstBank BA .78% due March 16, 2017	100.00	880,000.00
03-30-17	03-30-17	500,000	Royal Bank BA .75% due March 30, 2017	100.00	500,000.00
03-30-17	03-30-17	560,000	Royal Bank BA .75% due March 30, 2017	100.00	560,000.00
					18,945,000.00

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Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)
From 01-01-17 to 03-31-17

Cash Balance at January 1, 2017		36,689.13
ADD: Proceeds from Sales	18,945,000.00	
Bond Interest Credited (from Long Term Investment Fund)	<u>23,499.25</u>	<u>18,968,499.25</u>
		19,005,188.38
LESS: Cost of Purchases	18,985,867.88	
Investment Counsel Fees - Short Term Investment Fund	3,283.16	
Investment Counsel Fees - Long Term Investment Fund	3,637.40	
Trust Company Charges	<u>4,630.78</u>	<u>18,997,419.22</u>
Cash Balance at March 31, 2017		<u>7,769.16</u>

Martin, Lucas & Seagram Ltd.								
EXTERNAL INDIVIDUAL CREDIT RATING REPORT - MARCH 31, 2017								
CLLAS - SHORT TERM INVESTMENT FUND								
				Unit	Total		Market	Pct.
Quantity	Security		Rating	Cost	Cost	Price	Value	Assets
CASH								
	Cash Account				7,769		7,769	0.1
MONEY MARKET ISSUES								
415,000	Bank of Nova Scotia BA .819%	due April 5, 2017	R-1 (high)	99.82	414,265	99.99	414,954	3.6
1,125,000	Toronto Dominion Bank BA .819%	due April 6, 2017	R-1 (high)	99.81	1,122,908	99.99	1,124,848	9.7
885,000	FirstBank BA .82%	due April 18, 2017	R-1 (high)	99.88	883,929	99.96	884,647	7.6
1,755,000	Canada Treasury Bill .38%	due April 20, 2017	R-1 (high)	99.91	1,753,466	99.98	1,754,586	15.1
610,000	CIBC BA .75%	due April 24, 2017	R-1 (high)	99.83	608,961	99.95	609,671	5.2
1,005,000	Canada Treasury Bill .40%	due May 4, 2017	R-1 (high)	99.91	1,004,075	99.96	1,004,555	8.6
1,070,000	Royal Bank BA .749%	due May 8, 2017	R-1 (high)	99.92	1,069,144	99.91	1,069,087	9.2
635,000	CIBC BA .81%	due May 15, 2017	R-1 (high)	99.81	633,776	99.90	634,359	5.4
1,485,000	Canada Treasury Bill .45%	due May 18, 2017	R-1 (high)	99.90	1,483,463	99.93	1,483,984	12.7
1,785,000	Canada Treasury Bill .445%	due June 1, 2017	R-1 (high)	99.90	1,783,172	99.91	1,783,363	15.3
880,000	Bank of Nova Scotia BA .768%	due June 13, 2017	R-1 (high)	99.81	878,354	99.83	878,522	7.5
					11,635,515		11,642,576	99.9
TOTAL PORTFOLIO					11,643,284		11,650,345	100.0

Martin, Lucas & Seagram Ltd.

CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)

Portfolio Holdings at March 31, 2017

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
GOVERNMENT BONDS					
250,000	Canada Housing Trust 1.75% due June 15, 2018	100.11	101.18	252,940	4,375
250,000	Canada Housing Trust 1.95% due June 15, 2019	100.10	102.12	255,290	4,875
200,000	Canada Housing Trust 2.4% Series 48 due December 15, 2022	100.37	104.00	208,004	4,800
200,000	Canada Housing Trust 2.35% due September 15, 2023	105.62	103.51	207,028	4,700
300,000	Canada Housing Trust Ser. 70 2.25% due December 15, 2025	100.98	101.45	304,353	6,750
				<hr/> 1,227,615	<hr/> 25,500
PROVINCIAL BONDS					
330,000	Ontario 1.90% due September 8, 2017	100.18	100.53	331,736	6,270
350,000	Ontario 2.1% due September 8, 2018	99.57	101.70	355,950	7,350
250,000	British Columbia 3.25% due December 18, 2021	102.30	107.53	268,833	8,125
250,000	Ontario 3.15% due June 2, 2022	99.04	106.87	267,173	7,875
400,000	Ontario 2.60% due June 2, 2025	101.08	102.51	410,028	10,400
350,000	British Columbia 2.3% due June 18, 2026	104.40	99.99	349,948	8,050
				<hr/> 1,983,666	<hr/> 48,070
CORPORATE BONDS					
200,000	Toronto Dominion Bank Dep. Note 2.433% due August 15, 2017	100.73	100.55	201,100	4,866
200,000	Royal Bank Dep. Note 2.26% due March 12, 2018	99.28	101.03	202,064	4,520
200,000	Wells Fargo Canada 2.944% due July 25, 2019	100.02	103.36	206,718	5,888
300,000	Bank of Montreal 2.84% due June 4, 2020	101.77	103.98	311,931	8,520
250,000	Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	104.57	103.21	258,013	6,408
200,000	Bank of Montreal 3.4% due April 23, 2021	100.65	106.43	212,866	6,800

Martin, Lucas & Seagram Ltd.

CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)

Portfolio Holdings at March 31, 2017

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
150,000	Royal Bank 1.968% due March 2, 2022	100.05	100.31	150,471	2,952
250,000	National Bank of Canada 2.105% due March 18, 2022	102.04	100.96	252,405	5,263
150,000	Wells Fargo 3.46% due January 24, 2023	102.36	106.71	160,061	5,190
				<hr/> 1,955,628	<hr/> 50,406
TOTAL PORTFOLIO				5,166,909	123,976

Disclosures:

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

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)
From 01-01-17 To 03-31-17

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
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No transactions were found!

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Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - LONG TERM INVESTMENT FUND
From 01-01-17 to 03-31-17

Cash Balance at January 1, 2017	0.00
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Cash Balance at March 31, 2017	0.00
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Martin, Lucas & Seagram Ltd.

EXTERNAL INDIVIDUAL CREDIT RATING REPORT - MARCH 31, 2017

CLLAS - LONG TERM INVESTMENT FUND

				Unit	Total		Market	Pct.
Quantity	Security		Rating	Cost	Cost	Price	Value	Assets
GOVERNMENT BONDS								
250,000	Canada Housing Trust 1.75%	due June 15, 2018	AAA	100.11	250,275	101.18	252,940	4.9
250,000	Canada Housing Trust 1.95%	due June 15, 2019	AAA	100.10	250,238	102.12	255,290	4.9
200,000	Canada Housing Trust 2.4% Series 48	due December 15, 2022	AAA	100.37	200,740	104.00	208,004	4.0
200,000	Canada Housing Trust 2.35%	due September 15, 2023	AAA	105.62	211,240	103.51	207,028	4.0
300,000	Canada Housing Trust Ser. 70 2.25%	due December 15, 2025	AAA	100.98	302,940	101.45	304,353	5.9
					1,215,433		1,227,615	23.8
PROVINCIAL BONDS								
330,000	Ontario 1.90%	due September 8, 2017	AA (low)	100.18	330,594	100.53	331,736	6.4
350,000	Ontario 2.1%	due September 8, 2018	AA (low)	99.57	348,495	101.70	355,950	6.9
250,000	British Columbia 3.25%	due December 18, 2021	AA (high)	102.30	255,750	107.53	268,833	5.2
250,000	Ontario 3.15%	due June 2, 2022	AA (low)	99.04	247,600	106.87	267,173	5.2
250,000	Ontario 2.60%	due June 2, 2025	AA (low)	100.15	404,305	102.51	410,028	7.9
350,000	British Columbia 2.3%	due June 18, 2026	AA (high)	104.40	365,400	99.99	349,948	6.8
					1,952,144		1,983,666	38.4
CORPORATE BONDS								
200,000	Toronto Dominion Bank Dep. Note 2.433%	due August 15, 2017	AA	100.73	201,460	100.55	201,100	3.9
200,000	Royal Bank Dep. Note 2.26%	due March 12, 2018	AA	99.28	198,560	101.03	202,064	3.9
200,000	Wells Fargo Canada 2.944%	due July 25, 2019	AA	100.02	200,040	103.36	206,718	4.0
300,000	Bank of Montreal 2.84%	due June 4, 2020	AA	101.77	305,307	103.98	311,931	6.0
250,000	Toronto Dominion Bank Dep. Note 2.563%	due June 24, 2020	AA	104.57	261,425	103.21	258,013	5.0
200,000	Bank of Montreal 3.4%	due April 23, 2021	AA	100.65	201,300	106.43	212,866	4.1
150,000	Royal Bank 1.968%	due Mar 2, 2022	AA	100.05	150,075	100.31	150,471	2.9
250,000	National Bank of Canada 2.105%	due March 18, 2022	AA (low)	102.04	255,100	100.96	252,405	4.9
150,000	Wells Fargo 3.46%	due January 24, 2023	AA	102.36	153,542	106.71	160,061	3.1
					1,926,809		1,955,628	37.8
TOTAL PORTFOLIO					5,094,385		5,166,908	100.0