



ADVISORY BOARD MEETING

<u>Board Member</u>	<u>Alternate</u>	<u>Board Member</u>	<u>Alternate</u>
David Morritt	Lyndon Barnes	Donald Milner	S. Bruce Blain
Barry Bresner	Robert Love	Gordon Goodman	Anne-Marie Widener
Mike Swartz	Reta Coburn	Ken Crofoot	Eugene Cipparone
Julia Holland	James C. Tory	Nicholas Leblovic	Natasha MacParland
William Scott	Malcolm Mercer	Daniel MacDonald	Carol Lyons
John Esvelt	Shayna Staniloff		

Wednesday, February 22, 2017 at 8:30 a.m.
Davies Ward Phillips & Vineberg LLP
40th Floor, RBC Centre
155 Wellington Street West
Toronto, Ontario

DIAL-IN INFORMATION for those participating by phone:

Toronto:	416-933-8665
Canada/US:	1-888-402-9166
Conference ID #:	2675844#

AGENDA

	<u>Responsibility</u>	<u>Est. Time</u>	<u>Tab</u>
1. Constitution of Meeting	Nicholas Leblovic		
2. Appointment of Secretary	Nicholas Leblovic		
3. Approval of the Minutes of December 7, 2016 Meeting	Nicholas Leblovic	5 mins	A
<i>Proposed Resolution: To approve the minutes.</i>			
4. Business Arising Out of the Minutes	Nicholas Leblovic		
5. Comments of Chair	Nicholas Leblovic	15 mins	



	<u>Responsibility</u>	<u>Est. Time</u>	<u>Tab</u>
6. Report of the General Manager's Office	Patrick Mahoney	25 mins	
• Management Financial Statements as at December 31, 2016			B
• Presentation of the Actuary to the Audit Committee			C
• 2017 Budget			D
<i>Proposed Resolution: To approve the 2017 budget.</i>			
7. Report of the Audit Committee	Gord Goodman	10 mins	
• Audit Findings Report			E
• Audited Financial Statements – For Approval			F
• Signing off on P&C1 for February 28, 2017			
<i>Proposed Resolution: To adopt the Audited Financial Statements.</i>			
8. Cyber Update	Joe Tontini	15 mins	G
9. Committee Reports		20 mins	
• Claims Committee	Barry Bresner		
• Risk Management Committee	Julia Holland		
• Policy Committee	Donald Milner		
10. Other Business			
• Quarterly Report of the Investment Manager	Patrick Mahoney	5 mins	H
• Chair Succession	Donald Milner	15 mins	I
11. Next Meeting – June 21, 2017			

Anticipated Adjournment Time: 10:30 a.m.

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

Minutes of a Meeting of the Advisory Board

8:30 a.m.

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

Wednesday, December 7, 2016

Present:

Nicholas Leblovic (Chair)	Davies Ward Phillips & Vineberg LLP
Barry Bresner (by phone)	Borden Ladner Gervais LLP
Gordon Goodman	Cassel Brock & Blackwell LLP
John Esvelt	Dentons LLP
Donald Milner	Fasken Martineau DuMoulin LLP
Ken Crofoot	Goodmans LLP
Chris Hubbard (by phone)	McCarthy Tétrault LLP
Dan McDonald (by phone)	McMillan LLP
Julia Holland	Torys LLP

Absent:

David Morritt	Osler Hoskins & Harcourt LLP
Mike Swartz	WeirFoulds LLP
Patrick Mahoney	Office of the General Manager, CLLAS
Norma Ibbetson	Office of the General Manager, CLLAS
Joe Tontini	Axxima Group
Ryan Durrell	Axxima Group

1. Constitution of Meeting

The Chairman brought the meeting to order.

2. Appointment of Secretary

Norma Ibbetson acted as Secretary.

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

It was moved by Donald Milner and seconded by John Esvelt that the minutes of the September 7, 2016 meeting of the Advisory Board be approved. The motion was carried unanimously.

4. Comments of the Chair

The Chair reported that the past quarter had been busy. The Risk Management seminar in mid-September was successful with good in-person attendance and many more people participating via web-cast. Work continued on cyber matters with a presentation on software, review of CLLAS specific cyber policy wording and a survey of firm practices. The Policy Committee has been involved in reviewing and updating the Subscribers' Agreement, and is retaining a firm in Alberta to do the redraft. A couple of meetings with Blakes have taken place to ensure that expectations with respect to surplus in CLLAS are managed as the five year anniversary of Blakes' departure approaches. There have been a number of meetings with potential Associate Firms. Two firms have asked for a CLLAS quote with the others looking at the benefits of being a CLLAS member.

Chair reminded the Board that his term is up February 2018 and suggested the firms discuss a new Chair with the possibility of having that person attend the London meetings in the Spring 2017.

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

5. CLLAS Expansion

The Board discussed a memorandum included in the Board material which addressed contributions to surplus by new member firms. There is a balance to be struck between CLLAS' desire to mitigate barriers to entry (such as a significant contribution to surplus) and the need to be fair to current firms given the meaningful surplus that has been accumulated. One option is to require a new firm to basically match the average surplus level of the current firms. This might prove to be a barrier to entry. Another option is to require the new firm to maintain a fair share of CLLAS' minimum surplus, and to do a special premium calculation for that firm so it does not benefit from the premium credit that is derived from CLLAS' excess surplus.

The Board concluded that Lenczners should be given the option of contributing to the average level over five years, and in return the firm would participate fully in premium credits. If that level of surplus contribution was viewed by the firm as excessive, the firm could elect to build to the minimum level of surplus over five years, and premium credits would be adjusted accordingly. It was agreed that no options allowing funding over more than five years should be offered.

Joe Tontini provided an update on CLLAS expansion activities. Two firms, Gardiner Roberts and Stockwoods, have submitted applications to become associate member firms. Mr. Tontini reported that both firms have passed the underwriting process and meet CLLAS membership criteria, except that Stockwoods is not currently large enough to meet CLLAS' minimum size threshold of 50 lawyers. The Board discussed the appropriateness of bringing Stockwoods in as an associate firm in circumstances where they would likely be too small to join CLLAS as a full member. The consensus was that a firm that met the other underwriting criteria could join the associate firm process provided that it was understood that eligibility to become a full member is not guaranteed.

It was moved by Gord Goodman and seconded by John Esvelt that Gardner Roberts' application for membership in the CLLAS Associate Member facility be approved effective January 1, 2017 and further that Gardner Roberts be considered eligible for full CLLAS membership in the future subject to confirmation of continuing to meet the underwriting criteria. The motion was carried unanimously.

It was moved by Gord Goodman and seconded by Ken Crofoot that the Stockwoods' application for membership in the CLLAS Associate Member facility be approved effective January 1, 2017. The motion was carried with one abstention.

6. **Report of the General Manager's Office**

Financial Statements as at September 30, 2016

Mr. Mahoney presented CLLAS' financial management report as at September 30, 2016. Key items are summarized in the cover memo, including results for the two solvency tests monitored by management.

CLLAS experienced a modest gain of \$184,000 for the first nine months of 2016. Expenses for the first nine months are slightly under budget. At September 30, 2016, CLLAS had a surplus of \$14.4 million. Management monitors various risk metrics. The results for September 30, 2016 are all within CLLAS' risk tolerances.

Upcoming five-year Underwriting Period Renewal

Patrick Mahoney reviewed with the Board his memorandum relating to the expense analysis and the estimated impact of net gains and losses in CLLAS' overall lawyer count on premiums.

Subscribers Accounts as at June 30, 2016

The CLLAS Subscribers Accounts as at June 30, 2016 are included with the meeting materials. These are an information item and no action is required by the Board.

Summary of Board Self-Evaluation

Mr. Mahoney presented a summary of the results of the Board self-evaluation survey. Overall, results were positive. There are some items where action can be taken, for example, tighter management of Board meetings, a strategic planning session and the development of a board orientation handbook.

7. **Report of the Claims Committee**

Barry Bresner reported to the Board. The Committee is keeping close watch on a small number of serious and complicated claims. There was good news in one class action as the firm prevailed at trial and an appeal from the trial court decision would appear to be a difficult prospect.

(The Board members returned the summary exhibit handout.)

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

Julia Holland reported to the Board.

The Risk Management session held in September was well received. CLLAS will consider holding a similar session every couple of years. There were no additional reporting items.

9. **Report of the Policy Committee**

Donald Milner reported on behalf of the Policy Committee

Subscribers' Agreement

The Committee met twice to review the current agreement and establish a process for updating it. Feedback on changes has been documented and a lawyer in Edmonton with experience in with these kind of agreements has been retained to prepare a revised agreement. It is expected that the new agreement will be finalized in time for the commencement of the seventh underwriting period on July 1, 2017.

Cyber Coverage – Update

A meeting of the Policy Committee took place on November 23, 2016 to discuss a CLLAS-specific approach to cyber coverage. The Committee has requested that a term sheet will be prepared by Axxima outlining the various coverages which are available, including coverage for damage to reputation. As part of this initiative, discussions have taken place with Ridge, a new entrant into Canada, which has shown a willingness to prepare a CLLAS' specific policy wording.

Other Business

Coverage, provided by LawPRO, for seconded lawyers is being limited as of January 1, 2017, with the result that in some instances seconded lawyers would no longer be the underlying million dollar limit. CLLAS does generally drop down, provided that services are provided to or through the firm.

10. **Report of the Audit Committee**

Gordon Goodman reported on behalf of the Audit Committee.

The Committee held an audit planning meeting on October 26, 2016 with Deloitte in attendance. No significant changes to the audit process are anticipated this year. As part of its mandate to

monitor the security of CLLAS' reinsurance arrangements, the Committee also reviewed Colchester's June 30, 2016 financial statements and the reinsurance security report. The review led to no specific recommendations to be taken into account in planning for the July 1, 2017 reinsurance renewal. Pioneer Syndicate is relatively new to the CLLAS program and Axxima was asked to provide the Committee with additional information on it. This will be reported on as part of the next review.

Joe Tontini reported that Munich Re, which has recently taken a share of the CLLAS optional excess layer, was originally thought to be licensed in Canada but has recently advised that it is not. As a result, CLLAS will be amending the arrangements to address the unlicensed share.

11. Investment Report for Quarter Ending September 30, 2016

The investment report was provided as an information item and the investment policy is posted on line. CLLAS' Investment Policy was confirmed as still appropriate.

12. Other Business

Annual Dinner – May 4, 2017. Miller Insurance will be in Toronto so the dinner has been moved to allow for them to attend.

There was no other business.

13. 2017 Meetings – Proposed Dates

- Wednesday, February 22, 2017
- Wednesday, June 21, 2017
- Wednesday, September 6, 2017
- Wednesday, December 6, 2017

The next Board meeting is scheduled for Wednesday, February 22 2017.

Chairman

Secretary



MEMORANDUM

DATE: February 15, 2017
TO: CLLAS Advisory Board
FROM: Patrick Mahoney
COPY:
RE: December 31 2016 Financial Management Report

CLLAS' financial management report for the year ended December 31, 2016 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 a modest underwriting gain (premiums minus claims and expenses) of \$160,000 for the year. After taking into account investment income (including unrealized gains arising during the period) the gain increased to \$264,000. As a result, as shown on Exhibit I, CLLAS' surplus increased from \$14.1 million on December 31, 2015, to \$14.4 million on December 31, 2016.

The Budget Variance (Exhibit IV) shows that expenses for the year are about 5.5% (\$134,000) under budget. Expenses are discussed in more detail in a separate memo include in the Board materials.

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 and December 31, 2016 against risk targets and risk limits. The results for December 31, 2016 are all within CLLAS' risk tolerances with one exception (Line 10, discussed below). Items of note include:

Line 4: In prior periods, one reinsurance (Allegany, formerly Transatlantic Re, which is no longer on the program) was rated BBB+ by AM Best. This rating has been upgraded to A-.



Line 10: CLLAS has a highly rated money market investment that on December 31, 2016 comprised more than 5% of its non-cash investment portfolio. This type of investment is not subject to the 5% regulatory restriction (and in any event, the investment comprises less than 5% of CLLAS' "total assets". The investment matures on February 23, 2017.

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 AMRGF required for CLLAS at December 31, 2016 was \$11.9 million. CLLAS' cash and approved securities totaled \$21.5 million, i.e. well above the minimum requirement.

Line 14: CLLAS also monitors its Minimum Capital Test ratio. At December 31, 2015, CLLAS' MCT ratio was 359%. At December 31, 2016, it is 464%. The increase is partly attributable to the phasing in of the transition to a new MCT calculation basis which is more favourable to CLLAS.

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

QUARTERLY FINANCIAL MANAGEMENT REPORT

December 31, 2016

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

QUARTERLY FINANCIAL MANAGEMENT REPORT

DECEMBER 31, 2016

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
December 31, 2016

	As at December 31, 2016	As at December 31, 2015
ASSETS		
Cash	4,731,655	5,008,412
Short term investments	11,587,109	8,404,974
Bonds	5,150,585	4,793,017
Interest income due and accrued	21,122	19,936
Premium receivable	2,520,380	4,059,591
Other receivable	0	0
Prepaid expenses	139,500	139,500
Deferred policy acquisition costs	154,221	173,213
Unearned reinsurance premium ceded	4,182,181	4,984,847
Reinsurance recoverable	837,614	1,597,292
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	94,794,000	96,120,000
	<u>124,118,367</u>	<u>125,300,782</u>
LIABILITIES		
Accounts payable & accrued charges	580,036	843,543
Premium taxes payable	63,869	67,147
Unearned premium	5,261,568	6,185,289
Due to reinsurers	2,514,054	1,509,338
Provision for unpaid claims and adjustment expenses	101,247,000	102,508,000
Premium deficiency liability	0	0
	<u>109,666,527</u>	<u>111,113,316</u>
SUBSCRIBERS' EQUITY		
Surplus	14,390,229	14,060,039
Accumulated Other Comprehensive Income (Loss)	61,611	127,427
	<u>14,451,840</u>	<u>14,187,466</u>
	<u>124,118,367</u>	<u>125,300,782</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF COMPREHENSIVE INCOME
For the Period Ending December 31, 2016

	Current Year		Prior Year	
	Quarter December 31, 2016	Year to Date December 31, 2016	Quarter December 31, 2015	Year to Date December 31, 2015
Written Premium	-	10,610,344	-	12,438,547
Gross Written Premiums	-	10,610,344	-	12,438,547
Less: Reinsurance Ceded	-	8,433,679	-	10,024,473
Net Written Premiums	-	2,176,665	-	2,414,074
Change in Unearned Premiums	548,639	121,054	606,817	13,052
Earned Premiums	548,639	2,297,719	606,817	2,427,127
Claims Paid	(57,668)	(220,234)	(39,613)	(42,792)
Change in IBNR	(64,000)	65,000	(354,000)	(24,000)
Change in Case Reserve	11,000	-	8,000	19,000
Premium Deficiency Expense	-	-	-	-
Incurred Claims	(110,668)	(155,234)	(385,613)	(47,792)
Management and operating expenses	378,734	1,686,609	363,929	1,618,159
Reinsurance fees	69,750	279,000	69,750	279,000
Premium taxes	76,209	327,434	86,607	262,362
Total Operating Expenses	524,693	2,293,043	520,286	2,159,521
Underwriting Gain (Loss)	134,613	159,910	472,144	315,398
Investment Income	44,921	170,280	15,119	166,747
Income on Claim Related Matters	-	-	-	-
Interest Income on Premium Tax	-	-	-	-
NET GAIN/(LOSS)	179,535	330,190	487,263	482,144
Other comprehensive income (loss)				
Unrealized gains (losses) on available for sale financial assets arising during the year	(99,012)	(65,817)	9,498	52,710
Recognition of realized (gain) loss included in income	-	-	-	-
Other comprehensive income (loss) for the year	(99,012)	(65,817)	9,498	52,710
Total comprehensive income (loss)	80,523	264,374	496,762	534,855

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF CHANGES IN EQUITY
December 31, 2016

	Minimum Surplus	Additional Surplus	Unrealized gains and losses on AFS financial assets	Total Equity
Balance, beginning of year	50,000	14,010,039	127,427	14,187,466
Prior year adjustment		-		-
Comprehensive income (loss) for the year				
Net gain (loss) for the year		330,190		330,190
Other comprehensive income (loss)				
Change in unrealized gain on available-for-sale assets			(65,817)	(65,817)
Recognition of realized (gain) loss on available-for-sale assets			-	-
Total comprehensive income (loss) for the year		330,190	(65,817)	264,374
Balance at December 31, 2016	50,000	14,340,229	61,611	14,451,840

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS
FOR THE PERIOD ENDED December 31, 2016

	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)	580,000	100%	580,000	587,904	(7,904)
PROFESSIONAL SERVICES					
Actuarial Services	85,000	100%	85,000	53,363	31,637
Reinsurance Matters	325,000	100%	325,000	271,198	53,802
Strategic Matters	<u>160,000</u>	100%	<u>160,000</u>	<u>186,146</u>	<u>(26,146)</u>
Sub-Total Professional Services	570,000		570,000	510,707	59,293
GST/HST on Consulting Fees	149,500		149,500	142,819	6,681
Total Management & Professional Services * (See Note 2)	<u>1,299,500</u>		<u>1,299,500</u>	<u>1,241,430</u>	<u>58,070</u>
OTHER EXPENSES					
Audit Expenses	107,000	100%	107,000	109,865	(2,865)
Annual Dinner	7,000	100%	7,000	5,885	1,115
Premium Taxes	355,000	100%	355,000	327,434	27,566
Chairman's Expenses	3,000	100%	3,000	38	2,962
Chairman's Honourium	150,000	100%	150,000	150,000	-
Reinsurance Expense	7,500	100%	7,500	8,553	(1,053)
D&O Insurance	14,000	100%	14,000	20,267	(6,267)
Office Expenses	25,000	100%	25,000	22,203	2,797
Office Expenses - Website management software license	3,000	100%	3,000	563	2,438
Claims: Borderaux (LawPro/LIF)	15,000	100%	15,000	14,300	700
Special Services	50,000	100%	50,000	-	50,000
Miller Insurance Fees (Reins. Comm.) (See Note 3)	279,000	100%	279,000	279,000	-
I.B.C Statistical Plan Fees	4,000	100%	4,000	2,526	1,474
Assessment Fees	3,000	100%	3,000	3,000	-
Investment counsel fees	32,000	100%	32,000	27,309	4,691
Investment - Custodial	17,000	100%	17,000	18,018	(1,018)
Risk Management/Loss Prevention	50,000	100%	50,000	57,348	(7,348)
License Fee	6,500	100%	6,500	4,113	2,387
Insurance: Sundry	-		-	1,193	(1,193)
Sub-total	<u>1,128,000</u>		<u>1,128,000</u>	<u>1,051,613</u>	<u>76,387</u>
TOTAL	<u>2,427,500</u>		<u>2,427,500</u>	<u>2,293,043</u>	<u>134,457</u>

* NOTE 1: MANAGEMENT SERVICES

The actual budget of \$615,00 has been reduced to \$580,000 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	22%
Second Quarter, ending June 30th	45%
Third Quarter, ending September 30th	15%
Fourth Quarter, ending December 31st	18%
	<u>100%</u>

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

The annual budget is based upon the annual fee estimated for the policy period 2015/2016.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
SUMMARY OF RISK METRICS
December 31, 2016

Exhibit V

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

Notes

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

(2a) = [3-year net incurred losses + 3-year operating expenses] / [3-year net earned premiums]; 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 December 31, 2016, the largest non-government security is a money market investment rated R1-High maturing on February 23, 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

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
For the Period Ending December 31, 2016

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

	Current Year to Date 12/31/2016 (in \$000's)	Prior Year End 12/31/2015 (in \$000's)
<u>Reserve Fund</u>		
Premiums collected or credited having one year or less to run	(1) 10,610	12,439
Less: Amount paid to licensed reinsurers	(2) 8,347	9,919
Premiums collected with more than one year to run, less expired portion	(3) -	-
Less: Amount paid to reinsurers on premiums on line 3, less expired portion.	(4) -	-
Subtotal (lines 1, minus line 2, plus line 3, minus line 4)	(5) 2,263	2,520
Reserve Fund Required (50% of Line 5)	(6) 1,132	1,260
<u>Guarantee Fund</u>		
Total Liabilities	(7) 109,667	111,113
Less: Unearned Premiums	(8) 5,262	6,185
Less: Recoverable from licensed reinsurers	(9) 93,713	94,966
Plus: Statutory Margin	(10) 50	50
Guarantee Fund Required (Line 7 minus Lines 8 and 9 plus line 10)	(11) 10,742	10,012
TOTAL RESERVE & GUARANTEE FUND REQUIRED (Line 6+11)	(12) 11,874	11,272
Cash & Approved Securities	(13) 21,469	18,206
Excess of Cash & Securities over Reserve & Guarantee Fund (line 13 minus line 12)	(14) 9,596	6,934



Actuaries & Insurance Management Advisors

Canadian Lawyers Liability Assurance Society

Actuarial Valuation of Policy Liabilities as at December 31, 2016

Presentation to the Audit Committee
February 16, 2017

CLLAS

Scope of the Actuarial Valuation

- Disclosure – Draft Results
- Valuation of policy liabilities
 - Claim liabilities
 - Liabilities in connection with unearned premium
 - Other policyholder liabilities
- Consideration of various components of the liabilities
 - Amounts gross of reinsurance
 - Amounts recoverable from reinsurers
 - Proportional reinsurance
 - Aggregate reinsurance
 - Loss portfolio transfer
 - Amounts net of reinsurance

CLLAS

- Please note that the Valuation results presented herein are draft. Our final signed Valuation results will be provided once we receive the following:
 - Receipt of auditor letter on specified audit procedures and data reliance
 - Confirmation from management that there are no subsequent events which would cause a deviation in the Valuation results in excess of our materiality standard
- Per the Canadian Actuarial Standards of Practice, changes having an impact in excess of our standard of materiality as of December 31, 2016 may need to be reflected and/or disclosed in the Valuation report and may result in a change in the financial statements

CLLAS

Case Reserves vs. Actuarial Reserves

- Case Reserves
 - Individual estimates
 - Based on known facts at time reserves are established
- Actuarial Reserves
 - Aggregate estimates
 - Recognize reserving/settlement patterns and project unknown events
- Incurred But Not Reported (IBNR) is the difference between actuarial reserves and case reserves
 - Emergence of unknown claims
 - Loss development on known claims

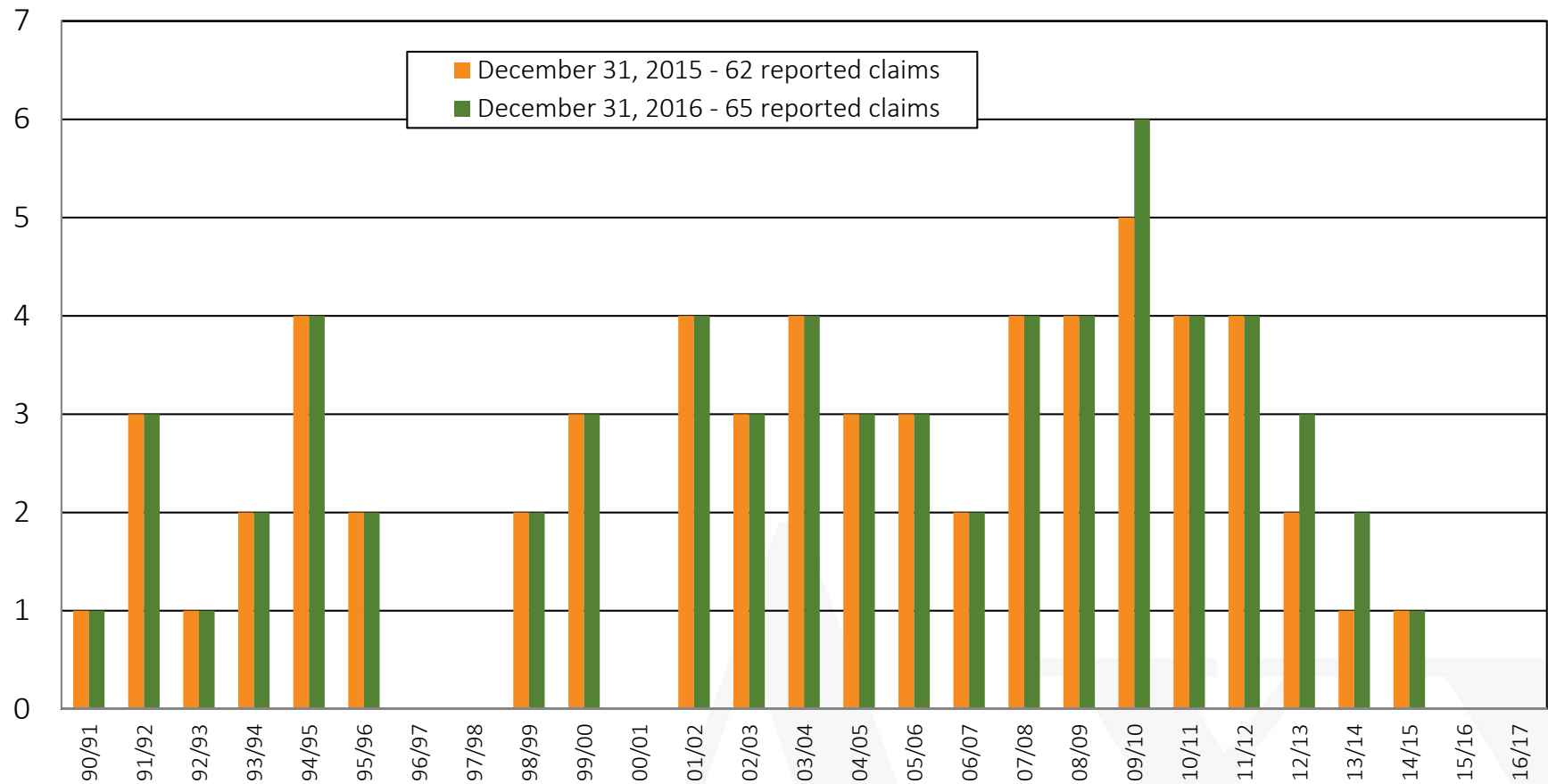
CLLAS

Actuarial Methodology

- Gross liabilities are estimated using loss data by layer
- Liabilities ceded to reinsurers are estimated based on the reinsurance arrangements in effect in each historical policy period
- Claim liabilities include:
 - Case reserves
 - Incurred but not reported (IBNR) reserves
 - Unallocated loss adjustment expenses (ULAE) reserves
- Claim liabilities are discounted and include a provision for adverse deviation

CLLAS

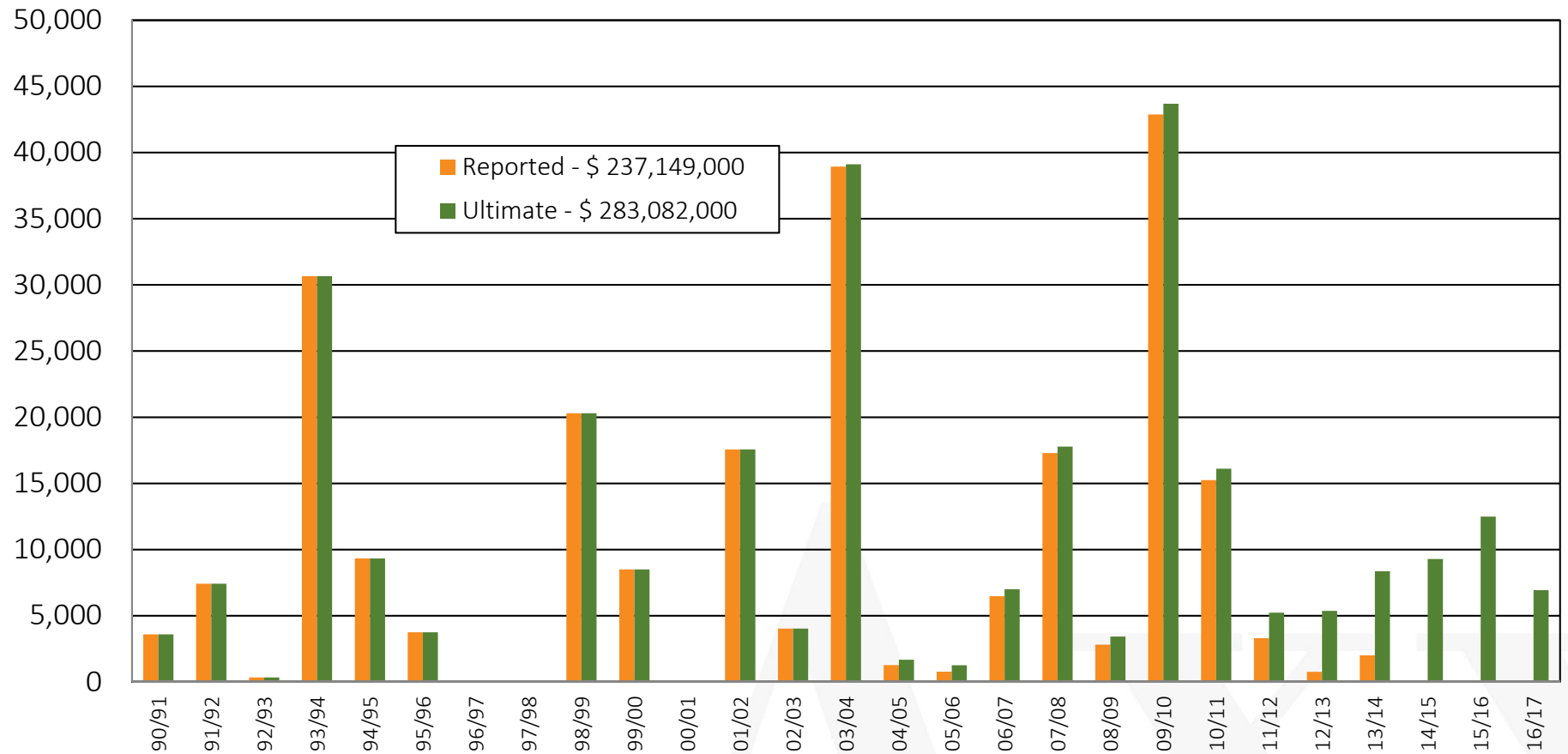
Reported Incurred Loss Activity – Claim Counts *



* Includes non-zero claims only

CLLAS

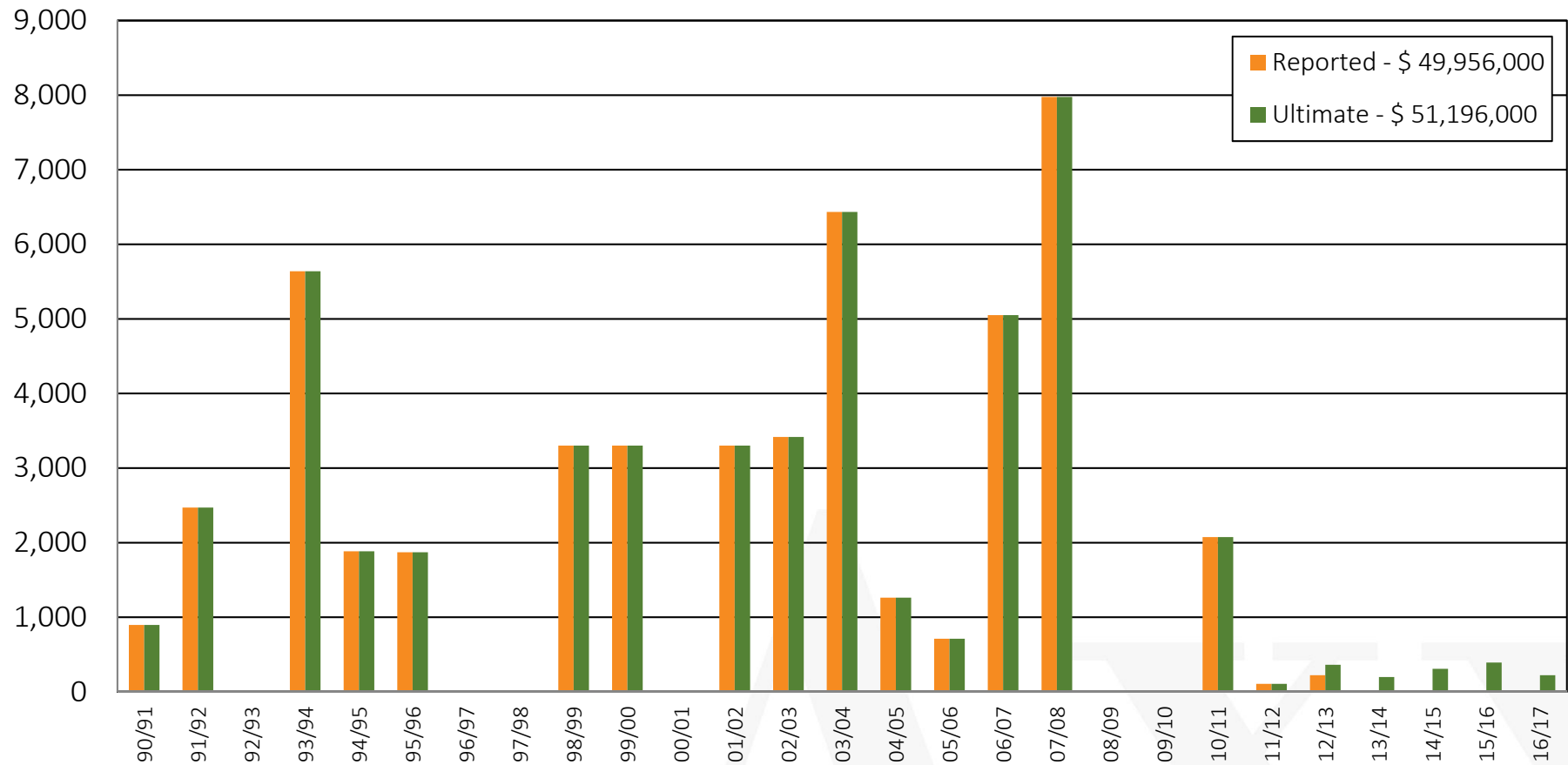
Gross Reported vs. Ultimate Losses* (in \$000's)



* Excluding ULAE

CLLAS

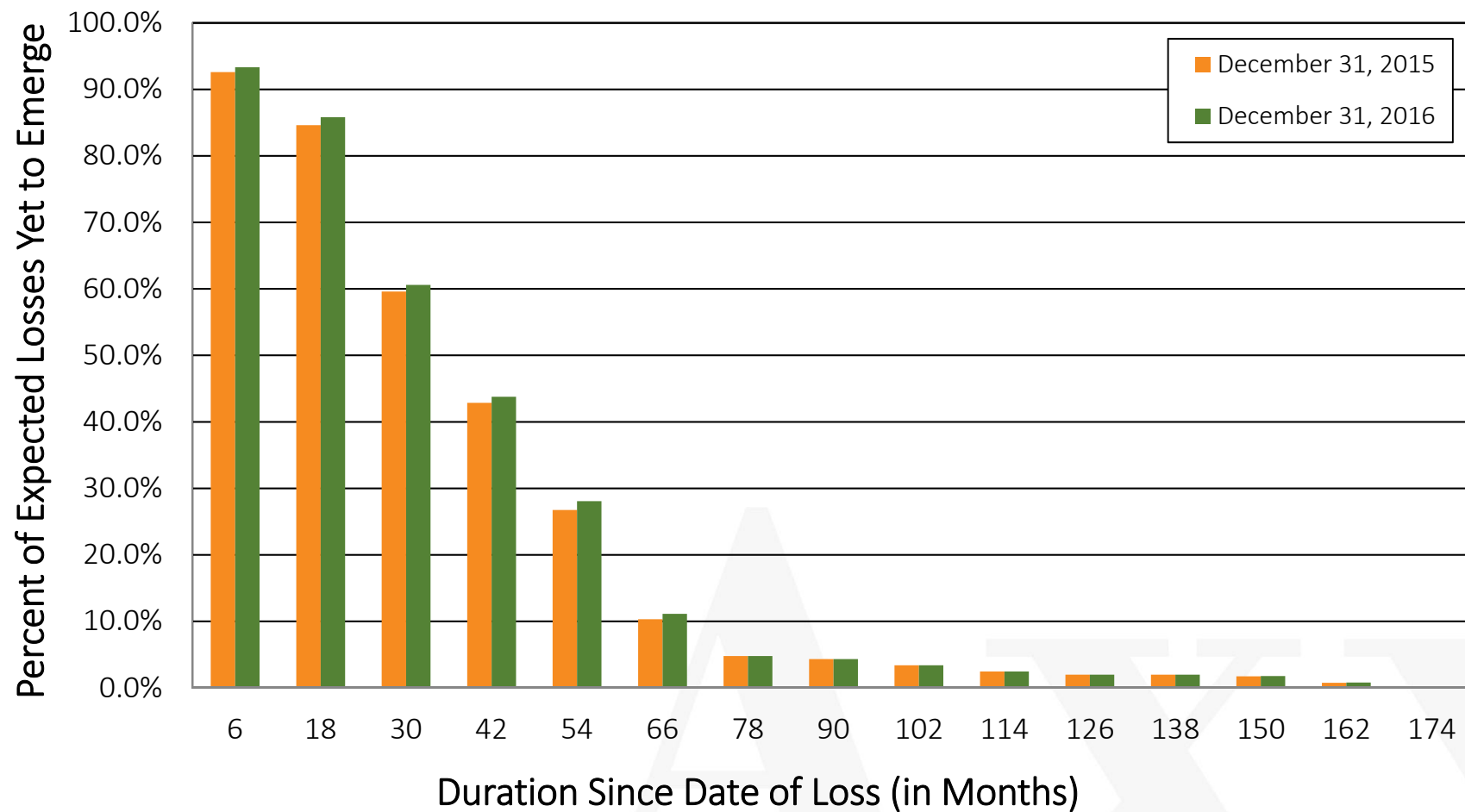
Net Reported vs. Ultimate Losses* (in \$000's)



* Excluding ULAE; Ultimate losses are fixed for policy periods prior to June 30, 2012 due to the Loss Portfolio Transfer with Colchester Reinsurance Ltd.

CLLAS

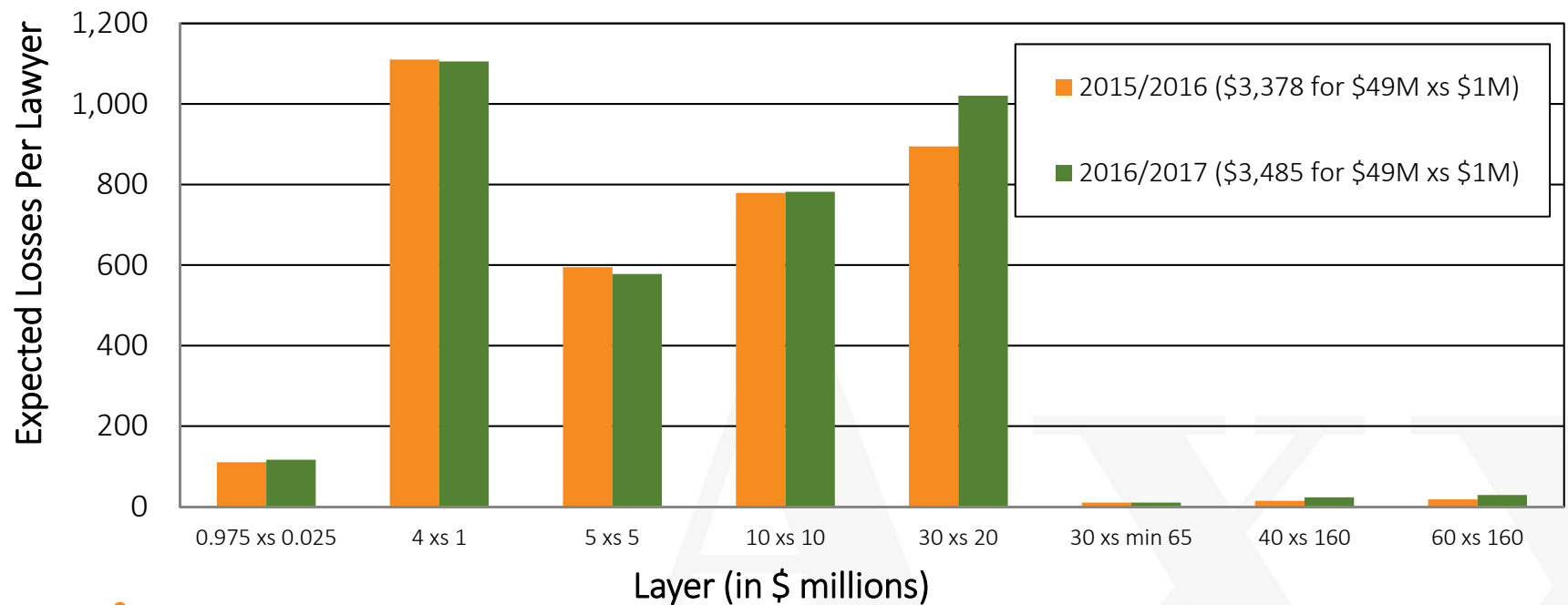
Loss Development Factors



CLLAS

2016/2017 Expected Loss Costs

- Revision of expected loss costs for 2016/2017 reflects emerging expectations of expected losses in each layer.
- The \$49M xs \$1M layer is broken down into smaller layers for valuation purposes: \$4M xs \$1M, \$5M xs \$5M, \$10M xs \$10M and \$30M xs \$20M.



CLLAS

Arrangement between CLLAS and Colchester for 2016/2017

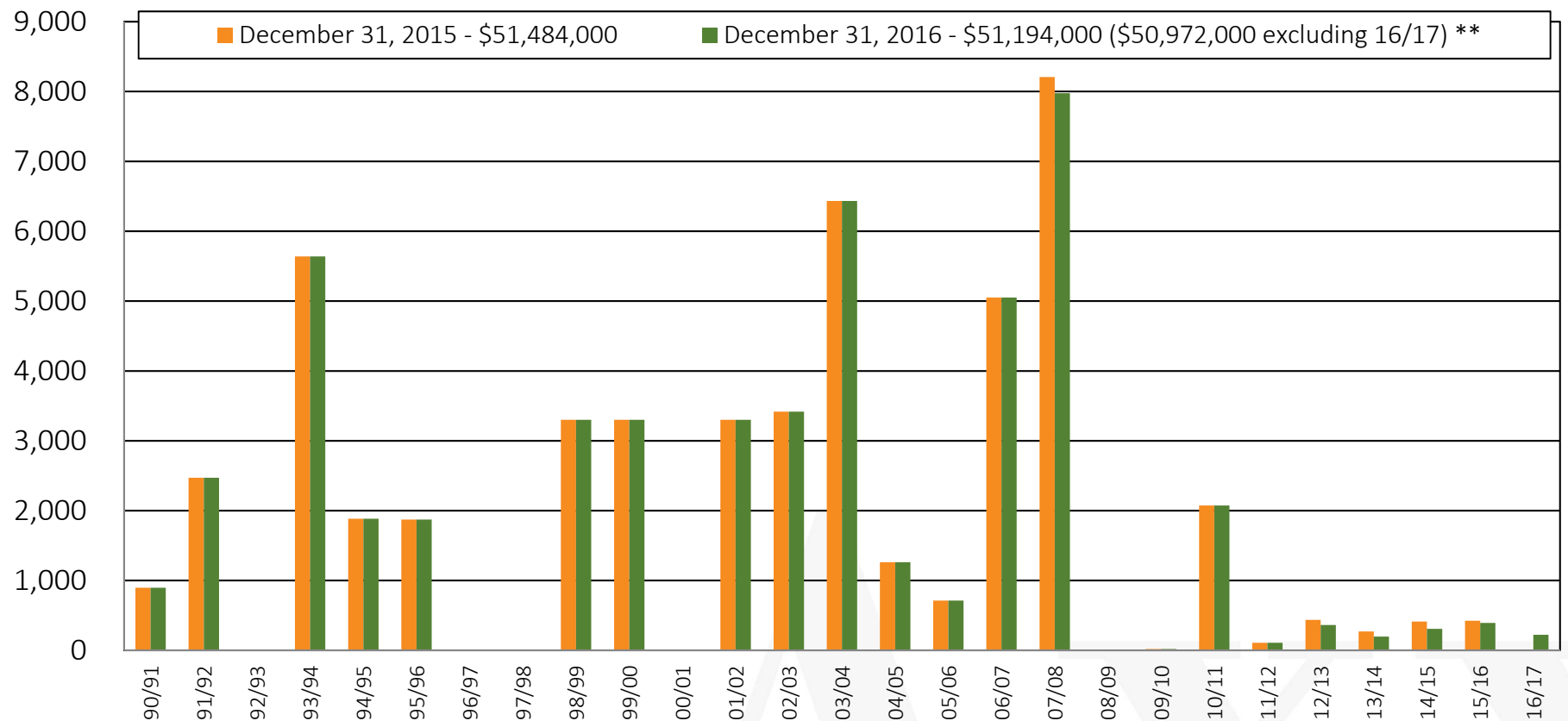
- Colchester retains 20% of the layer \$49,000,000 xs \$1,000,000 and 5% of the layer \$60,000,000 xs \$160,000,000
- The per-claim retention for CLLAS subject to the aggregate limit includes:
 - 100% of the layer \$975,000 xs \$25,000
 - 0% of the layer \$49,000,000 xs \$1,000,000
- Colchester provides aggregate reinsurance coverage of \$10,000,000 in excess of a \$5,000,000 limit

Loss Portfolio Transfer to Colchester on June 30, 2012

- Colchester purchased net outstanding claims obligations on policies written between July 1, 1987 and June 30, 2012
- CLLAS's remaining net claim liabilities attributable to the business written prior to June 30, 2012 are provisions for ULAE

CLLAS

Evolution of Net Ultimate Losses* (in \$000's)



* Excluding ULAE

**There is no development on policy periods prior to June 30, 2012 due to the loss portfolio transfer with Colchester Reinsurance Ltd, except for recoveries such as for policy year 2007/2008.

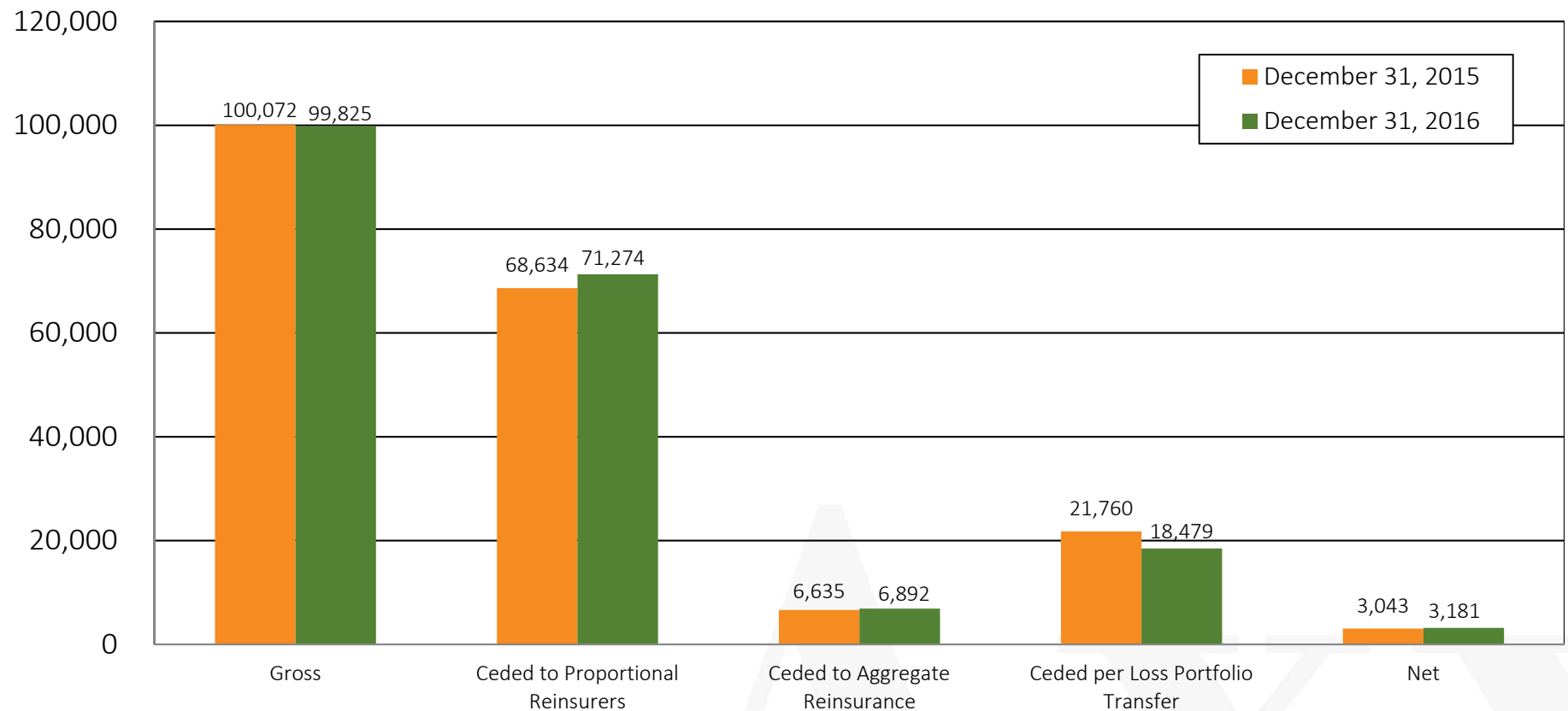
CLLAS

Unallocated Loss Adjustments Expenses (ULAE)

- Represents the provision for the claims management function to service existing obligations if CLLAS were to cease writing business on December 31, 2016
- Loading of 1.95% applied to gross case reserves and gross provisions for IBNR
- Provision for ULAE at December 31, 2016: \$1,909,000
- The provision for ULAE is entirely retained by CLLAS

CLLAS

Breakdown of Outstanding Claim Liabilities* (in \$000's)



* On an undiscounted basis

CLLAS

Valuation Basis

- Statutory Purposes and Professional Requirements:
Discounted Liabilities
+
Provision for Adverse Deviation (PFAD)

Discounted Liabilities

- The discount rate is used for the discounting of future claims payments
- A discount rate of 1.75% (1.5% in 2015) was selected based on the market yield of CLLAS' fixed income portfolio at December 31, 2016 since CLLAS has classified its fixed income portfolio as available-for-sale per IFRS 9

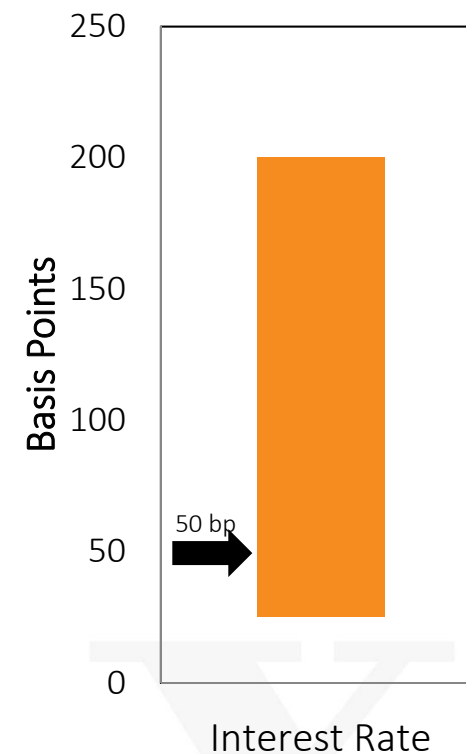
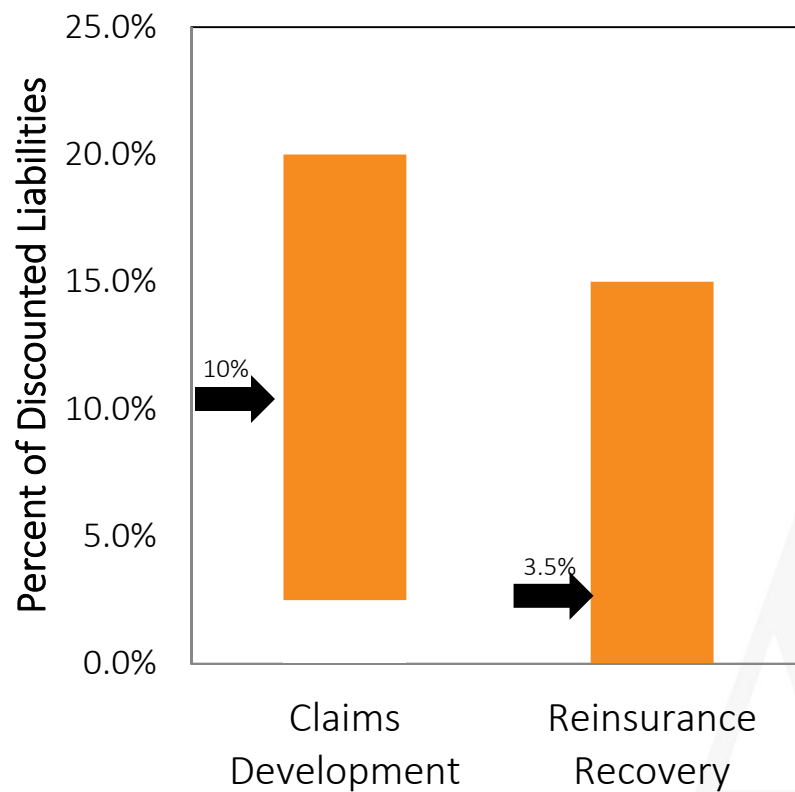
CLLAS

PFAD reflects three variables:

- **Claims development:**
Claims experience worse than expected
- **Reinsurance recovery:**
Reinsurers default on their obligations
- **Interest rate:**
Investment yield below expectations

CLLAS

Selected Margins for Adverse Deviation



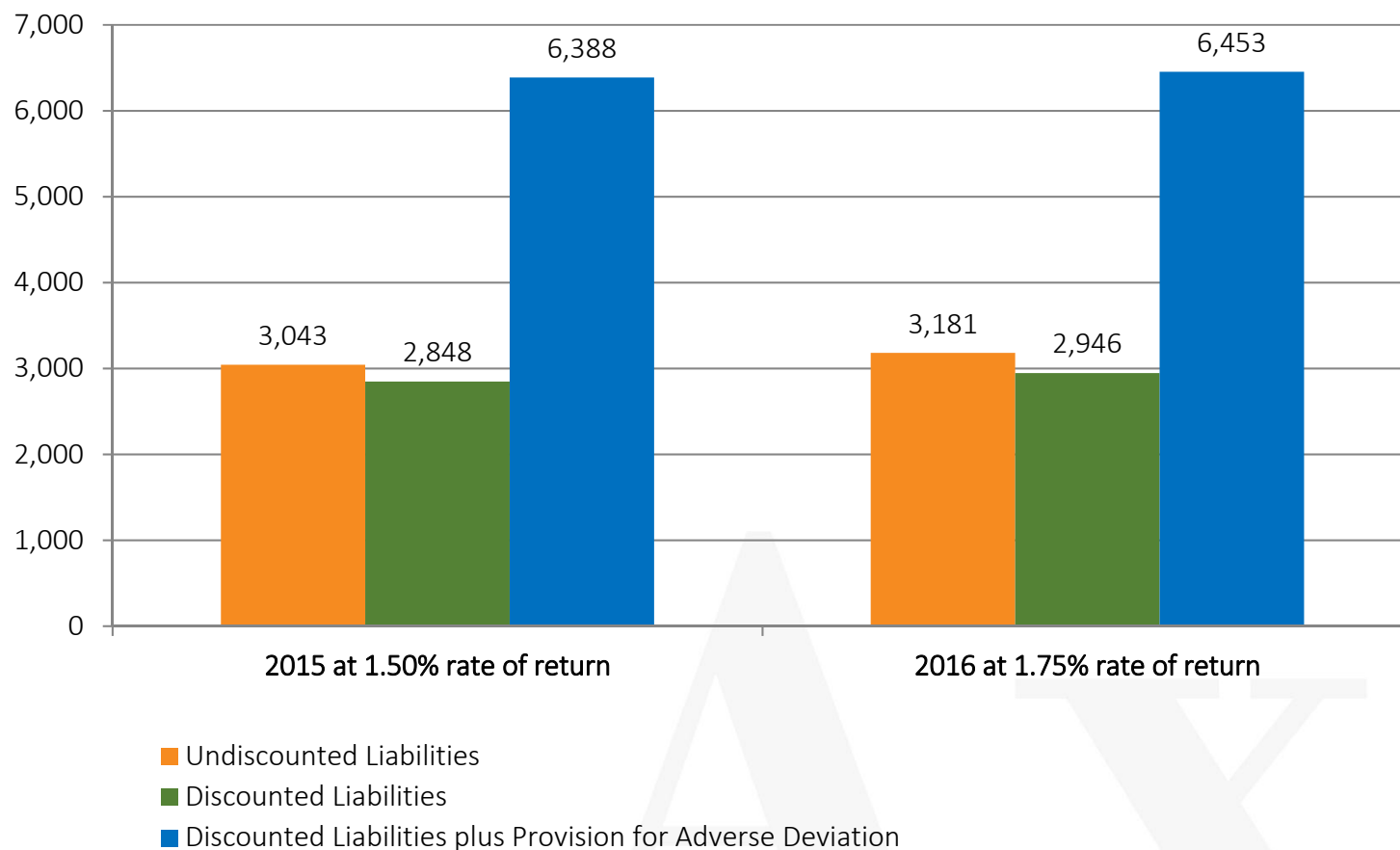
CLLAS

Impact of changes in methodology and assumptions

- There was no change in methodology in the valuation at December 31, 2016
- The impact of the change in loss development factors, ULAE load, discount rate and reinsurance PFAD led to an increase of \$3,000 in net discounted claim liabilities

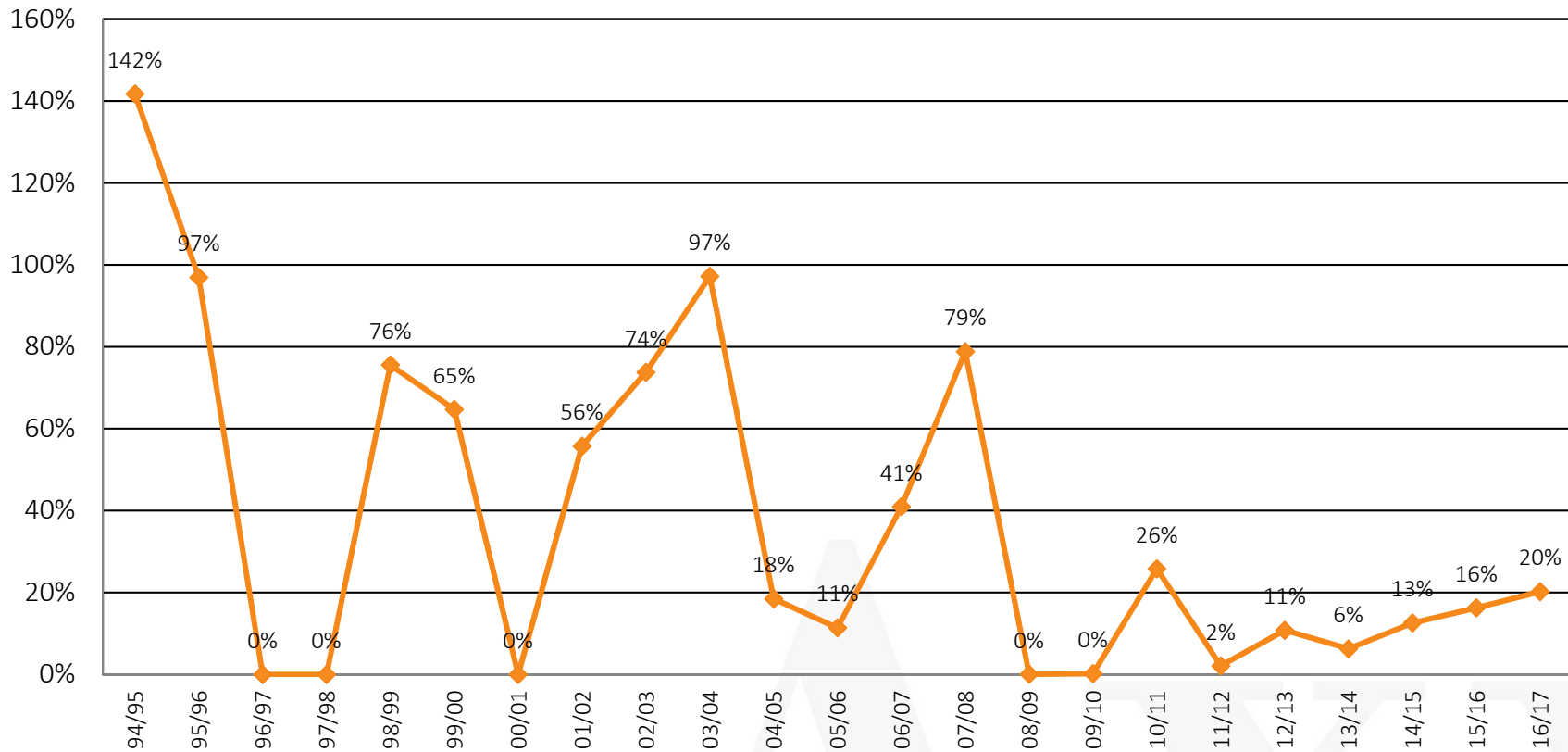
CLLAS

Summary of Net Provision for Unpaid Claims (in \$'000s)



CLLAS

Net Ultimate Loss Ratio*



* Excluding ULAE

CLLAS

Premium Liabilities

- A premium deficiency is generated if the premiums yet to be earned are not expected to sustain the expected expenses associated with earning them, i.e., if

Net unearned premiums

- Net liabilities in connection with unearned premiums
- Deferred policy acquisition expenses
- = Less than zero

- The premium deficiency is \$0
- The deferred policy acquisition expense asset is \$154,000



discussion

February 14, 2017

Private & Confidential

Mr. Nicholas Leblovic, Chair
Canadian Lawyers Liability Assurance Society
c/o Davies, Ward, Philips & Vineberg LLP
40th Floor, 155 Wellington Street West
Toronto, Ontario M5V 3J7

Dear Nick,

The purpose of this letter is to set out the proposed operating budget for CLLAS for 2017, including the proposed budget for the provision by Axxima of Management and Professional Services.

TOTAL OPERATING BUDGET FOR 2017

The draft total operating budget for CLLAS for 2017 is presented in Attachment A to this letter, together with the budget and actual figures for 2016. Overall, CLLAS finished 2016 5.5%, or \$134,000, under budget. A discussion of the notable “Other Expense” lines is immediately below and the Management and Professional Services lines are addressed in the second part of this letter.

- **Premium Taxes.** Premium taxes came in under budget for 2016. Premium taxes are a percentage of premium (the rate varies slightly by province) and premiums in 2016 were lower than budgeted due to the reinsurance rate reduction negotiated as part of the July 1, 2016 renewal.
- **D&O Insurance.** CLLAS’ D&O policy was placed with a different insurer in 2016 in order to obtain better coverage for CLLAS (specifically by narrowing the “Insurance Operators” exclusion). This budget reflects the cost of this coverage going forward.
- **Special Services.** This line is for expenses related to external legal and other professional services provided to CLLAS. In 2016, no expenses were incurred on this line. We propose to maintain the budget for 2017 at the expiring level. The legal fees incurred for the Subscribers Agreement redraft will be tracked to this line.
- **Miller Fees.** Miller fees for the 2016/17 policy year were agreed at \$279,000. The budget contemplates no change to this fee for the 2017/18 policy year.



- **Risk Management/Loss Prevention.** The Risk Management/Loss Prevention line finished the year slightly over budget due to CLLAS' reimbursement of 50% of John Walker's fees for re-auditing CLLAS firms. We propose to leave this budget line unchanged for 2017.
- **Insurance Sundry.** In 2016, there was a very small write-off (\$1,200) of reinsurance receivables and it was put through the income statement as a "sundry" item. The write-off is the net result of a review and clean-up of old claim reimbursements.

PROFESSIONAL AND MANAGEMENT SERVICES

1. Management Services

Management Services are provided on a fixed fee basis, with the exception of Claims Analysis, which is a variable line item related to management of CLLAS' active large loss files. Due to claims activity, as discussed in more detail below, Management Services finished the year \$7,904 over its budget of \$580,000. The proposed fixed fee budget for 2017 is \$579,500, virtually unchanged from 2016.

Both the 2016 and 2017 fixed fee budgets are net of a credit which represents commissions received by Axxima's insurance brokerage for firms in CLLAS' associate firm program. Details are as follows:

- **2016:** Lenczner Slaght joined the CLLAS Associate program effective January 1, 2016. The firm chose an 18-month policy which expires on June 30, 2017. The premium for the first 12 months was invoiced and paid as of January 1, 2016. The commission for this instalment was \$35,017.50, and CLLAS received a credit against 2016 management services of \$35,000.
- **2017:** The second instalment for final six months of the 18-month term of the Lenzner Slaght policy was invoiced on January 1, 2017. The commission for this installment was \$17,508.75. Stockwoods joined the CLLAS Associate program effective January 1, 2017. The firm chose an 18-month policy and the full 18 months was invoiced and paid as of January 1, 2017. The commission for this policy was \$14,962.50. CLLAS will receive a credit against management services in 2017 of \$32,500 to account for these commissions.

Details of the Management Services budget by line are presented in the following table:

Activity	2016 Budget	2016 Actual	Fav/ (Unfav) Variance	2017 Budget (proposed)	Change (\$)	Change (%)
Financial	\$195,000	\$195,000	\$ 0	\$190,000	(\$ 5,000)	-2.5%
General Admin.	\$ 88,000	\$ 88,000	\$ 0	\$ 90,000	\$ 2,000	2.3%
Claims Admin.	\$260,000	\$260,000	\$ 0	\$260,000	\$ 0	0.0%
Claims Analysis*	\$ 72,000	\$ 79,904	(\$ 7,904)	\$ 72,000	\$ 0	0.0%
Subtotal	\$615,000	\$622,904	(\$ 7,904)	\$612,000	(\$ 3,000)	0.5%
Less Credit	\$ 35,000	\$ 35,000	\$ 0	\$ 32,500	(\$ 2,500)	-7.0%
Total	\$580,000	\$587,904	(\$ 7,904)	\$579,500	(\$ 500)	0.0%

* Variable

- (a) **Financial Reporting.** Activity on the Financial Reporting line has stabilized with the adoption of CLLAS' initial ORSA report and the implementation of new financial reporting metrics. We have been advised by the Alberta regulator that there are no significant regulatory changes on the horizon at the OSFI level (there are some further IFRS developments, but they are still a few years away) so we expect that the activity on this line should be stable going forward. We are proposing a slight reduction to this line.
- (b) **General Administration.** The General Administration line includes such activities as Board meeting preparation, renewal applications, policy preparation, risk management initiatives, website maintenance and miscellaneous coverage/policy and other enquiries from Subscribers, etc. Activity was somewhat above expectations in 2016 and we are proposing a small increase to this line for 2016.
- (c) **Claims Administration.** The Claims Administration line was reduced significantly for 2016 (by \$40,000 compared to 2015) and we believe the current budget remains appropriate for 2017.
- (d) **Claims Analysis.** The Claims Analysis line, which tracks activity on the claims where CLLAS is actively involved in claims management (due to the nature or significance of the particular claims) finished 2016 over budget. The Claims Analysis line is variable, i.e. it is adjusted quarterly based on activity in the year. The overage in 2016 was

largely due to managing a relatively small number of complicated claims. We are proposing to leave the budget number unchanged for 2017.

Please see Attachment B to this letter for a brief summary of the activity associated with each of the above fixed fee line items.

2. Professional Services

Professional Services, i.e. actuarial, reinsurance and strategic services, are provided on a fee-for-service basis. Budgets are set at the beginning of the year, but the actual costs on these lines depends on the value of activity throughout the year. While the fees on the Strategic Services line exceeded budget (see discussion below), overall fees for 2016 were about \$59,000 (10.4%) under the budget of \$570,000.

As set out in the table below, we are proposing a decrease in the overall budget for Professional Services of \$20,000 or 3.5%. Details by line are discussed after the table.

	2016 Budget	2016 Actual	Fav/ (Unfav) Variance	2017 Budget (proposed)	Change (\$)	Change (%)
Actuarial	\$ 85,000	\$ 53,363	\$ 31,637	\$ 80,000	(\$ 5,000)	-5.9%
Reinsurance	\$325,000	\$271,198	\$ 53,802	\$310,000	(\$15,000)	-4.6%
Strategic	\$160,000	\$186,146	(\$ 26,146)	\$160,000	\$ 0	0.0%
Total	\$570,000	\$510,707	\$ 59,293	\$550,000	(\$20,000)	-3.5%

- (a) **Actuarial Services.** Activity on the Actuarial line was light in 2016, after a busy 2015 focused on ORSA. We propose a small reduction in the budget for 2017, acknowledging that the reduced budget remains conservative
- (b) **Reinsurance Services.** We had anticipated that 2016 would be an active year for Reinsurance Services given the significant claim that emerged in 2015, although we indicated that the budget would likely be conservative if the ultimate reinsurance renewal strategy did not involve structural changes. In the end, the structure remained the same and CLLAS' desired renewal terms were achieved largely through negotiations with incumbents. (Having said that, the renewal strategy did lead to the need to replace a domestic market, Catlin. Munich Re and two new Lloyds syndicates



joined the program.) For 2017, we propose a reduction for the Reinsurance Services budget to \$310,000 from \$325,000.

(c) **Strategic Services.** In 2016, fees incurred on the Strategic Services line totaled \$186,146 compared with a budget of \$160,000. Activities included work relating to:

- Associate firm initiative, including finalizing policy wording with insurers, issuing policy to first associate firm, discussions with target firms
- Interactions with departed subscriber re subscriber accounts
- Finalize and file CLLAS ORSA report
- Finalize CLLAS ERM Policy
- Prepare CLLAS Reinsurance Risk Management Policy
- Prepare ASOI examination action plan update for regulator
- Cyber initiative, including review of wordings, discussions with Policy Committee, survey of firms, meetings with markets
- Conduct Board self-evaluation survey
- Updating of Subscribers Agreement, review and discussions with Policy Committee
- Review surplus requirements for new entrants to CLLAS

Activity on the Strategic Services line is difficult to predict but we propose no change to the Strategic Services budget for 2017.

The foregoing are budget estimates only. As in the past, we have attempted to budget conservatively and the extent that the level of activity on a particular line proves to be less than anticipated, the budget will not be fully spent.

We look forward to discussing this proposed budget with you and the CLLAS Advisory Board at the upcoming meeting. Please do not hesitate to call to discuss this matter in the meantime.

Sincerely,

A handwritten signature in black ink, appearing to read "P. Mahoney".

Patrick Mahoney

PMM/

Copy: CLLAS Advisory Board

**Canadian Lawyers Liability Assurance Society
2016 Operating Budget**

	<u>FY 16 Budget</u>	<u>FY 16 Actual</u>	<u>Fav/ (Unfav) Variance</u>	<u>Proposed FY 2017 Budget</u>
MANAGEMENT SERVICES	580,000	587,904	(7,904)	579,500
PROFESSIONAL SERVICES				
Actuarial Services	85,000	53,363	31,637	80,000
Reinsurance Matters	325,000	271,198	53,802	310,000
Strategic Matters	160,000	186,146	(26,146)	160,000
Sub-Total Professional Services	570,000	510,707	59,293	550,000
Total Management & Professional Services	1,150,000	1,098,611	51,389	1,129,500
HST on Consulting Fees	149,500	142,819	6,681	146,835
Total Consulting Services	1,299,500	1,241,430	58,070	1,276,335
OTHER EXPENSES				
Audit Expenses	107,000	109,865	(2,865)	107,000
Annual Dinner	7,000	5,885	1,115	7,000
Premium Taxes	355,000	327,434	27,566	289,000
Chairman's Expenses	3,000	38	2,962	3,000
Chairman's Honourium	150,000	150,000	-	150,000
Reinsurance Expense	7,500	8,553	(1,053)	8,500
D&O Insurance	14,000	20,267	(6,267)	20,000
Office Expenses	25,000	22,203	2,797	25,000
Office Expenses - Website management	3,000	563	2,438	3,000
Claims: Borderaux (LawPro/LIF)	15,000	14,300	700	14,600
Special Services	50,000	0	50,000	50,000
Miller Insurance Fees (Reins. Comm.)	279,000	279,000	-	279,000
I.B.C Statistical Plan Fees	4,000	2,526	1,474	4,000
FSCO Assessment Fees	3,000	3,000	-	3,000
Investment counsel fees	32,000	27,309	4,691	30,000
Investment - Custodial	17,000	18,018	(1,018)	18,000
Risk Management/Loss Prevention	50,000	57,348	(7,348)	50,000
Licensing Fee	6,500	4,113	2,387	6,500
Insurance Sundry	0	1,193	(1,193)	0
Sub-total	1,128,000	1,051,613	76,387	1,067,600
TOTAL	2,427,500	2,293,043	134,457	\$2,343,935

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Management Services - Overview of Activity by Budget Line

Presented below is a brief summary of the activity associated with each of the Management Services budget lines, as well as a discussion of the guidelines for determining whether a claim falls within the “Claims Analysis” line, which operates on a fee for service basis.

1. Financial Reporting

The Financial Reporting area involves all financial functions including:

- compliance with regulatory/reporting requirements (including IBC reporting, P&C1 filings, province-specific filings)
- preparation of financial statements (quarterly and annual)
- facilitating regulatory audit and managing relationship with regulator
- managing year-end audit (Deloitte) and liaising with auditors
- interaction with the Audit Committee
- maintenance of cashbooks
- bank statement reconciliations
- accounts payable/receivable
- cheque preparation and deposit
- premium collection/remittance
- claims reimbursements from reinsurers
- liaison with investment manager
- budget variance analysis
- subscribers accounts

2. General Administration

The General Administration line covers work relating to:

- preparation for/attendance at Advisory Board meetings
- preparation for/attendance at standing committee meetings (e.g. policy, risk management - all meetings other than claims and audit)
- renewal applications
- premium invoices
- policy preparation and issuance
- policy inquiries
- miscellaneous inquiries from Subscribers
- general administrative matters
- website maintenance

3. Claims Administration

The Claims Administration line covers all claims activity except for senior consultant time spent on the claims that meet the criteria set out in Section 4 below. Activity on this line includes:

- maintenance of claims database
- maintenance of physical files
- initial file review
- acknowledgment and follow-up letters
- correspondence with insured firms
- interaction with underlying insurers (e.g. bordereaux updates)
- preparation for/attendance at Claims Committee meetings
- interaction with Claims Committee members
- liaison with reinsurers on claims (preparation of large loss reports, answering specific inquiries, managing reinsurer audits)
- preparation of claims activity schedule for Advisory Board meeting
- co-ordination of instructions to counsel

4. Claims Analysis

Pursuant to the agreement between CLLAS and Axxima, routine and recurring claims management/analysis work is provided by Axxima for a fixed fee to be agreed upon by the parties. Certain files require significant additional claims management work by Axxima on a claim by claim basis. Work on these claims will be accounted for as a separate budget line item.

The following guidelines dictate when a claim will move from the fixed fee to the variable fee category.

1. The underlying insurer (e.g. LawPRO, LSBC-LIF) has tendered the defence of the matter to CLLAS;
2. Settlement involving a potential contribution from CLLAS is being actively pursued; or
3. The Office of the General Manager has become very active in the management of the claim due to, for example, the potential of the claim.



Canadian Lawyers Liability Assurance Society

Audit results

For the years ended December 31, 2016 and 2015
Presented to the Audit Committee
February 16, 2017



Deloitte LLP
Bay Adelaide East
22 Adelaide Street West
Suite 200
Toronto ON M5H 0A9
Canada

Tel: 416-601-6150
Fax: 416-601-6610
www.deloitte.ca

February 16, 2017

To the Chairman and Members
of the Audit Committee of Canadian Lawyers Liability Assurance Society

Dear Audit Committee Members:

Report on audited annual financial statements and Minimum Capital Test Return

We are pleased to submit this report on the status of our audit of Canadian Lawyers Liability Assurance Society ("the Society") for the 2016 fiscal year. This report summarizes the scope of our audit, our findings to date and reviews certain other matters that we believe to be of interest to you.

As agreed in our engagement letter dated October 14, 2016, we have performed an audit of the financial statements and the Minimum Capital Test Return (MCT Return) of Canadian Lawyers Liability Assurance Society as of and for the year ended December 31, 2016, in accordance with Canadian generally accepted auditing standards ("GAAS") and expect to issue our audit report thereon upon their approval by the Audit Committee.

This report summarizes our findings during the audit to date. Our audit has been conducted in accordance with the audit plan that was presented to the Audit Committee members at the meeting on October 26, 2016.

The results of our audit are explained in further detail in this report.

Use of our report

This report is intended solely for the information and use of the Audit Committee, management and others within the Society and is not intended to be, and should not be, used by anyone other than these specified parties. Accordingly, we disclaim any responsibility to any other party who may rely on it.

We would like to express our appreciation for the cooperation we received from the officers and employees of the Society with whom we worked to discharge our responsibilities.

We look forward to discussing this report summarizing the outcome of our audit with you and answering any questions you may have.

Yours truly,

A handwritten signature in black ink that reads "Deloitte LLP".

Chartered Professional Accountants
Licensed Public Accountants

Table of contents

At a glance	1
Audit results	2
Other reportable matters	5
Our commitment to audit quality	6
Key regulatory and standards developments	7
Appendix 1 – Communication requirements	9
Appendix 2 – Draft version of our auditor's report	11
Appendix 3 – Independence	14
Appendix 4 – Draft management representation letter	16
Appendix 5 – Financial reporting and regulatory update	21
Appendix 6 – Deloitte resources a click away	24

At a glance

This report summarizes the main findings arising from our audit to date and the status of our audit

Significant audit risks <i>We have not identified additional significant risks during our audit.</i>	Our audit plan identified certain areas that we refer to as significant audit risks. The results of our audit work on these audit risks are set out on page 2.
Uncorrected misstatements <i>We have not identified uncorrected misstatements during our audit.</i>	In accordance with Canadian GAAS, we request that all misstatements be corrected. No uncorrected misstatements arose during the audit.
Uncorrected disclosure misstatements <i>We have not identified uncorrected disclosure misstatements during our audit.</i>	In accordance with Canadian GAAS, we request that all disclosure misstatements be corrected. No disclosure misstatements to report.
Independence <i>We are independent of the Society.</i>	<p>We have developed appropriate safeguards and procedures to eliminate threats to our independence or to reduce them to an acceptable level.</p> <p>As required under Canadian GAAS, you have requested that we report all relationships and other relevant matters that, in our professional judgment, may reasonably be thought to bear on our independence and confirmed our independence to the Audit Committee for the years ended December 31, 2016.</p>
Outstanding Items <i>We shall provide an update to the Audit Committee meeting on these outstanding matters.</i>	<p>As of the date of writing, certain aspects of our audit and file documentation are outstanding including:</p> <ul style="list-style-type: none">• Receipt of signed management representation letter• Performance of subsequent event procedures up to February 22, 2017• Completion of final Quality Partner review. <p>We plan to issue our audit opinions dated February 22, 2017, following completion of the above procedures and approval of the financial statements by the Advisory Board.</p>

Audit results

The following summarizes the status and findings of key aspects of our audit. In the appendices to this report, we have provided additional information related to certain matters we committed to report to the Audit Committee as part of the audit plan.

The following important matters have been discussed with management:

Significant audit risks

Risk of management override of controls

Audit risk	We are obliged under the auditing standard, <i>The auditor's responsibilities relating to fraud in the audit of financial statements</i> , to consider and report on the risk associated with the potential for management override of controls. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud, and thus a significant risk
Our audit response	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none">▪ Assessed the effectiveness of controls over the financial close process including the preparation and posting of journal entries and other adjustments▪ Examined accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatement due to fraud.▪ Selected journal entries for review that displayed characteristics of which could be indicative of fraud.
Our conclusion	The results of our audit procedures were satisfactory.

Revenue recognition

Audit risk	Revenue streams are contractually driven, although the level of manual intervention increases the risks.
Our audit response	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none">▪ Tested management's controls over significant revenue streams▪ Performed a combination of analytical procedures and test of details▪ Agreed, on a sample basis, the insurance premiums recorded in the administration system to supporting documentation▪ Obtained confirmation from the insured and tested reconciling items, if any.
Our conclusion	The results of our audit procedures were satisfactory.

Recognition and disclosure of subscriber withdrawals (occurrence, valuation, and presentation)

Audit risk	Subscriber withdrawals occur periodically and judgment is involved in determining the appropriate timing of recognition and valuation of amounts and appropriate note disclosure.
Our audit response	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none">Assessed Management's judgment as to the timing and value to be recognized in respect of the liability arising on withdrawal of a subscriberUtilizing actuarial experts, tested Management's valuation of the recognized liability to the subscriber, as applicable <p>Assessed the appropriateness and completeness of disclosures included in the financial statements</p>
Our conclusion	The results of our audit procedures were satisfactory.

Provision for unpaid claims and adjustment expenses, gross and net of amount recoverable from insurers (valuation)

Audit risk	<p>Risk of measurement uncertainty due to a significant amount of judgment required by the Appointed Actuary and Management with respect to the assumptions and methodologies underlying the reserves.</p> <p>Estimates are complex and subject to variability. Relatively small variations in assumptions, selections of best estimate and margins for adverse deviations can have a significant impact on the Society's overall financial results.</p> <p>We assessed whether the reserves are appropriately established, carried and released.</p>
Our audit response	<p>We addressed these risks by:</p> <ul style="list-style-type: none">Utilizing actuarial experts in the planning and execution of our audit proceduresAssessing internal controls over the actuarial and claims processesReviewing and assessing claims handling and monitoring proceduresSelecting and testing of a representative sample of claims to ensure reserved amounts are properly supported and payments are properly authorized and accurately recordedTesting underlying data used in the valuation including claims reserves, claims paid and premium dataTesting the reconciliation of the reserves, focusing on the reconciliation between the administrative and valuation systemsReviewing the opinion of the Appointed ActuaryUpdating our understanding of the methods, models and key assumptions used in the valuation including any changes thereonAssessing the reasonableness of key assumptions and methodologiesIndependent recomputations of the actuarial reservesReviewing the discount factor used and the application of discountingTesting the consistency of reserve margins over timePerforming analytical procedures on reserve movementsReviewing trends in the development of prior years' ultimate and perform a retrospective assessment (a look back test) to determine whether Management judgments and assumptions relating to the estimates indicate a possible bias on the part of Management.
Our conclusion	<ul style="list-style-type: none">Our audit testing did not identify any discrepancies in the claims data. Our audit tests are based on sampling considering materiality and our risk assessment.Our Actuarial expert reviewed actuarial methodologies and assumptions and has conducted various recomputation tests. The results of conducting these procedures were satisfactory and differences in computed amounts were within the range of acceptable actuarial practice. Security in place for amounts ceded is sufficient to cover non-payments by reinsurers <p>The results of our audit procedures were satisfactory.</p>

Significant accounting practices, judgments and estimates

Significant accounting policies

In our judgment, the significant accounting practices and policies, selected and applied by management are, in all material respects, acceptable under IFRS and are appropriate to the particular circumstances of the Society.

Significant accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. These judgments are normally based on knowledge and experience about past and current events, assumptions about future events and interpretations of the financial reporting standards.

During the year ended December 31, 2016, management advised us that there were no significant changes in accounting estimates or in judgments relating to the application of the accounting policies, except for the following:

In our judgment, the significant accounting estimates made by management are, in all material respects, free of possible management bias and of material misstatement. The disclosure in the financial statements around estimation uncertainty is in accordance with IFRS and is appropriate to the particular circumstances of the Society.

Area of significant judgment or estimate	2016 (in '000)	2015 (in '000)	Comments
Provision for unpaid claims and adjustment expenses – Gross	\$101,247	\$102,508	Management's estimate of actuarial liabilities is the most significant area of measurement uncertainty which utilizes complex models and significant management judgment for assumptions.
Provision for unpaid claims and adjustment expenses recoverable from reinsurer	\$94,794	\$96,120	We did not identify any significant reinsurance disputes. Our tests also did not identify any concerns related to the reinsurer credit defaults.
Net impact of changes in assumptions, provisions for adverse deviations and discount rate	\$1,271	\$1,229	<p>There were no changes made in the methodology of calculating provision for unpaid claims and adjustment expenses between last year and current year end. The Bornhuetter-Ferguson Method (BF) which is based on expected claims development patterns and expected losses continues to be the primary method relied upon by the Appointed Actuary.</p> <p>We noted no changes to the provision for adverse deviations "PfAD" factor as compared to the prior year.</p>

In our judgment, the significant accounting estimates made by management are in all material respects, free of possible management bias and of material misstatement. We will discuss with the Audit Committee our views on the qualitative aspects of the above areas of judgment at the meeting on February 16, 2017. The disclosure in the financial statements around estimation uncertainty is in accordance with IFRS and is appropriate to the particular circumstances of the Society.

Other reportable matters

Canadian GAAS require that we also communicate to the Audit Committee on the following matters

Materiality	Materiality levels were determined on the basis of the unpaid loss and loss adjustment expenses balance. Our initial estimate of materiality as communicated to the Audit Committee on October 26, 2016 was \$2,000,000 and was based on Q2, 2016 accounting records. This materiality was revised for the year end audit and we used the following materiality levels for the year ended December 31, 2016:		
		Materiality	Performance materiality
	Financial Statements	\$ 1,400,000	\$ 1,050,000
Use of the work of specialists and experts	As planned, Deloitte actuarial experts assisted in the audit to the extent we considered necessary. The use of specialists and experts was already communicated in our audit plan. There have been no changes.		
Involvement of Deloitte's resources outside Canada	Personnel in India assisted us with the performance of audit procedures during the current-period audit. Those personnel are considered members of the engagement team and were subject to our supervision, and their work is subjected to our review.		
Management representation letter	A draft version of the management representation letter to be signed by management is included in Appendix 4.		
Reporting responsibilities	As a part of our audit plan, we committed to communicate certain matters to the Audit Committee on a regular basis or as specified events occur. A summary of our communications is provided in Appendix 1.		

Our commitment to audit quality

Deloitte Audit Quality Report

We have previously described our aspiration to be the market leader in Audit Quality. In mid-November, we published our inaugural Audit Quality Report, which outlines key steps we've taken to enhance audit quality, the investments we're making to transform the audit, and our continued commitment to embracing a bold new mindset as we aim to lead the market and shape the future of the audit profession in Canada.

Placing audit quality at the centre of our culture of continuous enhancement and innovation, drives us to make today's best work even better tomorrow. For example, we no longer place responsibility solely on individual audit teams to enhance audit quality. We have advanced how our audit practice is managed, allowing the firm to achieve its objectives as audits go on, rather than waiting for an assessment after the engagement is finished.

We are also focused on broadening the understanding of what audit quality means. Today, we see 3 dimensions: meeting the technical/professional requirements that CPAB is also assessing; having our clients better understand their companies as a result of our audit; and leading change that enables us to keep pace with clients' systems and process developments. We're actively working on all three.

Follow [this link](#) to read our 2016 Audit Quality Report.

CPAB Big Four Report

The Canadian Public Accountability Board (CPAB) is charged with assessing the state of audit quality in Canada through the annual inspection process by which it inspect all firms serving Canada's reporting issuers. After each inspection cycle, CPAB privately reports to each firm on the results of its inspection. CPAB's public reporting takes the form of an annual report on its views following the inspections of all firms.

In addition, CPAB issues an annual Big Four Report, summarizing its inspection results on the Big Four audit firms, who together audit the vast majority of the market capitalization of Canada's reporting issuers. That report was issued at the end of November.

In its Big Four Report, CPAB reported that audit quality had improved at all firms. CPAB had significant inspection findings in 13% of files reviewed compared to 26% the prior year. CPAB's challenge to the four firms is to continue increasing the consistency of audit quality so that it becomes uniform across every audit that that a firm undertakes.

Specifically, CPAB challenged all four firms to:

- Revise firm guidance and policies to address systemic quality issues.
- Identify key quality controls and determine metrics to monitor and measure effectiveness.
- Ensure effective issue escalation processes to manage and mitigate firm risks.

CPAB also provided helpful perspective and sample questions for audit committees to deepen their conversations with their auditors.

Follow [this link](#) to read the 2016 CPAB Big Four Report.

Our perspective

We are encouraged that CPAB's findings are that quality is improving. That is our aim. We also agree with CPAB's guidance for the future. As we describe in our Audit Quality Report, our own audit quality plans already include emphasis on the three areas highlighted by CPAB for attention.

Key regulatory and standards developments

Issued but not yet effective accounting standards

Adoption of the new accounting standards continues to be a key priority for preparers, auditors, and regulators. Upcoming IFRS standards receiving a lot of focus include the proposed IFRS 17, Insurance Contracts, IFRS 9, Financial Instruments, and IFRS 15, and Revenue from Contracts with Customer – refer to Appendix 5 for effective dates.

IFRS requires disclosure of known or reasonably estimable information relevant to assessing the possible impact that application of a new IFRS that has been issued but is not yet effective will have on the entity's financial statements in the period of initial application.

Recently, some Canadian regulators have reiterated their focus on disclosures that reporting issuers provide about implementation of the new standards in the years leading up to adoption. While CLLAS is not a reporting issuer, the expectation of regulators is to see more robust and detailed qualitative and quantitative disclosures about the anticipated impact of the new standards, as well as disclosure about the status of your Society's implementation plans. Regulators expect that quantitative information will be available and disclosed for the reporting date that coincides with the comparative period that will be affected by the adoption of the future accounting standards. Such disclosures are important to financial statement users because they contain information about the status of the implementation and possible challenges ahead as well as the potential impact on the financial statements and on the business in general.

Audit committees have an important role to play in overseeing an entity's efforts as it implements new accounting standards. In the OSC Staff Notice 52-723, *Office of the Chief Accountant Financial Reporting Bulletin* issued in November 2016, the Staff encouraged management, audit committees, and auditors of reporting issuers to have extensive discussions about the impact and progress of transition to these new standards. In addition, the Staff stated that they expect audit committees to closely monitor implementation as part of their responsibilities over financial reporting. Audit committee members need to understand the entity's implementation process, including the status of adoption and its impact – not only from a financial reporting perspective but also more broadly. Updating and maintaining internal controls will be particularly important as the Society implements the new accounting standards. It is important for the audit committee and the auditors to understand how management's Internal Controls over Financial Reporting has changed as a result of the implementation of the new standards, including what controls management has put in place, what judgments are involved in those controls, and what changes, if any, were made to IT systems.

By asking the right questions at the right time, audit committee members can help their organizations remain on track with respect to their implementation plans and therefore contribute to a successful transition. With the effective dates of IFRS 15 and IFRS 9 fast approaching, it is imperative that audit committees start asking management about the entity's implementation plans and status. The following non-exhaustive list may be useful to consider for that purpose:

Set a course

- Has the entity developed a detailed project plan for implementation of the new standards, including assessment of responsibilities and identification of key deadlines?
 - Does the entity have sufficient experienced resources with sufficient level of knowledge for an effective implementation?
-

Dive right in

- Has management completed a preliminary assessment of the impact of the new standard on the entity? What is the result of this preliminary assessment?
- To what extent are external auditors and external advisors involved in the process?
- What is the planned transition method (e.g., full retrospective or modified retrospective) and why has that method been selected?
- Has the entity benchmarked its preliminary assessment and implementation plan against its competitors?
- How are the standards going to be adopted? Have practical expedients been considered?
- What is the anticipated effect on the entity's systems, processes and internal controls?
- What are the expected changes to accounting policies on the revenue streams and costs?
- Has management assessed changes to existing financial statement disclosures?
- Has management considered broader business impacts such as impacts on tax, sales and legal (commercial business practices), human resources (employee compensation and training), key operating and performance indicators, treasury (debt covenants), other.
- How will gaps and new requirements be addressed? What new processes, controls, IT systems are required?
- What processes has the entity implemented to monitor and consider emerging interpretations?
- What are the areas of risk, significant judgments and estimation uncertainty? How is management seeking to mitigate these risks?

Communication strategy and investor perception

- How will the implementation plan be monitored and how will management update the audit committee on progress?
 - What is the expected timing of implementation? When might pro-forma financial statements and disclosures be ready for review by the audit committee, including disclosures of new judgements and estimate uncertainties?
 - What is the entity's plan for making the required disclosures on the effect of new accounting standards in the periods leading up to the change? Has the entity considered the guidance from securities regulators?
 - What are the entity's plans for communicating with stakeholders?
-

Visit the Centre for Financial Reporting to stay current on new GAAP standards.

Appendix 1 – Communication requirements

In our audit plan, we committed to communicate certain items to the Audit Committee on a regular basis or as specified events occur. These items are summarized below. To the extent these matters have not been addressed elsewhere in this report, we have commented below based on our findings to date.

Reportable matter	Refer to this report or document described below
1. Our responsibilities under Canadian GAAS	As per our Audit Service Plan presented to the Audit Committee on October 26, 2016 and Engagement Letter dated October 14, 2016
2. Our audit strategy and scope	As per our Audit Service Plan presented to the Audit Committee on October 26, 2016 and Engagement Letter dated October 14, 2016
3. Management judgment and accounting estimates	The audit confirms the appropriateness of the assumptions underlying the estimates. See "Significant accounting practices section" of this report.
4. Uncorrected misstatements	In accordance with Canadian GAAS, we request that all misstatements be corrected. During our audit, no uncorrected misstatements were identified.
5. Uncorrected disclosure misstatements	In accordance with Canadian GAAS, we request that all disclosure misstatements be corrected. We have read a draft of the financial statements and provided comments and disclosure recommendations to management, which they have accepted. No disclosure misstatements to report.
6. Significant accounting policies, alternative treatments and our views about significant qualitative aspects of the Society's accounting practices, including accounting policies, accounting estimates and financial statement disclosures	We have reviewed the significant accounting policies included in the draft financial statements and found them to be in compliance with the requirements of IFRS.
7. Our responsibility for other information in documents containing audited financial statements (e.g., MD&A), any procedures performed, and the results	We have not reviewed other information in documents containing audited financial statements, other than the relevant schedules contained in the MCT Return in order to perform our audit of and report on Page 30.61 of the MCT Return.
8. Disagreements with management	No disagreements to report.
9. Our views about significant matters that were the subject of consultation with other accountants	None.
10. Major issues discussed with management prior to our retention	None.
11. Significant difficulties, if any, encountered during the audit	No significant difficulties to report.
12. All significant deficiencies in internal control identified during the audit	No deficiencies to report.
13. Material written communications between management and us	Engagement letter dated October 14, 2016 and this year-end communication report.

Reportable matter	Refer to this report or document described below
14. All relationships between the Society and us that, in our professional judgment, may reasonably be thought to bear on independence	Independence letter – Appendix 3
15. A statement that, in our judgment, our engagement team and others in our firm as appropriate, our firm itself and, when applicable, network firms have complied with relevant ethical requirements regarding independence	Independence letter – Appendix 3
16. Illegal or possible illegal acts	We are not aware of any illegal acts.
17. Fraud or possible fraud identified through the audit process	We are not aware of any fraudulent events.
18. Significant transactions inconsistent with normal course of business, including related party transactions	The Society has properly identified, accounted for, and disclosed its relationships and transactions with related parties in the financial statements
19. Non-compliance with laws and regulations that come to the auditor's attention	No areas of non-compliance to report.
20. Limitations placed on our scope	None noted
21. Written management representations the auditor is requesting	Management representation letter – Appendix 4

Appendix 2 – Draft version of our auditor's report

Our report on the financial statements is expected to be in the following form. However, the final form may need to be adjusted to reflect the final results of our audit.

1. **Draft audit report on the IFRS financial statements**

Independent Auditor's Report

To the Advisory Board of Canadian Lawyers Liability Assurance Society

We have audited the accompanying financial statements of Canadian Lawyers Liability Assurance Society, which comprise the statement of financial position as at December 31, 2016, and the statements of comprehensive income (loss), changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canadian Lawyers Liability Assurance Society as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

(To be signed Deloitte LLP)

Chartered Professional Accountants
Licensed Public Accountants
February 22, 2017

2. Draft audit report on the MCT Annual Return

Independent Auditor's Report

To the Provincial Superintendents of Financial Institutions/Insurance

We have audited the accompanying Minimum Capital Test Return (MCT Return) on page 30.61 of the P&C Annual Return of Canadian Lawyers Liability Assurance Society as at December 31, 2016. The MCT Return has been prepared by management based on the provisions of the Office of the Superintendent of Financial Institutions Canada's (OSFI) Guideline – Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies (the Guideline).

Management's Responsibility for the MCT Return

Management is responsible for the preparation of the MCT Return in accordance with the provisions of the Guideline, and for such internal control as management determines is necessary to enable the preparation of an MCT Return that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the MCT Return based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the MCT Return is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the MCT Return. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the MCT Return, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the MCT Return in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the MCT Return.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the MCT Return of Canadian Lawyers Liability Assurance Society as at December 31, 2016 is prepared, in all material respects, in accordance with the provisions of the Guideline.

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to the fact that the MCT Return has been prepared in accordance with the basis of accounting set out in the Guideline. The MCT Return is prepared to assist Canadian Lawyers Liability Assurance Society to meet the requirements of the Provincial Superintendents of Financial Institutions/Insurance. As a result, the MCT Return may not be suitable for another purpose. Our report is intended solely for the use of Canadian Lawyers Liability Assurance Society and the Provincial Superintendents of Financial Institutions/Insurance and should not be used by parties other than Canadian Lawyers Liability Assurance Society and the Provincial Superintendents of Financial Institutions/Insurance.

(To be signed Deloitte LLP)

Chartered Professional Accountants
Licensed Public Accountants
February 22, 2017

3. Draft audit report on the P&C Annual Return

Independent Auditor's Report

To the Provincial Superintendents of Financial Institutions/Insurance

We have audited the accompanying financial statements of Canadian Lawyers Liability Assurance Society (the "Society"), which comprise the statements of assets and liabilities and equity as at December 31, 2016 and the statements of income, retained earnings, reserves, comprehensive income (loss) and accumulated other comprehensive income (loss), cash flows and changes in equity for the year then ended on pages 20.10 through 20.60 of the Society's P&C Annual Return, which include a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canadian Lawyers Liability Assurance Society as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Unaudited Information

We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the schedules or exhibits referenced on pages 20.10 through 20.60 of the Society's P&C Annual Return.

(To be signed Deloitte LLP)

Chartered Professional Accountants
Licensed Public Accountants
February 22, 2017

Appendix 3 – Independence



Deloitte LLP
Bay Adelaide East
22 Adelaide Street West
Suite 200
Toronto ON M5H 0A9
Canada

Tel: 416-601-6150
Fax: 416-601-6610
www.deloitte.ca

February 16, 2017

To the Chair and Members
of the Audit Committee of Canadian Lawyers Liability Assurance Society

Dear Audit Committee Members:

We have been engaged to audit the financial statements of Canadian Lawyers Liability Assurance Society (the "Society") for the year ended December 31, 2016 and as contained on pages 20.10 to 20.60 of the Society's P&C Annual Return in accordance with International Financial Reporting Standards ("IFRS") and conducted in accordance with GAAS.

You have requested that we communicate in writing with you regarding our compliance with relevant ethical requirements regarding independence as well as all relationships and other matters between the Society, our Firm and network firms that, in our professional judgment, may reasonably be thought to bear on our independence. You have also requested us to communicate the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

In determining which relationships to report, we have considered relevant rules and related interpretations prescribed by the appropriate provincial regulator / ordre and applicable legislation, covering such matters as:

- a) Holding a financial interest, either directly or indirectly, in a client;
- b) Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- c) Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- d) Economic dependence on a client; and
- e) Provision of services in addition to the audit engagement.

We confirm to you that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms, have complied with relevant ethical requirements regarding independence.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since February 18, 2016, the date of our last letter.

We are not aware of any relationships between the Society and our Firm, including any network firms that, in our professional judgment, may reasonably be thought to bear on independence, that have occurred from February 18, 2016 to February 16, 2017.

The fees chargeable to the Society for audit services are \$86,314 for the year ended December 31, 2016.

We hereby confirm that we are independent with respect to the Society in accordance with the Rules of Professional Conduct of the Chartered Professional Accountants provincial regulator of Ontario as at February 16, 2017.

This letter is intended solely for the use of the audit committee, management, and others within the Society and should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this letter at our upcoming meeting on February 16, 2017.

Yours truly,

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
Licensed Public Accountants

Appendix 4 – Draft management representation letter

(Society letterhead)

February 22, 2017

Deloitte LLP
Chartered Accountants
Bay Adelaide East
22 Adelaide Centre West, Suite 200
Toronto ON M5H 0A9

Attention: Elaine Hultzer

Dear Deloitte Partners,

Subject: Management Representation Letter for Canadian Lawyers Liability Assurance Society

This representation letter is provided in connection with the audits by Deloitte LLP ("Deloitte" or "you") of the financial statements of Canadian Lawyers Liability Assurance Society (the "Society" or "we" or "us"), for the year ended December 31, 2016 which includes the following:

- The Society's annual financial statements; and
- The Society's financial statements contained on pages 20.10 to 20.60 of the P&C Annual Return to the Provincial Superintendents of Financial Institutions/Insurance

In addition, this representation letter is also provided for the audit of the Minimum Capital Test of the Society as contained on page 30.61 of the P&C Annual Return to the Provincial Superintendents of Financial Institutions / Insurance for the year ended December 31, 2016 (the "MCT Return").

Unless otherwise indicated below, the annual financial statements, pages 20.10 to 20.60 of the P&C Annual Return and MCT Return are together referred to as the "Financial Statements".

This representation letter is provided for the purpose of expressing an opinion as to whether the Financial Statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Society in accordance with IFRS as issued by the International Accounting Standards Board and whether the MCT Return has been prepared in accordance with the provisions of the Office of Superintendent of Financial Institutions (OSFI) Guideline – Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies (the "Guideline").

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial statements

1. We have fulfilled our responsibilities as set out in the terms of the engagement letter between the Society and Deloitte dated October 14, 2016 for the preparation of the Financial Statements in accordance with IFRS and the MCT Return in Accordance with the Guideline. In particular, the Financial Statements are fairly presented, in all material respects, and present the financial position of the Society as at December 31, 2016 and the financial performance and cash flows for the years then ended in accordance with IFRS.
2. Significant assumptions used in making estimates, including those measured at fair value, are reasonable.

In preparing the Financial Statements in accordance with IFRS, management makes judgments and assumptions about the future and uses estimates. The completeness and appropriateness of the disclosures related to estimates are in accordance with IFRS. The Society has appropriately disclosed in the Financial Statements the nature of measurement uncertainties that are material, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the Financial Statements.

The measurement methods, including the related assumptions and models, used in determining the estimates, including fair value, were appropriate, reasonable and consistently applied in accordance with IFRS and appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Society. No events have occurred subsequent to December 31, 2016 that requires adjustment to the estimates and disclosures included in the Financial Statements

There are no changes in management's method of determining significant estimates in the current year.

3. All related party relationships and transactions, including associated amounts receivable and payable, have been appropriately accounted for and disclosed in the Financial Statements in accordance with the requirements of IFRS.
4. We have determined that the Financial Statements are complete as of February 22, 2017 as this is the date when there are no changes to the Financial Statements (including disclosures) planned or expected; all final adjusting journal entries have been reflected in the Financial Statements and the Financial Statements have been approved in accordance with our process to finalize financial statements.
5. We have completed our review of events after December 31, 2016 and up to the date of this letter. All events subsequent to the date of the Financial Statements and for which IFRS requires adjustment or disclosure have been adjusted or disclosed. Accounting estimates and disclosures included in the Financial Statements that are impacted by subsequent events have been appropriately adjusted.
6. The Financial Statements are free of material errors and omissions.
7. The Society has satisfactory title to and control over all assets, and there are no liens or encumbrances on such assets. We have disclosed to you and in the Financial Statements all assets that have been pledged as collateral.

Information provided

8. We have provided you with:
 - a) Access to all information of which we are aware that is relevant to the preparation of the Financial Statements, such as records, documentation and other matters. Minutes of Board meetings have been provided to you and reflect the Board's decision to set premiums for the 2016/17 year having considered the level of surplus available to fund premiums. All financial statements and other financial information provided to you accurately reflect the activities and expenses of the Society and do not reflect any activities or expenses of any other person or entity;
 - b) All relevant information as well as additional information that you have requested from us for the purpose of the audit; and,
 - c) Unrestricted access to persons within the Society from whom you determined it necessary to obtain audit evidence.

9. All transactions have been properly recorded in the accounting records and are reflected in the Financial Statements.
10. We have disclosed to you the results of our assessment of the risk that the Financial Statements may be materially misstated as a result of fraud.
11. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - a) Management;
 - b) Employees who have significant roles in internal control; or
 - c) Others where the fraud could have a material effect on the Financial Statements.
12. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's Financial Statements and all knowledge of concerns or allegations of potential errors in the selection of accounting policies or the recording of transactions affecting the Society that have been communicated by employees, former employees, analysts, regulators, or others, whether written or oral
13. We have disclosed to you all communications from regulatory agencies and all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the Financial Statements.
14. We have disclosed to you the identity of the Society's related parties and all the related party relationships and transactions of which we are aware, including guarantees, non-monetary transactions and transactions for no consideration.
15. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
16. We have disclosed to you all known, actual or possible litigation and claims, whether or not they have been discussed with our lawyers, whose effects should be considered when preparing the Financial Statements. As appropriate, these items have been disclosed and accounted for in the Financial Statements in accordance with IFRS.
17. We have disclosed to you all liabilities, provisions, contingent liabilities and contingent assets, including those associated with guarantees, whether written or oral, and they are appropriately reflected in the Financial Statements.
18. We have disclosed to you, and the Society has complied with all aspects of contractual agreements that could have a material effect on the Financial Statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
19. We have disclosed to you all the documents that we expect to issue that may comprise other information.

Independence matters

For purposes of the following paragraph, "Deloitte" shall mean Deloitte LLP and Deloitte Touche Tohmatsu Limited, including related member firms and affiliates.

20. We have ensured that all non-audit services provided to the Society have been approved by the Audit Committee. Further, we have adhered to all regulatory requirements regarding the provision of non-audit services by Deloitte to the Society in accordance with applicable laws, regulations and rules that apply to the Society, including the Audit Committee approval requirements.
21. We have ensured that all services performed by Deloitte with respect to this engagement have been pre-approved by the Audit Committee in accordance with its established approval policies and procedures.

Work of management's experts

22. We agree with the work of management's experts in evaluating the actuarial liabilities and have adequately considered the competence and capabilities of the experts in determining amounts and disclosures used in the

Financial Statements and underlying accounting records. We did not give any, nor cause any, instructions to be given to management's experts with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have impacted the independence or objectivity of the experts.

Compliance with contractual agreements

23. We have disclosed to you, and the Society has complied with, all aspects of contractual agreements that could have a material effect on the Financial Statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

Investments

24. With respect to the Society's investment in fixed income which are classified as available for sale, at the end of the reporting period, no events have occurred and no facts have been discovered with respect to such investment that would indicate any impairment loss in accordance with the applicable provisions of IAS 39, Financial Instruments: Recognition and Measurement

Impairment

25. We have disclosed to you all plans, intentions or other conditions that may materially affect the carrying value or classification of assets and liabilities reflected in the Financial Statements.

Liabilities and contingencies

26. We have disclosed to you all liabilities, provisions, contingent liabilities and contingent assets, including those associated with guarantees, if any, whether written or oral, and they are appropriately reflected in the Financial Statements.

IFRS 13, Fair Value Measurement

27. The Society has appropriately applied the framework for measuring and disclosing fair value, set forth in IFRS 13, Fair Value Measurements ("IFRS 13"), to all fair value measurements and disclosures within the scope of IFRS 13.
28. In applying the definition of fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date", the Society considered the following items:
- Unit of account;
 - Principal market and where the principal market does not exist, the Society considered the most advantageous market;
 - Pricing assumptions and considerations market participants would take into account; and
 - Inputs that are available and the appropriate valuation technique(s).
29. In determining the fair value of the Society's non-financial assets, we have taken into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
30. The Society has not made any adjustment to a Level 1 input except when it has met the circumstances in paragraph 79 of IFRS 13.
31. We have appropriately disclosed fair value information to assess both of the following:
- For assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements;
 - For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period; and
 - For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3).

32. In applying the fair value hierarchy, the Society has applied consistent judgment in determining and prioritizing the appropriate level of inputs to the valuation techniques.
33. The Society has appropriately applied the transitional provisions prospectively to its annual period beginning on or after January 1, 2016 and prior comparative periods have not been adjusted.

Financial instruments

34. The following have been properly recorded and, when appropriate, adequately disclosed and presented in the Financial Statements:
- a) The fair value of financial instruments;
 - b) The impairment of financial assets classified as available-for-sale financial assets; and,
 - c) Financial instruments with characteristics of both liabilities and equity.
35. The Society has properly classified all financial instruments in accordance with IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). Specifically, all financial assets are classified as either "financial assets at fair value through profit or loss", "held-to-maturity investments", "loans and receivables", or "available-for-sale financial assets". In addition, there have been no reclassifications of instruments into or out of the financial assets at fair value through profit or loss classification after the adoption of IAS 39 or, if later, after the instrument was first recognized.
36. The Society has provided in its Financial Statements the disclosures in accordance with IFRS 7, Financial Instruments: Disclosures

Various matters

37. The following have been properly recorded and, when appropriate, adequately disclosed and presented in the Financial Statements, where applicable:
- a) Economic dependence on another party;
 - b) Financial instruments with significant individual or group concentration of credit risk, and related maximum credit risk exposure;
 - c) Sales with recourse provisions;
 - d) Arrangements with financial institutions involving compensating balances or other arrangements involving restriction on cash balances and line-of-credit or similar arrangements; and
 - e) All impaired loans receivable.
38. The Society is in compliance with Minimum Capital Test requirements as contained in the Guideline.

Yours truly,

Canadian Lawyers Liability Assurance Society

Gordon Goodman
Chair of the Audit Committee

Patrick Mahoney
General Manager

Appendix 5 – Financial reporting and regulatory update

The following is a summary of certain new standards, amendments, proposals and notices that were released in the past few months:

To review all recent amendments that will impact your organization in the foreseeable future, we invite you to review our revamped [Standard-setting Activities Digest](#), included in our Centre for Financial Reporting (www.cfr.deloitte.ca).

International Financial Reporting Standards

Topic	Description	Effective Date	Impact on the Society
Amendment to IAS 7, <i>Statement of Cash Flows</i>	On January 29, 2016, the IASB issued amendments to IAS 7, <i>Statement of Cash Flows</i> . The amendments come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	Annual periods beginning on or after January 1, 2017. Earlier application is permitted.	Financial Statement Cash Flows.
IFRS 9, <i>Financial Instruments</i>	On July 24, 2014, the IASB issued the final version of IFRS 9 <i>Financial Instruments</i> ("IFRS 9"), which replaces IAS 39 <i>Financial Instruments: Recognition and Measurement</i> . This final version of IFRS 9 represents the completion of this project and it includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. IFRS 9 does not address the specific accounting for open portfolios or macro hedging as these items are part of a separate IASB project that is currently ongoing. This final Standard introduces a single, principles-based approach that amends both the categories and associated criteria for the classification and measurement of financial assets, which is driven by the entity's business model for the portfolio in which the assets are held and the contractual cash flows of these financial assets. Certain amendments have been made to the financial asset classification and measurement principles in prior versions of IFRS 9. This Standard introduces an amended hedging model which aligns hedge accounting more closely with an entity's risk management activities and also includes a new financial asset impairment model which has an expanded scope, is based on expected credit losses rather than incurred credit losses and generally will result in earlier recognition of losses. This new Standard supersedes all prior versions of IFRS 9.	Annual periods beginning on or after January 1, 2018. Earlier application is permitted.	Investments in the Financial Statements.

Topic	Description	Effective Date	Impact on the Society
IFRS 15, Revenue from Contracts with Customers	<p>On May 28, 2014, the IASB and the FASB jointly issued a generally converged Standard on the recognition of revenue from contracts with customers, which will replace all existing revenue standards and interpretations, once mandatorily effective. The core principle of the new Standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Society expects to be entitled in exchange for those goods or services. The new Standard provides comprehensive guidance for transactions that were not previously addressed and will also result in enhanced disclosures about revenue. IFRS 15 applies to nearly all contracts with customers, the main exceptions are leases, financial instruments, insurance contracts and certain non-monetary exchange transactions. IFRS 15 is available for early application with mandatory adoption required for fiscal years commencing on or after January 1, 2018 and is to be applied using either the full retrospective approach (with a number of practical expedients) or the modified retrospective approach. The January 1, 2018 effective date is the result of a one-year deferral approved by the IASB in July 2015.</p> <p>In April 2016, the IASB issued targeted amendments to IFRS 15 related to the following areas in the standard:</p> <ul style="list-style-type: none"> • Identifying performance obligations, • Principal vs agent consideration, • Licensing and • Transitional relief for modified contracts and completed contracts. <p>These amendments are largely in response to feedback received from the <i>IASB-FASB Joint Transition Resource Group for Revenue Recognition</i> (TRG). The effective date of the amendments is January 1, 2018, the same date as the revenue standard becomes effective. While the FASB has also issued a number of targeted amendments, the amendments are not necessarily the same, and more extensive amendments were made in certain areas.</p>	Annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.	Premium and Reinsurance Revenue in the Financial Statements.

Topic	Description	Effective Date	Impact on the Society
2014-2016 Annual improvements cycle	<p>On December 8, 2016, the IASB issued "Annual Improvements to IFRS Standards 2014–2016 Cycle". The pronouncement contained the following amendments:</p> <ul style="list-style-type: none"> • The short-term exemptions in paragraphs E3-E7 of IFRS 1, First-time Adoption of International Financial Reporting Standards were deleted. • The scope of IFRS 12 was clarified by specifying that, with limited exceptions, the disclosure requirements in the standard apply to an entity's interests listed inclusive of those that are classified as held for sale, as held for distribution or as discontinued operations. • The election in IAS 28 to measure at fair value through profit or loss certain investments held by an entity that is a venture capital organization (or other qualifying entity) was clarified to be available for each applicable investment (on an investment-by-investment basis, upon initial recognition). 	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018 and the amendment to IFRS 12 for annual periods beginning on or after January 1, 2017.	
Insurance Contracts	<p>The IASB has undertaken a project to develop a global insurance standard that focuses on a single principle-based approach to account for all types of insurance contracts, which is intended to enhance comparability of financial reporting between entities, jurisdictions and capital markets.</p> <p>The accounting model of the proposed new Standard focuses on five steps:</p> <ol style="list-style-type: none"> 1. Identify and recognize the contract 2. Measure the contract at initial recognition 3. Remeasure in subsequent periods 4. Present results in financial statements 5. Provide disclosures <p>Following its September 2016 meeting, the IASB updated its work plan, indicating that the final IFRS standing will be issued in March 2017.</p>	Pending – Expected to be effective for annual reporting periods beginning on or after January 1, 2021, assuming issuance of final IFRS in Q1 2017.	Insurance contracts in the Financial Statements.

Appendix 6– Deloitte resources a click away

At Deloitte, we are devoted to excellence in the provision of professional services and advice, always focused on client service. We have developed a series of resources, which contain relevant and timely information for boards of directors and c-suite executives. Below you will find an overview of resources, as well as a registration form to allow you to subscribe to resources that may be of interest to you.

Audit resources		Targeted audience	Description
Canadian resources			
Websites			
<input type="checkbox"/>	Centre for Corporate Governance www.corpgov.deloitte.ca	<ul style="list-style-type: none"> • Audit Committee members • Board members • CEO/CFO • Internal auditor • Legal counsel 	<p>Web site specifically designed to help board members with their responsibilities.</p> <p>It provides the latest information on regulatory and legislative developments, accounting and financial reporting, board roles and responsibilities, and best practices.</p>
<input type="checkbox"/>	Deloitte Learning Academy http://www.deloittelearningacademy.ca/welcomecanada	<ul style="list-style-type: none"> • CFO • VP Finance • Internal auditor • Controller • Financial reporting team 	<p>The Deloitte Learning Academy offers a range of courses targeted to accounting professionals which can be selected a la carte, bundled into a specific learning program, or delivered as a full start-to-finish suite. Our current offerings include International Financial Reporting Standards (IFRS); Accounting Standards for Private Enterprises (ASPE); and Public Sector Standards (PSAS).</p>
<input type="checkbox"/>	Centre for financial reporting www.cfr.deloitte.ca	<ul style="list-style-type: none"> • Board members • Audit Committee members • CEO/CFO • Controller • Financial reporting team • Other accounting professionals 	<p>Web site designed by Deloitte to provide the most comprehensive information on the web about financial reporting frameworks used in Canada.</p>
<input type="checkbox"/>	Technical Library (DART) Note: Audit Committee must pre-approve DART subscriptions	<ul style="list-style-type: none"> • CFO • VP Finance • Controller • Financial reporting team 	<p>A comprehensive online library of accounting and financial disclosure literature.</p> <p>Subscription-based service.</p>

Audit resources	Targeted audience	Description
Insights newsletters		
<input type="checkbox"/> Financial Reporting	<ul style="list-style-type: none"> • CFO • VP Finance • Controller • Financial reporting team 	<p>Bi-monthly electronic communications that helps you to stay on top of standard-setting initiatives impacting financial reporting in Canada.</p> <p>For a copy, contact FinancialReporting@deloitte.ca.</p>
<input type="checkbox"/> Corporate governance	<ul style="list-style-type: none"> • Audit Committee members • Board Members • CEO/CFO 	<p>Monthly electronic communications featuring Deloitte's latest point of view on timely industry and business topics of interest to board directors.</p> <p>For a copy, contact governance@deloitte.ca.</p>
Webcasts and other events		
<input type="checkbox"/> Deloitte Financial Reporting Update (www.deloitte.com/ca/update)	<ul style="list-style-type: none"> • CFO • VP Finance • Controller • Financial reporting team 	<p>Learning webcasts offered throughout the year featuring our professionals discussing critical issues that affect your business.</p>
<input type="checkbox"/> Directors' Series (http://www.deloitte.com/ca/directorsseries)	<ul style="list-style-type: none"> • Audit Committee members • CEO/CFO • Internal auditor • Legal counsel 	<p>Live broadcasts offered throughout the year.</p>

www.deloitte.ca

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The information contained herein is not intended to substitute for competent professional advice.

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Financial statements of

**Canadian Lawyers Liability
Assurance Society**

December 31, 2016

Canadian Lawyers Liability Assurance Society

December 31, 2016

Table of contents

Independent Auditor's Report	1-2
Statement of financial position	3
Statement of comprehensive income (loss)	4
Statement of changes in equity	5
Statement of cash flows	6
Notes to the financial statements	7-21

Deloitte LLP
Bay Adelaide East
22 Adelaide Street West
Suite 200
Toronto ON M5H 0A9
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

Independent Auditor's Report

To the Advisory Board of
Canadian Lawyers Liability Assurance Society

We have audited the accompanying financial statements of Canadian Lawyers Liability Assurance Society, which comprise the statement of financial position as at December 31, 2016, and the statements of comprehensive income (loss), changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canadian Lawyers Liability Assurance Society as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

(To be signed Deloitte LLP)

Chartered Professional Accountants
Licensed Public Accountants
February 22, 2017

DRAFT

Canadian Lawyers Liability Assurance Society

Statement of financial position

as at December 31

	2016	2015
	\$	\$
Assets		
Cash at bank	4,731,655	5,008,412
Short term investments (Note 4)	11,587,109	8,404,974
Bonds (Note 4)	5,150,585	4,793,017
Interest income due and accrued	21,121	19,936
Premiums receivable (Note 6)	2,520,380	4,059,591
Prepaid expenses	139,500	139,500
Deferred policy acquisition costs	154,221	173,213
Reinsurers' share of unearned premiums	4,182,181	4,984,847
Reinsurance receivable	837,614	1,597,292
Provision for unpaid claims and adjustment expenses recoverable from reinsurers (Note 5)	94,794,000	96,120,000
Total assets	124,118,366	125,300,782
Liabilities		
Accounts payable and accrued charges	643,905	910,689
Unearned premiums	5,261,568	6,185,289
Due to reinsurers	2,514,054	1,509,338
Provision for unpaid claims and adjustment expenses (Note 5)	101,247,000	102,508,000
Total liabilities	109,666,527	111,113,316
Equity		
Minimum surplus (Note 12)	50,000	50,000
Additional surplus (Note 12)	14,340,229	14,010,039
Accumulated other comprehensive income	61,610	127,427
Total equity	14,451,839	14,187,466
Total liabilities and equity	124,118,366	125,300,782

On behalf of the Advisory Board

Chair of the Audit Committee

Director

Canadian Lawyers Liability Assurance Society

Statement of comprehensive income (loss)

years ended December 31

	2016	2015
	\$	\$
Premiums		
Written premiums	10,610,344	12,438,547
Reinsurance ceded	8,433,679	10,024,473
Net written premiums	2,176,665	2,414,074
Change in unearned premiums	121,054	13,051
Earned premiums	2,297,719	2,427,125
Expenses		
Claims (Note 5)	(155,233)	(47,792)
Premium deficiency adjustment	-	-
Operating expenses (Note 7)	1,965,608	1,897,159
Premium taxes	327,434	262,362
	2,137,809	2,111,729
Underwriting income (loss) for the year	159,910	315,396
Investment income (Note 4)	170,280	166,747
Net income (loss) for the year	330,190	482,143
Change in unrealized (losses) gains on available-for-sale financial assets arising during the year	(65,817)	52,710
Other comprehensive income (loss)	(65,817)	52,710
Comprehensive income (loss)	264,373	534,853

Canadian Lawyers Liability Assurance Society

Statement of changes in equity years ended December 31

	Minimum surplus	Additional surplus	Accumulated other comprehensive income	Total equity
	\$	\$	\$	\$
Balance December 31, 2014	50,000	13,527,896	74,717	13,652,613
Net income (loss)	-	482,143	-	482,143
Other comprehensive income (loss)	-	-	52,710	52,710
Balance December 31, 2015	50,000	14,010,039	127,427	14,187,466
Net income (loss)	-	330,190	-	330,190
Other comprehensive income (loss)	-	-	(65,817)	(65,817)
Balance December 31, 2016	50,000	14,340,229	61,610	14,451,839

Canadian Lawyers Liability Assurance Society

Statement of cash flows years ended December 31

	2016	2015
	\$	\$
Operating activities		
Net income (loss) for the year	330,190	482,143
Changes in non-cash items:		
Interest income due and accrued	(1,185)	(1,499)
Premiums receivable	1,539,211	295,407
Reinsurers' share of unearned premiums	802,666	183,754
Deferred policy acquisition costs	18,992	(84,064)
Reinsurance receivable	759,678	(1,225,645)
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	1,326,000	(27,156,000)
Provision for unpaid claims and adjustment expenses	(1,261,000)	27,151,000
Premium deficiency liability		
Unearned premiums	(923,721)	(196,806)
Due to reinsurers	1,004,716	(173,604)
Accounts payable and accrued charges	(266,784)	(660,551)
Amortization of bond premium	(26,740)	(19,648)
Amortization of bond discount	8,408	9,310
Cash (used in) provided by operating activities	3,310,431	(1,396,203)
Investing activities		
Purchase of bonds	(1,227,445)	(723,040)
Disposal of bonds	800,000	-
Purchase of short term investments	(60,702,487)	(64,855,784)
Disposal of short term investments	57,542,744	65,484,572
Cash provided by (used in) investing activities	(3,587,188)	(94,252)
Net (decrease) increase in cash	(276,757)	(1,490,455)
Cash balance, beginning of year	5,008,412	6,498,867
Cash balance, end of year	4,731,655	5,008,412
Cash balance comprises		
Cash at bank	4,731,655	5,008,412
Interest received	150,763	154,910

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2016

1. Description of business

The Canadian Lawyers Liability Assurance Society (the "Society") was formed under the Reciprocal Insurance Exchange Agreement for select Canadian Law Firms dated December 22, 1986 ("Subscription Agreement"). The Society is licensed by the Superintendent of Insurance, Alberta and other provinces in Canada to provide lawyers professional liability insurance to its subscribers. The Society commenced operations on June 30, 1987.

The address and registered office is RBC Centre, 155 Wellington Street West, 40th Floor, Toronto, Ontario, M5V 3J7.

The Society does not have any employees and is managed by an independent third party that reports to the Advisory Board. The Advisory Board has the authority and responsibility for planning, directing and controlling the activities of the entity. The Chair of the Advisory Board receives an annual honorarium of \$150,000 (2015 - \$75,000) and the other members of the Advisory Board receive no compensation.

2. Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as defined by the International Accounting Standards Board ("IASB").

These financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments which are measured at fair value.

3. Significant accounting policies

These financial statements reflect the following policies:

Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about the reported amounts of revenues, expenses, assets, and liabilities and the disclosure of contingent liabilities, at the reporting date. These estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and any future periods affected. Information about judgments, estimates and assumptions that have the most significant effect on the amounts reflected in the financial statements are reflected in the following notes:

Notes 5 and 8: Reinsurance (regarding insurance contract premium related to additional premium liability).

Notes 5: Provision for unpaid claims and adjustment expenses

Insurance premiums and deferred acquisition costs

Insurance premiums are recorded as written at the inception date of the policies and deferred as unearned premiums to be taken into income as earned on a pro-rata basis over the terms of the underlying policies. Retro-assessment calls are recorded as written and earned at the date of approval by the Society's Advisory Board. Premium taxes are recorded as deferred policy acquisition costs and expensed in the periods in which related premiums are earned.

At each reporting period, liability adequacy tests are performed to ensure that the unearned premiums are sufficient to pay expected claims and expenses. If not, a premium deficiency will occur. Premium deficiencies are recognized initially by reducing the deferred acquisition cost asset and, if necessary, establishing an additional provision.

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2016

3. Significant accounting policies (continued)

Reinsurance

The Society participates in, and enters into, reinsurance contracts in the normal course of business in order to limit the potential for losses arising from certain exposures. Reinsurance premiums are recognized in the same period as the related insurance premiums that are earned as described above.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses. Amounts recoverable from reinsurers are estimated and recognized in a manner consistent with the reserve for losses associated with the related reinsurance contract. The Society reflects reinsurance balances on a gross basis in the statement of financial position to reflect the credit risk related to reinsurance.

Certain of the Society's reinsurance contracts contain additional premium liability clauses which require that the Society pay additional premiums if paid claims and case reserves exceed certain pre-determined levels. The Society accrues such additional premiums based upon current actuarial estimates of ultimate loss experience.

Provision for unpaid claims and adjustment expenses

The provision for unpaid claims and adjustment expenses represents an estimate of the ultimate gross amounts payable for all claims, including investigation costs and the projected final settlement of claims incurred prior to the statement of financial position date. The provision for unpaid claims and adjustment expenses is calculated in accordance with accepted actuarial practice in Canada taking into consideration the time value of money and explicit provisions for adverse deviation ("PFAD"). The estimates of loss activity are, by necessity, subject to uncertainty and are derived from a wide range of possible outcomes. These estimates are continually reviewed as additional information affecting the estimated quantum of claims settlement is obtained. All changes in estimated claim amounts are recorded as incurred claims in the period in which the change in estimate is determined.

The amounts recoverable from reinsurers are calculated based upon the same principles as the gross liability and are reflected as an asset in the statement of financial position.

Investments

The investment portfolio is comprised of bonds and short term investments which are classified as available-for-sale ("AFS") and their fair value is determined using quoted market bid prices. The Society does not have investments in bonds or other investments for which the fair value is determined using a valuation technique based on assumptions that are not supported by observable market prices or rates.

AFS investments are recorded at fair value with changes in the fair value recorded as unrealized gains and losses, which is included in other comprehensive income ("OCI"). Realized gains and losses on sale, as well as losses from impairment are recorded in net investment income in the statement of comprehensive income.

The Society accounts for the purchase and sale of investments using trade date accounting. Realized gains or losses on sale of investments are determined on a first in first out basis. Transaction costs related to the purchase of these bonds are recorded as part of the carrying value of the bond at the date of purchase. Discounts or premiums on the purchase of bonds are deferred and amortized over the remaining term of the bonds using the effective interest method.

Impairments

AFS bonds are assessed for impairment on at least a quarterly basis. Objective evidence of impairment includes financial difficulty of the issuer, bankruptcy or defaults and delinquency in payments of interest or principal. When an investment is impaired it is written down to its fair value and associated unrealized gains or losses accumulated in OCI are reclassified to net investment income in the statement of comprehensive income. Once an impairment loss is recorded to income, the loss can only be reversed for fixed income securities to the extent a subsequent increase in fair value can be objectively correlated to an event occurring after the loss was recognized. Recovery in the fair value of a previously impaired AFS fixed income security up to the original amortized cost is recognized in net income. Following the impairment loss recognition, these assets will continue to be recorded at fair value with changes in fair value recorded to OCI, and tested for further impairment quarterly.

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2016

3. Significant accounting policies (continued)

Impairments (continued)

Insurance and reinsurance assets are reviewed for impairment on a quarterly basis. If objective evidence arises indicating a receivable from a policyholder or reinsurer is uncollectible, the carrying amount of the asset is reduced to its expected recoverable amount. The impairment loss is recognized as an expense in the net income.

Future accounting changes

i) IFRS 4, Insurance Contracts ("IFRS 4"):

The International Accounting Standards Board ("IASB") issued an exposure draft proposing changes to the accounting standard for insurance contracts in July 2010 and a re-exposure draft reflecting comments received on the initial exposure draft in June 2013. The proposal would require an insurer to measure insurance liabilities using a model focusing on the amount, timing, and uncertainty of future cash flows associated with fulfilling its insurance contracts and could show the movement in the insurance contract liability due to a change in the discount rate in other comprehensive income. This proposal could materially affect the measurement of insurance contract liabilities.

In February 2016 re-deliberations were completed over the revised exposure draft issued as part of the project to replace IFRS 4. The forthcoming insurance contracts standard is expected to be issued in the first half of 2017, in which case it will be effective for annual reporting periods beginning on or after January 1, 2021. On September 12, 2016, the IASB issued amendments to IFRS 4 to address accounting mismatches and volatility that may arise in profit or loss in the period between the effective date of IFRS 9, Financial Instruments and the forthcoming insurance contracts standard. The amendments apply in the same period in which an insurer adopts IFRS 9.

The amendments introduce two approaches that may be adopted by insurers in the period between the effective date of IFRS 9 and the forthcoming insurance contracts standard:

- overlay approach – an option for all issuers of insurance contracts to reclassify amounts between profit or loss and other comprehensive income for eligible financial assets by removing any additional accounting volatility that may arise from applying IFRS 9; and
- temporary exemption – an optional temporary exemption from IFRS 9 for insurers whose activities are predominately connected with insurance. This exemption allows an entity to continue to apply existing financial instrument requirements in IAS 39 to all financial assets until the earlier of the application of the forthcoming contracts Standard; or January 1, 2021.

The Society believes it is eligible to adopt the amendments to IFRS 4 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the amendments has not yet been determined.

ii) IFRS 9, Financial Instruments ("IFRS 9"):

In July 2014, the IASB published an amended version of IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement. The amended IFRS 9 includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and a new general hedge accounting model. Financial asset classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. IFRS 9 also introduces a single impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected credit losses at initial recognition of a financial instrument and the recognition of full lifetime expected credit losses if certain criteria are met. The new model for hedge accounting aligns hedge accounting with risk management activities.

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. The Society intends to adopt the temporary exemption under IFRS 4 described previously. The Society continues to assess the impact of these changes on the financial statements.

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2016

4. Investments

a) The Society's investments consist of the following:

	December 31, 2016		December 31, 2015	
	Fair value and carrying value	Amortized cost	Fair value and carrying value	Amortized cost
	\$	\$	\$	\$
Short term investments	11,587,109	11,595,247	8,404,974	8,408,764
Bonds	5,150,585	5,080,837	4,793,017	4,661,800
	16,737,694	16,676,084	13,197,991	13,070,564

The difference between amortized cost and market value of the AFS investments consists of gross unrealized gains of \$98,851 (2015: \$133,763) and gross unrealized losses of \$37,241 (2015: \$6,336).

The Society limits its bonds to securities issued or guaranteed by the Government of Canada, any province of Canada or Canadian corporations having a rating of A or better.

Short term investments are invested in securities issued by the Government of Canada or a Canadian Province having a rating of A or better, or a Canadian Chartered Bank having a rating of R-1 or better. These securities have a maturity of less than 1 year from the purchase date.

b) Maturity profile of investments as at December 31:

	Term to maturity			
	Within 1 year	1 - 5 years	Over 5 years	Total
2016	\$	\$	\$	\$
Short-term investments	11,587,109			11,587,109
Government of Canada bonds	-	509,035	716,642	1,225,677
Canadian public authorities bonds	332,638	625,574	1,020,583	1,978,795
Canadian corporate bonds	201,684	1,188,386	556,043	1,946,113
Total fair value	12,121,431	2,322,995	2,293,268	16,737,694

	Term to maturity			
	Within 1 year	1 - 5 years	Over 5 years	Total
2015	\$	\$	\$	\$
Short-term investments	8,404,974			8,404,974
Government of Canada bonds	303,504	513,911	418,885	1,236,300
Canadian public authorities bonds	302,438	696,831	799,335	1,798,604
Canadian corporate bonds	201,656	1,184,703	371,754	1,758,113
Total fair value	9,212,572	2,395,445	1,589,974	13,197,991

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2016

4. Investments (continued)

c) Net investment income has the following components:

	2016	2015
	\$	\$
Interest income		
Bonds	114,354	105,896
Cash, cash equivalents and short term investments	37,594	50,513
	151,948	156,409
Amortization of discount (premium) on investments	18,332	10,338
Realised gain (loss) on disposal	-	-
Total net investment income	170,280	166,747

d) Fair value measurements

The Society measures certain assets and liabilities using fair value. Fair value is a market-based measurement and not an entity-specific measurement, and requires the use of a fair value hierarchy with the highest priority given to quoted prices in active markets. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents the Society's financial instruments that have been measured at fair value, on a recurring basis, as at December 31.

December 31, 2016	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash at bank	4,731,655	-	-	4,731,655
Investments - available-for-sale				
Short term investments	-	11,587,109	-	11,587,109
Bonds	-	5,150,585	-	5,150,585
	4,731,655	16,737,694	-	21,469,349

December 31, 2015	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash at bank	5,008,412	-	-	5,008,412
Investments - available-for-sale				
Short term investments	-	8,404,974	-	8,404,974
Bonds	-	4,793,017	-	4,793,017
	5,008,412	13,197,991	-	18,206,403

The Society did not have any transfers between any levels during the year.

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2016

5. Unpaid claims and adjustment expenses

a) Nature of unpaid claims and adjustments expenses

The establishment of the provision for unpaid claims and adjustment expenses is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Society's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, claims severity and claim frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Society's consultants retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination. The longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be.

Consequently, the establishment of the provision for unpaid claims and adjustment expenses process relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps materially, from the best estimates made.

b) Activity in the provision for unpaid claims and adjustment expenses is summarized as follows:

	Gross \$	Ceded \$	Net \$
Provision for unpaid claims and adjustment expenses, December 31, 2014	75,357,000	68,964,000	6,393,000
Incurring claims and claim adjustment expenses			
Provision for current year claims	6,974,000	6,420,000	554,000
Increase (decrease) in provision for claims of prior years	24,035,001	24,728,793	(693,792)
Increase (decrease) in provision due to discount rate change	1,445,000	1,353,000	92,000
Total incurred	32,454,001	32,501,793	(47,792)
Payments and recoveries attributable to			
Current year claims	-	-	-
Prior years claims	(5,303,001)	(5,345,793)	42,792
	(5,303,001)	(5,345,793)	42,792
Provision for unpaid claims and adjustment expenses, December 31, 2015	102,508,000	96,120,000	6,388,000
Incurring claims and claim adjustment expenses			
Provision for current year claims	7,315,000	6,730,000	585,000
Increase (decrease) in provision for claims of prior years	(6,037,231)	(5,363,998)	(673,233)
Increase (decrease) in provision due to discount rate change	(1,036,000)	(969,000)	(67,000)
Total incurred	241,769	397,002	(155,233)
Payments and recoveries attributable to			
Current year claims	-	-	-
Prior years claims	(1,502,769)	(1,723,002)	220,233
	(1,502,769)	(1,723,002)	220,233
Provision for unpaid claims and adjustment expenses, December 31, 2016	101,247,000	94,794,000	6,453,000

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2016

5. Unpaid claims and adjustment expenses (continued)

c) Provision for unpaid claims and adjustment expenses

Under accepted actuarial practice in Canada, the appropriate value of the claims liabilities is the discounted value of such liabilities plus the provision for adverse deviation ("PFAD").

December 31, 2016

	Undiscounted	Discounted at 1.75%	Provisions for adverse deviation	Value per accepted actuarial practice
	\$	\$	\$	\$
Provision for unpaid claims and adjustment expenses				
Gross	99,825,000	92,907,000	8,340,000	101,247,000
Recoverable from reinsurers	96,644,000	89,961,000	4,833,000	94,794,000
Net	3,181,000	2,946,000	3,507,000	6,453,000

December 31, 2015

	Undiscounted	Discounted at 1.50%	Provisions for adverse deviation	Value per accepted actuarial practice
	\$	\$	\$	\$
Provision for unpaid claims and adjustment expenses				
Gross	100,072,000	94,085,000	8,423,000	102,508,000
Recoverable from reinsurers	97,030,000	91,238,000	4,882,000	96,120,000
Net	3,042,000	2,847,000	3,541,000	6,388,000

d) Key assumptions

The best estimate of the provision for unpaid claims and adjustment expenses as reported in these financial statements has been determined by the Society's appointed actuary in accordance with accepted actuarial practice as determined by the Standards of Practice of the Canadian Institute of Actuaries ("CIA"), including the selection of appropriate assumptions and methods.

The Incurred But Not Reported ("IBNR") liabilities have been estimated for each coverage period using the Bornhuetter-Ferguson Method which is based on expected claims development patterns and expected losses.

The estimated undiscounted outstanding liabilities are discounted to reflect the time value of money using a selected discount rate of 1.75% (2015: 1.50%) which is based on the expected market yield of the Society's investment portfolio of bonds and short term assets.

Based on the recommended margin for adverse deviation ranges prescribed by the CIA, a provision for adverse deviation is selected for the following variables: claims development, reinsurance recovery and interest rate.

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2016

5. Unpaid claims and adjustment expenses (continued)

d) Key assumptions (continued)

Changes in the assumptions used in the December 31, 2016 actuarial valuation resulted in a total decrease in net liabilities of \$70,000 (2015: \$31,000), which is due to the change in loss development factors used in the Bornhuetter-Ferguson method and unallocated loss adjustment expense load remained unchanged at 1.95% (2015: 3.05% to 1.95%). The change in the discount rate and provisions for adverse deviation assumptions led to a further increase in the net liabilities of \$67,000 (2015: increase of \$1,258,000).

Sensitivities regarding these assumptions are provided in Note 11 Insurance Risk Management.

6. Premiums receivable

All subscribers are large reputable Canadian law firms, and no significant credit risk is expected. All amounts are due by January 1, 2017.

7. Expenses by nature

The following table presents the Society's expenses by nature:

	2016	2015
	\$	\$
Management services	992,220	1,072,402
Legal and professional	686,964	663,666
Other expenses	286,424	161,091
Total	1,965,608	1,897,159

8. Reinsurance program

a) The Society has obtained proportional reinsurance coverage which limits its net liability to a maximum amount of \$975,000 effective for the annual coverage period beginning on July 1, 2016 (July 1, 2015: \$975,000) on any one loss.

b) Colchester Reinsurance Limited (Colchester) is an off-shore captive reinsurer domiciled in Barbados. The shareholders of Colchester are twelve Toronto based legal firms or their related service corporations. Those twelve shareholders are unrelated to each other. However, each of Colchester's shareholders is, or is related to the Society's current and past subscribers. For the annual coverage period beginning on July 1, 2016, Colchester received from the Society premiums of \$1,594,237 (July 1, 2015: \$1,841,076).

Colchester provides aggregate stop-loss reinsurance protection for a portion of the Society's retained risk. On July 1, 2016 this reinsurance had an attachment point of \$5,000,000 (July 1, 2015: \$5,000,000), and an annual aggregate limit of \$10,000,000 (July 1, 2015: \$10,000,000). Starting July 1, 2011, the attachment point and limit were determined with reference to the combined net claim liabilities of the Society and Colchester. Starting on July 1, 2012 the attachment point and limit are solely determined with reference to the net claim liabilities of the Society.

c) In 2012, the Society initiated a Loss Portfolio Transfer (LPT) with Colchester to transfer the outstanding net retained liabilities for the policy year periods from inception to the period ended June 30, 2012 for a premium of \$44,260,000, the net retained liability was estimated as \$33,103,000 at the time of LPT.

As at December 31, 2016, the total reserves held and recoverable on the Society's financial statements relating to LPT was \$18,872,183 (2015 - \$23,043,514). A Reinsurance Security Agreement (RSA) is in place which requires Colchester to set up on behalf of the Society deposits equal to 115% of Colchester's share of claim liabilities. At December 31, 2016 the value of the security deposits exceeds the required amount.

d) Reinsurance does not discharge the primary liability of the Society.

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2016

9. Income taxes

The Society is a reciprocal as defined under Part 1 of the Alberta Insurance Act, RSA 2000, c I-3. Accordingly, no provision for income taxes is made in these financial statements.

10. Equity

In accordance with the Reciprocal Insurance Exchange Agreement, subscribers were not obliged to contribute any amounts to the Society in the form of a capital contribution. The subscribers' surplus therefore represents cumulative surplus and may be used to cover potential future catastrophe claims or reduce future premiums, if appropriate. The Agreement provides that additional assessments may be made to cover the actual loss, claims and costs experienced by the Society.

Under the terms of the Society's Reciprocal Insurance Exchange Agreement, the Society is obligated to return a share of the Society's surplus (if any) to a departed Subscriber subsequent to the fifth anniversary of its departure, based on that Subscriber's participation in the Society. A Subscriber withdrew from the Society on June 30, 2012. As a result, a payment to that Subscriber may be due subsequent to June 30, 2017. The Society would consider whether as of June 30, 2017 there are no further liabilities relating to the underwriting periods prior to the date of the Subscriber's withdrawal in determining whether the distribution should be determined as of June 30, 2017 or a later date. Depending on the amount of such payment and the amount of the Society's surplus at that time, such payment may have a material effect on the equity position of the Society.

11. Risk management

Insurance risk management

The Society accepts insurance risks through its insurance contracts where it assumes the risk of loss from persons or organizations subject to the underlying loss. The Society is exposed to uncertainty surrounding the timing, frequency and severity of claims under these contracts and the principal risk that the actual claims payments exceed the carrying amount of the insurance liabilities or that claims are under-reserved.

The Society manages insurance risk via its underwriting and reinsurance strategy within an overall risk management framework. Pricing is based on assumptions which have regard to trends and past experience. Exposures are managed by having documented underwriting limits and rating criteria. Reinsurance is purchased to mitigate the effect of potential loss to the Society from individual large events. Reinsurance policies are written with approved reinsurers (two of the current reinsurers are unlicensed) on either a proportional, aggregate or excess of loss treaty basis.

There is some concentration of risk since all coverage is related to professional liability and the underlying insured's are a homogeneous group since all are engaged in the practice of law in Canada. There is some risk of increased claim activity due to the occurrence of events that could increase the number of or value of legal actions against lawyers. Examples could be changes in legislation or a severe economic downturn. This risk is mitigated to some extent by the use of aggregate and excess of loss reinsurance. Concentration risk regarding reinsurance is mitigated by the use of multiple reinsurers with varying participations and an annual assessment of the financial strength of all reinsurers.

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2016

11. Risk management (continued)

Claim development

Uncertainty exists on reported claims in that all information may not be available at the reporting date; therefore, the claim cost may rise or fall at some date in the future when the information is obtained. In addition, claims may not be reported to the Society immediately; therefore, estimates are made as to the value of claims incurred but not yet reported, a value which may take some months to finally determine. In order to determine the liability, assumptions are developed considering the characteristics of the line of business, the historical pattern of payments, the amount of data available and any other pertinent factors. In general, the longer the term required for the settlement of a group of claims, the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported. The following table shows the development of claims over a 9 year period, on both a gross and net of reinsurance basis:

Analysis of claims development - net and gross

	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Estimate of ultimate (by underwriting year):										
End of year	8,150,000	8,797,000	8,322,000	4,665,000	463,000	411,000	440,000	424,000	222,000	
One year later	7,626,000	9,329,000	9,795,000	107,000	423,000	380,000	413,000	392,000		
Two years later	5,524,000	8,299,000	2,073,000	107,000	334,000	269,000	308,000			
Three years later	4,419,000	20,000	2,073,000	107,000	435,000	197,000				
Four years later	5,000	20,000	2,073,000	107,000	362,000					
Five years later	5,000	20,000	2,073,000	107,000						
Six years later	5,000	20,000	2,073,000							
Seven years later	5,000	20,000								
Eight years later	5,000									
Current estimate of ultimate	5,000	20,000	2,073,000	107,000	362,000	197,000	308,000	392,000	222,000	3,686,000
Cumulative payments	(5,000)	(20,000)	(2,073,000)	(107,000)	(203,000)	-	(7,000)	-	-	(2,415,000)
Net liability	-	-	-	-	159,000	197,000	301,000	392,000	-	1,271,000
Provision for unpaid claims and adjusting expenses recoverable from insurers (total all)										
Nine year net liability										1,271,000
Effect of discounting and PFAD										3,273,000
Unallocated loss adjustment expense										1,909,000
Provision for unpaid claims and adjusting expenses recoverable from reinsurers										94,794,000
Gross liability in statement of financial position										101,247,000

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2016

11. Risk management (continued)

Sensitivities

The insurance claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The table below shows the effect on net income and equity of a +/- 5% change in the expected losses and the effect of a +/- 0.5% change in the discount rate applied to claims provisions for the year ended December 31, 2016.

	2016		2015	
	Net income for the year	Equity	Net income for the year	Equity
	\$	\$	\$	\$
5% increase in expected losses	130,000	130,000	126,000	126,000
5% decrease in expected losses	(133,000)	(133,000)	(128,000)	(128,000)
0.5% increase in discount rate	(131,000)	(131,000)	(131,000)	(131,000)
0.5% decrease in discount rate	136,000	136,000	136,000	136,000

Financial risk management

The Society has policies related to the identification, monitoring and mitigation of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risk (interest rate, equity and currency). The following describes how the Society manages each of these risks.

a) Credit risk

Credit risk is the risk of loss due to the failure of debtors to make payments when due. Credit risks are primarily associated with invested assets and amounts due from policyholders and reinsurance counterparties. The investment portfolio's exposure to credit risk is managed through policies and procedures including a credit evaluation by the investment manager and investment guidelines which specify investment quality and exposure limits. The portfolio is monitored and reviewed regularly by the Board. Premiums due from policyholders present minimal risk due to the short term nature of the receivable and the historic/financial relationship with the Society as a Reciprocal Insurance Exchange. The Society evaluates the financial condition of its reinsurers and monitors concentrations of credit risk of the reinsurers to minimize its exposure to significant losses from their insolvency. The Society believes that it has taken appropriate steps to manage credit risk and has made appropriate provision for any such exposures. One of the primary reinsurers is Colchester Reinsurance Limited as discussed in Note 8. The credit risk related to Colchester is managed by maintaining a security account pursuant to the RSA and a quarterly review of Colchester's financial condition. The balance held in the account at December 31, 2016 is \$66,799,000 (2015 - \$66,067,491).

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2016

11. Risk management (continued)

a) Credit risk (continued)

i) Exposure to credit risk

The following table summarizes the exposure to credit risk related to financial instruments and certain insurance assets at carrying value.

	2016	2015
	\$	\$
Cash	4,731,655	5,008,412
Short term investments	11,587,109	8,404,974
Bonds	5,150,585	4,793,017
Interest income due and accrued	21,121	19,936
Premiums receivable	2,520,380	4,059,591
Reinsurance recoverable	837,614	1,597,292
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	94,794,000	96,120,000
Total credit exposure	119,642,464	120,003,222

ii) Concentration of credit risk

The Society utilizes an investment policy to minimize the concentration of credit risk by ensuring diversification across asset classes. The following table summarizes the distribution of investments by credit risk:

	2016	2015
	%	%
Bonds, treasury bills and cash (< 1 year)	72.0	70.0
Government of Canada (> 1 year)	7.0	7.0
Canadian provincials (> 1 year)	10.0	11.0
Corporates (> 1 year)	11.0	12.0
Total portfolio	100.0	100.0

b) Liquidity risk

Liquidity risk is the risk that the Society will not be able to meet all cash outflow obligations as they come due. The primary potential cash outflow is the payment of insurance claims and is represented by the provision for unpaid claims and adjustment expenses liability on the statement of financial position. In order to manage the liquidity risk associated with this liability, an investment policy is in place. A summary of the invested assets by term to maturity is provided in Note 4. The following table summarizes the exposure to liquidity risk:

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2016

11. Risk management (continued)

b) Liquidity risk (continued)

December 31, 2016				
	Due within 1 year	1 to 5 years	Over 5 years	Total
	\$	\$	\$	\$
Provision for unpaid claims and adjustment expenses (net)	1,097,000	3,014,000	2,342,000	6,453,000
Due to reinsurers	2,514,054	-	-	2,514,054
Accounts payable and accrued charges	643,905	-	-	643,905
Total	4,254,959	3,014,000	2,342,000	9,610,959

December 31, 2015				
	Due within 1 year	1 to 5 years	Over 5 years	Total
	\$	\$	\$	\$
Provision for unpaid claims and adjustment expenses (net)	1,098,000	2,981,000	2,309,000	6,388,000
Due to reinsurers	1,509,338	-	-	1,509,338
Accounts payable and accrued charges	910,690	-	-	910,690
Total	3,518,028	2,981,000	2,309,000	8,808,028

c) Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity markets and foreign currency rates. The primary market risk exposures are discussed below.

i) Interest rate risk

Interest rate risk is the risk of financial loss arising from changes in interest rates. Fluctuations in interest rates will impact the market value of the fixed income portion of the investment portfolio. Interest rate fluctuations may create unrealized gains or losses which are recorded as OCI, however, these assets are ordinarily held until maturity which would result in a recovery of par value. A portion of these assets support the net provision for unpaid claims and adjustment expenses which is calculated, in part, using a discount factor based on the market rate of return of the investment portfolio.

The Society is exposed to interest rate risk if the cash flows from the investments are not matched to the liabilities that they support. This risk is partially mitigated by the investment policy which specifies that the timing of the settlement of unpaid claims be considered when selecting the duration of invested assets.

The estimated impact of a 1% increase in interest rates would decrease the market value of the fixed income portion of the investment portfolio by \$291,878 (2015: \$228,390) which would be recorded in OCI. This impact would be more than offset on an economic basis by a decrease in the estimated unpaid claims and adjustment expense of \$258,000 (2015: \$257,000) recorded through income. Conversely, a 1% decrease in interest rates would increase the market value of the fixed income portion of the investment portfolio by \$250,135 (2015: \$201,485) which would be recorded in OCI. This impact would be more than offset on an economic basis by an increase in the estimated unpaid claims and adjustment expense of \$278,000 (2015: \$278,000) recorded through net income.

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2016

11. Risk management (continued)

c) Market risk (continued)

ii) Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. To mitigate this risk, the Society's investment policy does not allow exposure to equity markets.

iii) Currency risk

The Society does not have any material exposure to foreign currency.

12. Surplus management and adequacy

Equity is comprised of minimum and additional surplus and AOCI. At December 31, 2016, the equity was \$14,451,839 (2015: \$14,187,466). The Society's objectives for the management of surplus are for the prudent operation of the reciprocal and to provide relatively predictable premium costs for its members over time. A surplus management policy is approved by the Advisory Board which oversees the surplus management process.

As a reciprocal insurance exchange, the requirement for surplus is lower than that of an incorporated insurance company. A reciprocal may rely on the contractual agreement among its members to contribute to the losses incurred by other members and to make assessments for additional contributions to surplus if required and accordingly, can rely on the credit worthiness of its subscribers.

The Society is regulated by the Superintendent of Insurance, Alberta and in British Columbia, Ontario and Nova Scotia where licenses are held, all of which expect incorporated insurance companies to meet a Minimum Capital Test ("MCT") ratio of capital available to capital required of at least 150%. As of December 31, 2016, the Society's MCT was 464.23% (2015: 359.61%). However, the minimum regulatory standard for reciprocals in Alberta is adjusted equity exceeding \$50,000. The Society's practice is to maintain a surplus level which is significantly higher than the regulatory minimum. The Society's surplus adequacy is evaluated regularly and this evaluation takes into account the gross exposure to risk, the level and nature of reinsurance purchased and the resulting net exposure to members. Input from the appointed actuary, which includes an assessment of loss volatility, is factored into this evaluation.

In accordance with sections 99 and 100 of the Alberta Insurance Act, the Society is required to maintain a reserve and guarantee fund. At December 31, 2016 the total reserve and guarantee funds required are as follows:

	2016	2015
	\$	\$
Reserve fund		
Net premiums written during the period	10,610,000	12,439,000
Less: Amounts paid to licensed reinsurers	8,347,000	9,919,000
	2,263,000	2,520,000
Requirement	50%	50%
	1,131,500	1,260,000
Guarantee fund		
Total liabilities	109,667,000	111,113,000
Less: Unearned premiums	5,262,000	6,185,000
Recoverable from licensed reinsurers	93,713,000	94,966,000
Add: Statutory margin	50,000	50,000
	10,742,000	10,012,000
Total of reserve and guarantee fund	11,873,500	11,272,000
Cash and approved securities	21,469,000	18,206,000
Excess of cash and securities over reserve and guarantee fund	9,595,500	6,934,000

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2016

13. Fair value disclosure

The fair value of the following classes of financial instruments is deemed to approximate carrying value due to the immediate or short term maturity of the financial instruments.

- a) Cash at bank
- b) Interest income due and accrued
- c) Premiums receivable
- d) Premium taxes receivable
- e) Reinsurance recoverable
- f) Due to reinsurers
- g) Accounts payable and accrued charges

14. Date of authorization for issue

The financial statements were authorized for issue by the Advisory Board on February 22, 2017.



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

Date: February 15, 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: **CLLAS Cyber Initiative Update**

This memo serves as an update to the CLLAS cyber initiative.

We collected the responses to CLLAS' IT Security Survey and a majority of the firms responded. In analysing the results, we 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.

The CLLAS Cyber Sub Committee and Policy Committee reviewed and discussed the potential of a manuscript, CLLAS-exclusive reputation risk cyber policy, and concluded that the appetite for such coverage is not present at this time at the pricing levels required to implement it. However, it was concluded that in light of falling premiums for such coverage, firms are ready to revisit commercially available cyber coverage.

The Cyber Sub Committee and Policy Committee have instructed us to put together terms and pricing indications on a cyber insurance group purchase program for the CLLAS firms to consider. This would be an optional purchase on an individual firm basis. By leveraging CLLAS' reputation, we expect to achieve better than market rates and coverage.

We expect to be in a position to share the results with the Board at the June meeting.

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

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

January 26, 2017

Rec'd Jan 27/17.

Mr. Patrick Mahoney,
Axxima,
36 Toronto Street, Suite 510
Toronto ON M5C 2C5

Dear Patrick:

Re: Canadian Lawyers Liability Assurance Society

Please find enclosed our quarterly investment report for the period ending December 31 last on the Short and Long Term Fund last for CLLAS, together with a copy of our accounts, the originals of which have been sent to RBC Dexia Investor Services for payment.

After showing little net change early in the fourth quarter, domestic bond prices fell back immediately following the U.S. election and prices continued to soften over the balance of the quarter. As a result, the valuation of the Long Term Investment Fund moved lower.

During the quarter in the Long Term Investment Fund, a corporate and government bond matured, and the resulting proceeds, along with a portion of the cash reserve in the Short Term Fund, were used to introduce two new medium term corporate bonds to the list, as well as a new medium term government and provincial issue. Further activity involved the roll-over of maturities in the Short Term Investment Fund.

Turning to compliance matters, as required under new regulations, which are referred to as the "Client Relationship Model, Phase 2", detailed reports must be provided annually setting out each portfolio's investment management fee and investment performance, calculated using the money-weighted method. Accordingly, additional schedules have been attached to this report to meet these requirements and going forward these schedules will be provided annually with the December quarterly report. This performance methodology takes into account the impact of the investor's contributions to or withdrawals from the portfolio and means that the returns shown are personal to the investor.

Please let us know if you have any questions or comments on the report.

With best regards,

Yours sincerely,



RWB/mab
Enclosures

CLLAS
CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

INVESTMENT REPORT
DECEMBER 31, 2016

MARTIN, LUCAS & SEAGRAM LTD.
INDEPENDENT INVESTMENT COUNSEL

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

Tel.: 416-363-6216
Fax: 416-363-4538
e-mail: info@mlsinvest.com

CLLAS
CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

COMMENTARY FOR THE QUARTER ENDING DECEMBER 31, 2016

Review of Market Yields

Following an uptick early in the fourth quarter, bond yields held fairly steady until the U.S. elections. Yields then moved sharply higher and continued to climb until late in December. While the 3-Month Treasury Bill yield ended the quarter slightly lower, the balance of the curve shifted higher, and the increase in yields rose as the term increased. As a result, the 10-year Canada yield experienced the largest increase, with a gain of 72 basis points.

The slight downtick at the short end of the curve and the significant rise in 10-year yields caused a noticeable steeping in the yield curve. At the end of December, the yield advantage of 10-year issues over Treasury Bills had increased to 126 basis points, compared to just 47 basis points three months earlier.

	Jan. 1/95	Jun. 30/16	Sep. 30/16	Dec. 31/16
3-Month Treasury Bills	6.80%	0.48%	0.53%	0.46%
5-year Canadas	8.99%	0.57%	0.62%	1.11%
10-year Canadas	9.09%	1.06%	1.00%	1.72%

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

In the Long Term Investment Fund, a corporate and government bond matured, and the resulting proceeds, along with a portion of the cash reserve in the Short Term Fund, were used to introduce two new medium term corporate bonds to the list, as well as a new medium term government and provincial issue.

During the fourth quarter, the market value of the Long Term Investment Fund holdings declined by \$102,346, which represents a capital decrease of 2.1%.

At December 31, 2016, the average term to maturity of the Long Term Investment Fund stood at 4.6 years.

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

<i>Distribution at December 31, 2016</i>	<i>Valuation</i>	<i>%</i>
Short Term Investment Fund	\$11,621,795	69.3%
Long Term Investment Fund	5,150,310	30.7%
TOTAL COMBINED VALUATION	\$16,772,106	100.0%

CLLAS

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 December 31, 2016
- Security Purchases and Sales
- Cash Reconciliations
- External Individual Credit Rating Report

CLLAS

LONG TERM INVESTMENT FUND

TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIODS ENDING DECEMBER 31, 2016

	3 Years	2 Years*	1 Year	Last 3 months
Long Term Investment Fund – Gross of Fees	3.01%	2.23%	0.96%	-1.44%
Long Term Investment Fund – Net of Fees	2.72%	1.93%	0.67%	-1.51%
Benchmark Portfolio **	3.40%	2.38%	1.26%	-1.55%

* 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 DECEMBER 31, 2016

	Since Inception Oct. 1/08 *	3 Years*	2 Years *	1 Year	Last 3 Months
Short Term Investment Fund – Gross of Fees	0.77%	0.67%	0.56%	0.57%	0.14%
Short Term Investment Fund – Net of Fees	0.65%	0.56%	0.45%	0.46%	0.12%
Benchmark Portfolio **	0.73%	0.64%	0.52%	0.47%	0.12%

* Annualized

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

CLLAS

LONG TERM INVESTMENT FUND

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

	Dec. 17/13	Mar. 31/16	Jun. 30/16	Sep. 30/16	Dec. 31/16
Bonds, Treasury Bills & Cash Less than 1 year term	100.0%	16.8%	16.6%	21.2%	10.4%
Canadas Greater than 1 year term		19.5%	19.6%	19.2%	23.8%
Provincials Greater than 1 year term		31.2%	31.3%	31.6%	31.9%
Corporates Greater than 1 year term		32.5%	32.5%	28.0%	33.9%
TOTAL PORTFOLIO	100.0%	100.0%	100.0%	100.0%	100.0%

LONG TERM INVESTMENT FUND

DISTRIBUTION OF SECURITIES BY MATURITY
(Based on Market Values)

	Mar. 31/16	Jun. 30/16	Sep. 30/16	Dec. 31/16
Under 1 year	16.8%	16.6%	21.2%	10.4%
1 - 3 years	28.2%	33.4%	26.2%	24.7%
3 - 5 years	21.6%	20.7%	16.2%	20.4%
5 - 7 years	23.6%	19.3%	23.4%	24.0%
7 - 10 years	9.8%	10.0%	13.0%	20.5%
TOTAL	100.0%	100.0%	100.0%	100.0%
Average Maturity (yrs)	3.70	3.47	3.91	4.55
Average Duration (yrs)	3.43	3.23	3.61	4.19

SHORT TERM INVESTMENT FUND

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

CLLAS

COMPLIANCE WITH INVESTMENT POLICY STATEMENT

AT DECEMBER 31, 2016

	Investment Limits	Investment Funds	Compliance
<i>Short Term Investment Fund</i>			
Maximum Term of Any Issue	1 year	0.1 years	Yes
Minimum Percentage of Total Fund (Short & Long)	40% of Total	69.3%	Yes
Minimum Canada & Provincial Percentage	50%	51.8%	Yes
Minimum Provincial Quality	A	N/A	Yes
Minimum Bank CD & BA Quality	R1 (high)	R1 (high)	Yes
<i>Long Term Investment Fund</i>			
Maximum Term of Any Issue	10 years	9.5 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 fourth 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.

CLLAS

Martin, Lucas & Seagram Ltd.
PERFORMANCE REPORT
GROSS OF FEES
CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)
From 09-30-16 to 12-31-16

Portfolio Value on 09-30-16	4,890,611
Accrued Interest	28,103
Contributions	365,405
Withdrawals	-39,989
Realized Gains	-968
Unrealized Gains	-101,377
Interest	36,628
Dividends	0
Change in Accrued Interest	-6,981
Portfolio Value on 12-31-16	5,150,310
Accrued Interest	21,122
Average Capital	5,069,376
Total Gain before Fees	-72,698
IRR for 0.25 Years	-1.43%

CLLAS

BOND MARKET COMMENTARY AND FUTURE POLICY

Despite widespread predictions that the equity markets faced dire consequences in the unlikely event that Mr. Trump became president, following only a brief selloff immediately after the outcome became clear, stocks have rallied higher. Bond prices, on the other hand, experienced a sharp selloff and yields have continued to climb higher since the election. While equity markets often strengthen shortly after a presidential election, as this eliminates one source of uncertainty, the consensus felt Mr. Trump's vague and inconsistent policies would heighten rather than alleviate the degree of uncertainty. However, investors quickly reconsidered the risks and have since focused on campaign pledges that would boost economic growth and possibly inflation, thus fuelling the weakness in bond prices. These include infrastructure spending, tax reform centred on cuts and a rollback of regulatory measures. For the time being, investors are putting much less emphasis on Mr. Trump's hostile stands toward immigration, free trade and his seeming indifference to the implications for the budget deficit and interest rates, which could suppress the expansion.

Clarity on the legislative front will take some time, given that Mr. Trump's populist economic policies are lacking in detail and many conflict with cornerstone principles of his party, including free trade, changes in Social Security and more isolationist foreign policies. As a result, the Republican-controlled Congress is expected to focus first on an agenda that implements Mr. Trump's more expansionary policies, since these parallel those of his party. Meanwhile, it is hoped that the more destabilizing and anti-growth elements of his election platform are less likely to be enacted. However, this should not be ruled out as Mr. Trump does have considerable leeway to act unilaterally on trade and immigration, which were policies backed by many of his most fervent supporters. Executive orders issued since the inauguration suggests that some anti-growth policies may not be tempered.

Meanwhile, most U.S. economic data has been strengthening. Aggregate growth accelerated to 3.5% in the third quarter, compared to an average quarterly gain of just 1.1% in the first half of 2016. This was largely due to a rebound in inventory investment and improvements in trade and consumer spending. In the aftermath of the election, consumer and business sentiment has also shown a significant improvement. Given the pickup in growth, ongoing gains in employment and a brightening economic outlook, Federal Reserve policy makers concluded last month that the economy was strong enough to warrant a quarter percentage point increase, after holding rates steady for close to a year. In addition to approving the much-expected rate hike, Fed officials have indicated that they may accelerate the pace of rate hikes in 2017, given that inflation is approaching their 2% target and that the economy is near full employment. For the time being, the Fed has not factored in how economic policy may change under the new administration, until more details are available.

CLLAS

The Canadian economy also grew at an annualized rate of 3.5% in the third quarter, which more than recouped the ground lost during the previous quarter, when the economy contracted 1.3% in the wake of the Alberta wildfires and slump in non-energy exports. Since then, a stronger U.S. economy has helped boost the export sector to provide Canada's first trade surplus in more than two years. Domestic demand has also been supported by increased government spending and a strong rebound in employment growth, which has exceeded expectations for each of the last 5 months; however, numerous structural economic headwinds remain. These include low productivity growth, excess capacity, the ongoing decline in business investment, an overextended consumer and signs of a cooling real estate market. The U.S. election results cloud the outlook further. Mr. Trump's promise to renegotiate the North American free-trade agreement could damage Canada's critical trade sector, which relies on the U.S. market for three-quarters of its exports. On the other hand, the new administration is much more supportive of fossil fuels and has conditionally approved the Keystone pipeline, which is positive for the domestic energy sector. Furthermore, the proposed tax cuts and infrastructure spending could also bring positive spinoffs to Canada further down the road. Given the benign inflation backdrop in Canada, coupled with the uncertainty surrounding the eventual impact from the Trump presidency, suggests the Bank of Canada is unlikely to move administered rates higher anytime soon.

Economic activity in the Eurozone also picked up during the final quarter of 2016. With industrial production growing significantly ahead of consensus estimates and survey data indicating a continued expansion of the service sector, confidence in the economic performance of the euro area has strengthened. This has led to a decision by the European Central Bank to moderately scale back its monthly quantitative easing program. This ultra-loose monetary policy has allowed for a more competitive euro to drive the export surge seen in Germany and France, the area's two largest economies. Germany has reported GDP growth of 1.9% for 2016, its highest rate in 5 years. This was led by a strong labour market, an improvement in bank lending conditions, and an increase in government spending. However, heightened uncertainties surrounding Brexit and this year's upcoming elections in Italy, the Netherlands, Germany and France present significant downside risks as Eurosceptic sentiment gains momentum.

Moving to the world's second largest economy, China finished 2016 with strong retail sales and industrial production figures supporting a GDP growth rate of 6.7%. While still within the government's target range of 6.5% to 7.0%, this marks the country's sixth consecutive decline in GDP growth. Thus far, China remains on track towards its objective of rebalancing towards an economy driven increasingly by domestic demand. The export sector's contribution to China's economy has now fallen to its lowest level since 1999. This reduced dependence on trade offers some protection against the incoming U.S. administration's call for increased protectionist measures. However, Mr. Trump's antagonistic remarks towards China could prove destabilizing depending on the policies adopted and how China reacts. Meanwhile, third quarter growth in Japan surprised to the downside, expanding at an annualized pace of just 1.3%, compared with a preliminary figure of 2.2%. Despite this, the final quarter of 2016 looks promising with output, new orders, and employment all increasing at a faster pace, while fiscal and monetary policies remain highly supportive of future growth.

CLLAS

The International Monetary Fund now estimates that global economic growth for 2016 was 3.1%, the slowest pace since 2009, and expects a modest improvement to a 3.4% rate in 2017. The latter is supported by a projected pickup in developing economies as conditions normalize. However, while the global expansion is expected to remain intact, we believe investors continue to face a challenging environment in light of the fragile global backdrop and a variety of near-term event risks that could rattle investor confidence. Chief among these are a myriad of question marks surrounding the political environment following one of the most extraordinary regime changes in the world's largest economy. While there is considerable upside potential for the economy under the new regime, there is also significant downside risk. These political uncertainties are compounded by elections across much of Europe in 2017, where a disruption of the status quo by populist forces should not be ruled out in the wake of Brexit and the U.S. election.

Possible shifts in the major central banks' strategies going forward could also have a sizeable impact on the financial landscape. Until very recently, the consensus view expected monetary policy would remain highly stimulative and that interest rates would stay depressed for an extended period. However, following the U.S. election, the surge in government bond yields have called into question these expectations and it remains to be seen how investors and the economy will react to the opposing forces of pro-growth policies against the rise in interest rates.

Given the degree of uncertainty, coupled with stretched valuations in the equity markets, we believe the markets remain susceptible to unpredictable swings in sentiment. We expect volatility in the equity markets would spill into the fixed income markets, as investors vacillate between risk-on and risk-off trades. Many of the proposed expansionary policies, such as tax reform and infrastructure spending, will take some time to implement, and will have little near-term impact. While few expect Mr. Trump to follow through with his more extreme campaign promises, the antagonistic rhetoric used to address global trade, immigration, energy, and defence policies validate elevated concerns for global economic prospects going forward. That being said, we believe the U.S. political system will temper these extreme positions and note that some of Mr. Trump's appointees support a more judicious approach on a range of issues. In weighing the conflicting crosscurrents, we believe domestic bond yields may consolidate around current levels over the near term. However, unless there is increasing evidence that the global expansion could be derailed, we believe that U.S. yields will remain on an upward trend, which will pull domestic yields gradually higher this year. As a result, we think the portfolio's defensive posture, given the 4.2 year duration and laddered maturity structure, remains warranted.

RWB/mab
January 26, 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 December 31, 2016

<u>Quantity</u>	<u>Security</u>	<u>Unit Cost</u>	<u>Price</u>	<u>Market Value</u>	<u>Annual Income</u>
CASH					
	Cash Account			36,689	0
MONEY MARKET ISSUES					
605,000	Royal Bank BA .698% due January 3, 2017	99.89	99.99	604,944	4,218
550,000	Bank of Nova Scotia BA .75% due January 5, 2017	99.84	99.99	549,924	4,118
510,000	Bank of Nova Scotia BA .751% due January 5, 2017	99.85	99.99	509,930	3,824
1,775,000	Canada Treasury Bill .42% due January 12, 2017	99.94	99.99	1,774,755	7,450
1,125,000	Toronto Dominion Bank BA .78% due January 13, 2017	99.95	99.97	1,124,638	8,771
415,000	Royal Bank BA .74% due January 16, 2017	99.85	99.96	414,838	3,066
885,000	CIBC BA .729% due January 25, 2017	99.83	99.94	884,471	6,441
1,755,000	Canada Treasury Bill .41% due January 26, 2017	99.91	99.97	1,754,493	7,189
600,000	CIBC BA .718% due January 31, 2017	99.84	99.93	599,557	4,301
1,005,000	Canada Treasury Bill .40% due February 9, 2017	99.94	99.95	1,004,504	4,018
880,000	FirstBank BA .718% due February 15, 2017	99.83	99.89	879,050	6,307
1,485,000	Canada Treasury Bill .45% due February 23, 2017	99.90	99.93	1,484,004	6,676
				<u>11,585,106</u>	<u>66,379</u>
TOTAL PORTFOLIO				11,621,795	66,379

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 10-01-16 To 12-31-16

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
PURCHASES					
10-04-16	10-05-16	500,000	Bank of Nova Scotia BA .699% due October 31, 2016	99.95	499,751.00
10-05-16	10-06-16	1,475,000	Canada Treasury Bill .399% due December 1, 2016	99.94	1,474,095.82
10-17-16	10-18-16	550,000	Bank of Nova Scotia BA .75% due January 5, 2017	99.84	549,109.00
10-19-16	10-20-16	1,005,000	Canada Treasury Bill .42% due December 15, 2016	99.94	1,004,352.78
10-20-16	10-21-16	880,000	FirstBank BA .703% due November 17, 2016	99.95	879,542.40
10-24-16	10-25-16	510,000	Bank of Nova Scotia BA .751% due January 5, 2017	99.85	509,245.20
10-28-16	10-31-16	885,000	CIBC BA .729% due January 25, 2017	99.83	883,480.46
10-31-16	11-01-16	415,000	Royal Bank BA .74% due January 16, 2017	99.85	414,360.90
11-02-16	11-03-16	1,755,000	Canada Treasury Bill .41% due January 26, 2017	99.91	1,753,345.04
11-07-16	11-08-16	600,000	CIBC BA .718% due January 31, 2017	99.84	599,010.00
11-07-16	11-08-16	605,000	Royal Bank BA .698% due January 3, 2017	99.89	604,352.65
11-17-16	11-18-16	1,775,000	Canada Treasury Bill .42% due January 12, 2017	99.94	1,773,878.20
11-17-16	11-18-16	880,000	FirstBank BA .718% due February 15, 2017	99.83	878,460.00
11-22-16	11-23-16	1,125,000	Toronto Dominion Bank BA .705% due December 22, 2016	99.94	1,124,370.00
11-30-16	12-01-16	1,485,000	Canada Treasury Bill .45% due February 23, 2017	99.90	1,483,463.03
12-14-16	12-15-16	1,005,000	Canada Treasury Bill .40% due February 9, 2017	99.94	1,004,383.94
12-21-16	12-22-16	1,125,000	Toronto Dominion Bank BA .78% due January 13, 2017	99.95	1,124,471.25
					16,559,671.67
SALES					
10-05-16	10-05-16	500,000	Bank of Nova Scotia BA .717% due October 5, 2016	100.00	500,000.00
10-06-16	10-06-16	1,475,000	Canada Treasury Bill .409% due October 6, 2016	100.00	1,475,000.00

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)
From 10-01-16 To 12-31-16

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
10-18-16	10-18-16	550,000	Royal Bank BA .71% due October 18, 2016	100.00	550,000.00
10-20-16	10-20-16	1,005,000	Canada Treasury Bill .40% due October 20, 2016	100.00	1,005,000.00
10-21-16	10-21-16	885,000	CIBC BA .701% due October 21, 2016	100.00	885,000.00
10-25-16	10-25-16	510,000	Bank of Nova Scotia BA .715% due October 25, 2016	100.00	510,000.00
10-31-16	10-31-16	500,000	Bank of Nova Scotia BA .699% due October 31, 2016	100.00	500,000.00
11-01-16	11-01-16	795,000	FirstBank BA .72% due November 1, 2016	100.00	795,000.00
11-03-16	11-03-16	1,755,000	Canada Treasury Bill .419% due November 3, 2016	100.00	1,755,000.00
11-08-16	11-08-16	430,000	CIBC BA .70% due November 8, 2016	100.00	430,000.00
11-08-16	11-08-16	835,000	CIBC BA .739% due November 8, 2016	100.00	835,000.00
11-17-16	11-17-16	1,775,000	Canada Treasury Bill .44% due November 17, 2016	100.00	1,775,000.00
11-17-16	11-17-16	880,000	FirstBank BA .703% due November 17, 2016	100.00	880,000.00
11-23-16	11-23-16	1,430,000	Toronto Dominion Bank BA .70% due November 23, 2016	100.00	1,430,000.00
12-01-16	12-01-16	1,475,000	Canada Treasury Bill .399% due December 1, 2016	100.00	1,475,000.00
12-15-16	12-15-16	1,005,000	Canada Treasury Bill .42% due December 15, 2016	100.00	1,005,000.00
12-22-16	12-22-16	1,125,000	Toronto Dominion Bank BA .705% due December 22, 2016	100.00	1,125,000.00
					16,930,000.00

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Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)
From 10-01-16 to 12-31-16

Cash Balance at October 1, 2016			3,226.97
ADD: Proceeds from Sales	16,930,000.00		
Bond Interest Credited (from Long Term Investment Fund)	39,988.75		
Bank Interest Credited	10.97	<u>16,969,999.72</u>	
			16,973,226.69
LESS: Cost of Purchases	16,559,671.67		
Transfer to Long Term Investment Fund	365,405.48		
Investment Counsel Fees - Short Term Investment Fund	3,373.50		
Investment Counsel Fees - Long Term Investment Fund	3,453.99		
Trust Company Charges	4,632.92	<u>16,936,537.56</u>	
Cash Balance at December 31, 2016			36,689.13

Martin, Lucas & Seagram Ltd.
INVESTMENT PERFORMANCE
 Net of Fees
CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)
 December 31, 2016

Investment account RBCD-K.Habal-107611-001

CLLAS - SHORT TERM INVESTMENT FUND
 c/o Axxima
 36 Toronto Street, Suite 510
 Toronto, Ontario M5C 2C5

This report tells you how this portfolio has performed in the reporting period. It can help you assess your progress toward meeting your investment goals.

Speak to your representative if you have questions about this report. It is important that you tell your representative if your personal or financial circumstances have changed. Your representative can recommend adjustments to your investments to keep you on track to meeting your goals.

Total Value Summary

Your investments have changed by 71,699 since the inception date. Note: In this report, the inception date is July 15, 2015 or the portfolio's start date if the account was opened after July 15, 2015.

Your investments have changed by 52,042 during the past year.

Amount invested since 07-15-15	-305,759
Market value of portfolio on 12-31-16	11,621,795

Change In Portfolio Value

This table is a summary of the activity in your portfolio. It shows how the value of your portfolio has changed based on the type of activity.

From Date	Latest 1 Year	Inception To Date
	12-31-15	07-15-15
Opening Market Value	8,415,692	11,855,855
Contributions	3,918,337	3,974,517
Withdrawals	-764,275	-4,280,276
Realized Gains	0	0
Unrealized Gains	7,546	7,546
Interest	57,004	83,366
Dividends	0	0
Portfolio Fees	-12,509	-19,214
Closing Market Value	11,621,795	11,621,795
Total Fees	-12,509	-19,214

Martin, Lucas & Seagram Ltd.
INVESTMENT PERFORMANCE
Net of Fees
CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)
December 31, 2016

Personal Rates of Return

The table below shows the total percentage return of this portfolio for the reporting period. Returns are calculated after charges have been deducted. These include charges you pay for advice, transaction charges and portfolio related charges, but not income tax.

Keep in mind your returns reflect the mix of investments and risk level of your portfolio. When assessing your returns, consider your investment goals, the amount of risk you are comfortable with, and the value of the advice and services you receive.

	Annualized Latest 1 Year	Annualized Latest 3 Years	Annualized Latest 5 Years	Annualized Latest 10 Years	Annualized Inception To Date
This Portfolio	0.46%	-	-	-	0.43%

What is a total percentage return?

This represents gains and losses of an investment over a specified period of time, including realized and unrealized capital gains and losses plus income, expressed as a percentage.

Calculation method

The returns have been calculated on a money-weighted basis. This means that the percent return is an average of the monthly returns over the investment period, weighted by the value of the portfolio at the beginning of each month. This average monthly return has then been adjusted and showed as an average annual return.

The returns for each reported period reflect the average over that term.

The reported returns reflect investment income and changes in value of the underlying stocks, bonds and other securities due to changes in economic, market and security specific factors as well as the timing and amounts that have been deposited or withdrawn from this portfolio.

As a result, the returns in this table provide you with your personal rates of return for this portfolio and shows how the portfolio is performing in light of decisions you have made to deposit or withdraw funds over a set period. This calculation is provided to you in compliance with the Regulators.

Please note that performance returns shown in the quarterly investment reports were calculated on a time weighted basis and will accordingly differ from the above returns. Time weighted returns are the average returns of a portfolio independent of the amount that was invested during each period of the performance period.

Time weighted performance is a better measure for evaluating an asset manager as such performance is not influenced by the amount invested during the period.

Performance returns and changing values over various investment periods allows you to better evaluate whether your Investment goals are being met and assess the long term performance of your portfolio.

Please note that your portfolio's past performance may not be reflective of future performance.

Martin, Lucas & Seagram Ltd.

EXTERNAL INDIVIDUAL CREDIT RATING REPORT - DECEMBER 31, 2016

CLLAS - SHORT TERM INVESTMENT FUND

Quantity	Security		Rating	Unit Cost	Total Cost	Price	Market Value	Pct. Assets
CASH								
	Cash Account				36,689		36,689	0.3
MONEY MARKET ISSUES								
605,000	Royal Bank BA .698%	due January 3, 2017	R-1 (high)	99.89	604,353	99.99	604,944	5.2
550,000	Bank of Nova Scotia BA .75%	due January 5, 2017	R-1 (high)	99.84	549,109	99.99	549,924	4.7
510,000	Bank of Nova Scotia BA .75%	due January 5, 2017	R-1 (high)	99.85	509,245	99.99	509,930	4.4
1,775,000	Canada Treasury Bill .42%	due January 12, 2017	R-1 (high)	99.94	1,773,878	99.99	1,774,755	15.3
1,125,000	Toronto Dominion Bank BA .78%	due January 13, 2017	R-1 (high)	99.95	1,124,471	99.97	1,124,638	9.7
415,000	Royal Bank BA .74%	due January 16, 2017	R-1 (high)	99.85	414,361	99.96	414,838	3.6
885,000	CIBC BA .729%	due January 25, 2017	R-1 (high)	99.83	883,480	99.94	884,471	7.6
1,755,000	Canada Treasury Bill .41%	due January 26, 2017	R-1 (high)	99.91	1,753,345	99.97	1,754,493	15.1
600,000	CIBC BA .718%	due January 31, 2017	R-1 (high)	99.84	599,010	99.93	599,557	5.2
1,005,000	Canada Treasury Bill .40%	due February 9, 2017	R-1 (high)	99.94	1,004,384	99.95	1,004,504	8.6
880,000	FirstBank BA .718%	due February 15, 2017	R-1 (high)	99.83	878,460	99.89	879,050	7.6
1,485,000	Canada Treasury Bill .45%	due February 23, 2017	R-1 (high)	99.90	1,483,463	99.93	1,484,004	12.8
					11,577,560		11,585,106	99.7
TOTAL PORTFOLIO					11,614,249		11,621,795	100.0

CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)

Portfolio Holdings at December 31, 2016

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
GOVERNMENT BONDS					
250,000	Canada Housing Trust 1.75% due June 15, 2018	100.11	101.39	253,473	4,375
250,000	Canada Housing Trust 1.95% due June 15, 2019	100.10	102.20	255,500	4,875
200,000	Canada Housing Trust 2.4% Series 48 due December 15, 2022	100.37	103.85	207,696	4,800
200,000	Canada Housing Trust 2.35% due September 15, 2023	105.62	103.22	206,442	4,700
300,000	Canada Housing Trust Ser. 70 2.25% due December 15, 2025	100.98	100.85	302,535	6,750
				<hr/> 1,225,646	<hr/> 25,500
PROVINCIAL BONDS					
330,000	Ontario 1.90% due September 8, 2017	100.18	100.81	332,666	6,270
350,000	Ontario 2.1% due September 8, 2018	99.57	101.85	356,458	7,350
250,000	British Columbia 3.25% due December 18, 2021	102.30	107.57	268,918	8,125
250,000	Ontario 3.15% due June 2, 2022	99.04	106.69	266,725	7,875
400,000	Ontario 2.60% due June 2, 2025	101.08	101.66	406,644	10,400
350,000	British Columbia 2.3% due June 18, 2026	104.40	99.33	347,652	8,050
				<hr/> 1,979,062	<hr/> 48,070
CORPORATE BONDS					
200,000	Toronto Dominion Bank Dep. Note 2.433% due August 15, 2017	100.73	100.86	201,710	4,866
200,000	Royal Bank Dep. Note 2.26% due March 12, 2018	99.28	101.25	202,490	4,520
200,000	Wells Fargo Canada 2.944% due July 25, 2019	100.02	103.27	206,544	5,888
300,000	Bank of Montreal 2.84% due June 4, 2020	101.77	103.52	310,572	8,520
250,000	Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	104.57	102.58	256,458	6,408
200,000	Bank of Montreal 3.4% due April 23, 2021	100.65	105.93	211,860	6,800

Martin, Lucas & Seagram Ltd.

CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)

Portfolio Holdings at December 31, 2016

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
150,000	Royal Bank 1.968% due March 2, 2022	100.05	99.05	148,572	2,952
250,000	National Bank of Canada 2.105% due March 18, 2022	102.04	99.52	248,788	5,263
150,000	Wells Fargo 3.46% due January 24, 2023	102.36	105.74	158,610	5,190
				1,945,603	50,406
TOTAL PORTFOLIO				5,150,310	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 10-01-16 To 12-31-16

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
PURCHASES					
11-07-16	11-10-16	250,000	National Bank of Canada 2.105% due March 18, 2022	102.04	255,100.00
11-18-16	11-23-16	150,000	Ontario 2.60% due June 2, 2025	102.62	153,930.00
11-18-16	11-23-16	150,000	Royal Bank 1.968% due March 2, 2022	100.05	150,075.00
12-14-16	12-19-16	300,000	Canada Housing Trust Ser. 70 2.25% due December 15, 2025	100.98	302,940.00
					862,045.00
SALES					
11-08-16	11-08-16	200,000	Bank of Nova Scotia Dep. Note 2.1% due November 8, 2016	100.00	200,000.00
12-15-16	12-15-16	300,000	Canada Housing Trust 1.85% Series 43 due December 15, 2016	100.00	300,000.00
					500,000.00

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Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - LONG TERM INVESTMENT FUND
From 10-01-16 to 12-31-16

Cash Balance at October 1, 2016		0.00
ADD: Proceeds from Bond Sales	500,000.00	
Transfer from Short Term Investment Fund	<u>365,405.48</u>	<u>865,405.48</u>
LESS: Cost of Purchases	862,045.00	
Accrued Bond Interest on Purchases	<u>3,360.48</u>	<u>865,405.48</u>
Cash Balance at December 31, 2016		0.00

Martin, Lucas & Seagram Ltd.
DATE TO DATE GAINS AND LOSSES
CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)
From 09-30-16 to 12-31-16

Security	09-30-16 Market Value	Additions Withdrawals	12-31-16 Market Value	12-31-16 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
CASH								
Cash Account	0	0	0	0				
GOVERNMENT BONDS								
Canada Housing Trust 1.85% Series 43 due December 15, 2016	300,750	-302,775	0	0	-3,900	-750	0	0
Canada Housing Trust 1.75% due June 15, 2018	254,635	-2,188	253,473	250,275	0	0	3,198	-1,163
Canada Housing Trust 1.95% due June 15, 2019	257,963	-2,438	255,500	250,238	0	0	5,263	-2,463
Canada Housing Trust 2.4% Series 48 due December 15, 2022	214,644	-2,400	207,696	200,740	0	0	6,956	-6,948
Canada Housing Trust 2.35% due September 15, 2023	214,730	0	206,442	211,240	0	0	-4,798	-8,288
Canada Housing Trust Ser. 70 2.25% due December 15, 2025	0	303,014	302,535	302,940	0	0	-405	-405
GOVERNMENT BONDS Total	<u>1,242,722</u>		<u>1,225,646</u>	<u>1,215,433</u>	<u>-3,900</u>	<u>-750</u>	<u>10,213</u>	<u>-19,266</u>
PROVINCIAL BONDS								
Ontario 1.90% due September 8, 2017	333,848	0	332,666	330,594	0	0	2,072	-1,181
Ontario 2.1% due September 8, 2018	358,715	0	356,458	348,495	0	0	7,963	-2,258
British Columbia 3.25% due December 18, 2021	276,068	-4,063	268,918	255,750	0	0	13,168	-7,150
Ontario 3.15% due June 2, 2022	274,880	-3,938	266,725	247,600	0	0	19,125	-8,155
Ontario 2.60% due June 2, 2025	267,683	150,589	406,644	404,305	0	0	2,339	-14,969
British Columbia 2.3% due June 18, 2026	367,385	-4,025	347,652	365,400	0	0	-17,749	-19,733
PROVINCIAL BONDS Total	<u>1,878,577</u>		<u>1,979,062</u>	<u>1,952,144</u>	<u>0</u>	<u>0</u>	<u>26,918</u>	<u>-53,445</u>
CORPORATE BONDS								
Bank of Nova Scotia Dep. Note 2.1% due November 8, 2016	200,218	-202,100	0	0	-640	-218	0	0
Toronto Dominion Bank Dep. Note 2.433% due August 15, 2017	202,466	0	201,710	201,460	0	0	250	-756
Royal Bank Dep. Note 2.26% due March 12, 2018	203,054	0	202,490	198,560	0	0	3,930	-564
Wells Fargo Canada 2.944% due July 25, 2019	208,228	0	206,544	200,040	0	0	6,504	-1,684
Bank of Montreal 2.84% due June 4, 2020	315,303	-4,260	310,572	305,307	0	0	5,265	-4,731
Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	260,323	-3,204	256,458	261,425	0	0	-4,968	-3,865
Bank of Montreal 3.4% due April 23, 2021	216,714	-3,400	211,860	201,300	0	0	10,560	-4,854
Royal Bank 1.968% due March 2, 2022	0	150,738	148,572	150,075	0	0	-1,503	-1,503
National Bank of Canada 2.105% due March 18, 2022	0	255,864	248,788	255,100	0	0	-6,313	-6,313

Martin, Lucas & Seagram Ltd.
DATE TO DATE GAINS AND LOSSES
CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)
From 09-30-16 to 12-31-16

Security	09-30-16 Market Value	Additions Withdrawals	12-31-16 Market Value	12-31-16 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
Wells Fargo 3.46% due January 24, 2023	163,007	0	158,610	153,542	0	0	5,069	-4,397
CORPORATE BONDS Total	1,769,312		1,945,603	1,926,809	-640	-218	18,795	-28,666
TOTAL PORTFOLIO	4,890,611		5,150,310	5,094,385	4,540	-968	55,925	-101,377
TOTAL DATE TO DATE GAIN OR LOSS								-102,345
% CHANGE DURING PERIOD								-2.09

Martin, Lucas & Seagram Ltd.
INVESTMENT PERFORMANCE
 Net of Fees
CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)
 December 31, 2016

Investment account RBCD-107611-001

CLLAS - LONG TERM INVESTMENT FUND
 c/o Axxima
 36 Toronto Street, Suite 510
 Toronto, Ontario M5C 2C5

This report tells you how this portfolio has performed in the reporting period. It can help you assess your progress toward meeting your investment goals.

Speak to your representative if you have questions about this report. It is important that you tell your representative if your personal or financial circumstances have changed. Your representative can recommend adjustments to your investments to keep you on track to meeting your goals.

Total Value Summary

Your investments have changed by 67,708 since the inception date. Note: In this report, the inception date is July 15, 2015 or the portfolio's start date if the account was opened after July 15, 2015.
 Your investments have changed by 43,610 during the past year.

Amount invested since 07-15-15	258,097
Market value of portfolio on 12-31-16	5,171,432

Change In Portfolio Value

This table is a summary of the activity in your portfolio. It shows how the value of your portfolio has changed based on the type of activity.

From Date	Latest 1 Year	Inception To Date
	12-31-15	07-15-15
Opening Market Value	4,813,545	4,845,628
Contributions	732,614	732,614
Withdrawals	-418,337	-474,517
Realized Gains	-7,697	-12,278
Unrealized Gains	-62,530	-85,720
Interest	113,168	169,348
Dividends	0	0
Change in Accrued Interest	669	-3,642
Closing Market Value	5,171,432	5,171,432
Portfolio Fees Paid By Client	-13,895	-20,660
Total Fees	-13,895	-20,660

Martin, Lucas & Seagram Ltd.
INVESTMENT PERFORMANCE
Net of Fees
CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)
December 31, 2016

Personal Rates of Return

The table below shows the total percentage return of this portfolio for the reporting period. Returns are calculated after charges have been deducted. These include charges you pay for advice, transaction charges and portfolio related charges, but not income tax.

Keep in mind your returns reflect the mix of investments and risk level of your portfolio. When assessing your returns, consider your investment goals, the amount of risk you are comfortable with, and the value of the advice and services you receive.

	Annualized Latest 1 Year	Annualized Latest 3 Years	Annualized Latest 5 Years	Annualized Latest 10 Years	Annualized Inception To Date
This Portfolio	0.62%	-	-	-	0.67%

What is a total percentage return?

This represents gains and losses of an investment over a specified period of time, including realized and unrealized capital gains and losses plus income, expressed as a percentage.

Calculation method

The returns have been calculated on a money-weighted basis. This means that the percent return is an average of the monthly returns over the investment period, weighted by the value of the portfolio at the beginning of each month. This average monthly return has then been adjusted and showed as an average annual return.

The returns for each reported period reflect the average over that term.

The reported returns reflect investment income and changes in value of the underlying stocks, bonds and other securities due to changes in economic, market and security specific factors as well as the timing and amounts that have been deposited or withdrawn from this portfolio.

As a result, the returns in this table provide you with your personal rates of return for this portfolio and shows how the portfolio is performing in light of decisions you have made to deposit or withdraw funds over a set period. This calculation is provided to you in compliance with the Regulators.

Please note that performance returns shown in the quarterly investment reports were calculated on a time weighted basis and will accordingly differ from the above returns. Time weighted returns are the average returns of a portfolio independent of the amount that was invested during each period of the performance period.

Time weighted performance is a better measure for evaluating an asset manager as such performance is not influenced by the amount invested during the period.

Performance returns and changing values over various investment periods allows you to better evaluate whether your Investment goals are being met and assess the long term performance of your portfolio.

Please note that your portfolio's past performance may not be reflective of future performance.

Martin, Lucas & Seagram Ltd.

EXTERNAL INDIVIDUAL CREDIT RATING REPORT - DECEMBER 31, 2016

CLLAS - LONG TERM INVESTMENT FUND

Quantity	Security		Rating	Unit Cost	Total Cost	Price	Market Value	Pct. Assets
GOVERNMENT BONDS								
250,000	Canada Housing Trust 1.75%	due June 15, 2018	AAA	100.11	250,275	101.39	253,473	4.9
250,000	Canada Housing Trust 1.95%	due June 15, 2019	AAA	100.10	250,238	102.20	255,500	5.0
200,000	Canada Housing Trust 2.4% Series 48	due December 15, 2022	AAA	100.37	200,740	103.85	207,696	4.0
200,000	Canada Housing Trust 2.35%	due September 15, 2023	AAA	105.62	211,240	103.22	206,442	4
300,000	Canada Housing Trust Ser. 70 2.25%	due December 15, 2025	AAA	100.98	302,940	100.85	302,535	5.9
					1,215,433		1,225,646	23.8
PROVINCIAL BONDS								
330,000	Ontario 1.90%	due September 8, 2017	AA (low)	100.18	330,594	100.81	332,666	6.5
350,000	Ontario 2.1%	due September 8, 2018	AA (low)	99.57	348,495	101.85	356,458	6.9
250,000	British Columbia 3.25%	due December 18, 2021	AA (high)	102.30	255,750	107.57	268,918	5.2
250,000	Ontario 3.15%	due June 2, 2022	AA (low)	99.04	247,600	106.69	266,725	5.2
250,000	Ontario 2.60%	due June 2, 2025	AA (low)	100.15	404,305	101.66	406,644	7.9
350,000	British Columbia 2.3%	due June 18, 2026	AA (high)	104.40	365,400	99.33	347,652	6.8
					1,952,144		1,979,062	38.4
CORPORATE BONDS								
200,000	Toronto Dominion Bank Dep. Note 2.433%	due August 15, 2017	AA	100.73	201,460	100.86	201,710	3.9
200,000	Royal Bank Dep. Note 2.26%	due March 12, 2018	AA	99.28	198,560	101.25	202,490	3.9
200,000	Wells Fargo Canada 2.944%	due July 25, 2019	AA	100.02	200,040	103.27	206,544	4.0
300,000	Bank of Montreal 2.84%	due June 4, 2020	AA	101.77	305,307	103.52	310,572	6.0
250,000	Toronto Dominion Bank Dep. Note 2.563%	due June 24, 2020	AA	104.57	261,425	102.58	256,458	5.0
200,000	Bank of Montreal 3.4%	due April 23, 2021	AA	100.65	201,300	105.93	211,860	4.1
150,000	Royal Bank 1.968%	due Mar 2, 2022	AA	100.05	150,075	99.05	148,572	2.9
250,000	National Bank of Canada 2.105%	due March 18, 2022	AA (low)	102.04	255,100	99.52	248,788	4.8
150,000	Wells Fargo 3.46%	due January 24, 2023	AA	102.36	153,542	105.74	158,610	3.1
					1,926,809		1,945,603	37.8
TOTAL PORTFOLIO					5,094,385		5,150,310	100.0



Duties of CLLAS Chair

CLLAS

The Canadian Lawyers Liability Assurance Society (CLLAS) is a reciprocal insurance exchange formed in Ontario in 1987 to address the professional liability risks of large and medium sized Canadian law firms. It currently insures over 4,000 lawyers at 11 member law firms operating in five Canadian provinces. CLLAS' principal objectives are to provide insurance to its member firms at the best (and most stable) rates and to retain strategic control over all elements of the insurance program, including policy wordings and claims management. CLLAS has an Advisory Board consisting of one representative from each of its member firms.

Overview of the Role of the CLLAS Chair

CLLAS is governed by lawyers for lawyers, and the role of the CLLAS Chair is a critical part of that proposition. The Chair of CLLAS' Advisory Board leads CLLAS in accordance with the direction set by the CLLAS Board. The Axxima Group manages the day-to-day operations of CLLAS under the oversight of the Chair and ultimately the Board. The Chair oversees CLLAS' key relationships (e.g. Subscribers, advisors, service providers), and proposes and drives strategic initiatives. Perhaps most importantly, the Chair is the "face of CLLAS" in building and maintaining relationships with CLLAS' reinsurers. An estimate of the time commitment involved with each of these functions is in the table on the next page.

Primary Duties and Responsibilities of the Chair

A. Board and Governance

The Chair manages and chairs CLLAS' Advisory Board meetings. There are four regularly scheduled meetings per year (February, June, September and December) plus occasional special Board meetings. The Chair's responsibilities include reviewing the agenda prepared by management, attending at and chairing the meetings, and reviewing meeting minutes. The Chair is an ad hoc member of all CLLAS committees. The current Chair has followed the practice of attending most meetings of three of CLLAS' four standing committees, i.e. Audit, Risk Management and Policy, and works with the Policy Committee to vet insurance policy amendments. The Chair does not typically participate in the meetings of the Claims Committee.

B. Reinsurer Relations

The Chair is heavily involved with Axxima and Miller Insurance (respectively CLLAS' domestic and London reinsurance brokers) in CLLAS' annual reinsurance renewal. This includes establishing the renewal strategy, providing input on the reinsurance submission document, and meeting with current and prospective reinsurers in London. The London visit is typically a full week and takes place each year in late May. The Chair also meets with insurer and reinsurer representatives when they visit Toronto, as happens five to eight times per year.



C. Stakeholder Relations

The Chair, together with the General Manager, minds the relationship with CLLAS' subscribers. The Chair also oversees the relationship with key advisors including Axxima, Miller, Hub (the broker responsible for direct insurance placements) and is occasionally involved in discussions or meetings with others such as the insurance regulator and investment manager. The Chair also oversees CLLAS' relationship with Colchester Reinsurance Limited.

D. Strategic Initiatives

Working closely with CLLAS' advisors, the Chair plays a major role in developing and driving CLLAS' strategic initiatives and in dealing with critical developments which have the potential to impact CLLAS. In the recent past, this has involved initiatives to expand CLLAS' membership, to develop meaningful cyber coverage, to redraft CLLAS' Subscribers Agreement, to manage the relationship with departed subscribers and to address the impact of major claim developments.

E. Attorney-in-Fact and Miscellaneous Activities

The Chair also serves as CLLAS' Attorney-in-Fact, formally issuing insurance policy (prepared by management) and receiving communications from the regulator. Throughout the year, the Chair will be consulted by management in dealing issues that arise that do not fall within any of the above categories. The Chair is also responsible for organizing and hosting the CLLAS Annual Dinner.

Anticipated Time Commitment

Below is an estimate of the time commitment involved with each of the above functions.

	Responsibility	Time Estimate
A.	Board and Governance	80-90 hours
B.	Reinsurer Relations	65-80 hours
C.	Stakeholder Relations	55-60 hours
D.	Strategic Initiatives	35-50 hours
E.	AIF and Miscellaneous	15-20 hours
	Total	250-300 hours

Term and Transition

The Chair is appointed for a three-year term. The current Chair's term is scheduled to end in February 2018. In order to ensure a smooth transition, CLLAS offers the ability to "shadow" the departing Chair for as much as a year in advance of taking office, including most importantly attending the London reinsurer meetings in May. While Board members are not compensated for their Board and Committee work, CLLAS pays the Chair an honorarium in recognition of the greater time commitment required of the Chair.