



ADVISORY BOARD MEETING

Board Member

David Morritt
Barry Bresner
Mike Swartz
Julia Holland
William Scott
John Esvelt

Alternate

Lyndon Barnes
Robert Love
Scott Du Bois
James C. Tory
Malcolm Mercer
Shayna Staniloff

Board Member

Donald Milner
Gordon Goodman
Ken Crofoot
Nicholas Leblovic
Daniel MacDonald

Alternate

S. Bruce Blain
Anne-Marie Widener
Eugene Cipparone
Natasha MacParland
Carol Lyons

Wednesday, June 22, 2016
8:30 a.m.
Davies Ward Phillips & Vineberg LLP
40th Floor, RBC Centre
155 Wellington Street West
Toronto, Ontario

AGENDA

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1. Constitution of Meeting	Nicholas Leblovic	
2. Appointment of Secretary	Nicholas Leblovic	
3. Approval of the Minutes of the February 24, 2016 Board Meeting	Nicholas Leblovic	A
4. Business Arising Out of the Minutes	Nicholas Leblovic	
5. Comments of the Chair	Nicholas Leblovic	
6. Pro-Form Insurance Services <ul style="list-style-type: none">▪ Excess Insurance Renewal	Bob Wilson	Handout
7. Reinsurance Renewal <ul style="list-style-type: none">▪ Status of Reinsurance Renewal▪ Surplus position and impact on 2016/17 premium	Joe Tontini	B



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8. Report of the General Manager's Office	Patrick Mahoney	
▪ Management Report as at March 31, 2016		C
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9. Report of the Audit Committee	Gord Goodman	
10. Report of the Claims Committee	Barry Bresner	
11. Report of the Risk Management Committee	Julia Holland	
12. Report of the Policy Committee	Donald Milner	
13. Report of the Investment Manager at March 31, 2016	Patrick Mahoney	H
14. Other Business		
15. Next Meeting – September 7, 2016		

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

Minutes of a Meeting of the Advisory Board

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

Wednesday, February 24, 2016

Present:

Natasha MacParland	Davies Ward Phillips & Vineberg LLP
Barry Bresner	Borden Ladner Gervais LLP
Gordon Goodman (by phone)	Cassels Brock & Blackwell LLP
Donald Milner (Vice-Chair)	Fasken Martineau DuMoulin LLP
John Esvelt	Dentons LLP
Ken Crofoot	Goodmans LLP
Bill Scott	McCarthy Tétrault LLP
Dan Macdonald (by phone)	McMillan LLP
Jarmila Pencikova (by phone)	Osler Hoskin Harcourt LLP
Julia Holland (by phone)	Torys LLP
Mike Swartz (by phone)	WeirFoulds LLP
Patrick Mahoney	Office of the General Manager, CLLAS
Norma Ibbetson	Office of the General Manager, CLLAS
Joe Tontini	Axxima
Ryan Durrell	Axxima

1. Constitution of Meeting

Donald Milner, Acting as Chair brought the meeting to order.

2. Appointment of Secretary

Norma Ibbetson acted as Secretary.

3. Approval of Minutes of the December 9, 2015 Meeting of the Advisory Board

It was moved by Barry Bresner and seconded by John Esvelt that the minutes of the December 9, 2015 meeting of the Advisory Board be approved. The motion was carried unanimously.

4. Business Arising Out of the Minutes

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

5. Comments of the Chair

There were no items to report.

6. Report of the General Manager's Office

Financial Statements for the Year Ended December 31, 2015

Patrick Mahoney reported that CLLAS finished 2015 with a surplus position of \$14.2 million versus \$13.7 million at December 31, 2014. CLLAS experienced a small underwriting gain of \$315,000, which grew to \$535,000 after reflecting investment income. Operating expenses finished the year under budget by \$140,000, or approximately 6%.

Exhibit 5 to the financial management report shows the results of various risk metrics that were established as part of the ORSA/ERM process and that are monitored on a quarterly basis. The only one of note is claims development (net of reinsurance (shown on Line 1 of the exhibit) which was 27% for the year, compared with a risk tolerance of 20%. This is the result of a single loss and does not represent broad based deterioration in CLLAS' loss experience. As can be seen on Line 2, CLLAS' claims development net of reinsurance actually improved in the period.

CLLAS remains in solid financial condition. Exhibit 6 to the financial management report shows the results of two regulatory solvency tests that are monitored by CLLAS. The first is the Alberta Maintenance of Reserve and Guarantee Fund (AMRGF) test. CLLAS continues to comfortably pass this test. The second, CLLAS' MCT ratio, is indicated in the notes to the audited statements and on the annual P&C1 regulatory filing. The ratio at December 31, 2015 was 359%, again comfortably above regulatory expectations.

Actuarial Report

CLLAS' actuary, Julie-Linda Laforce, presented the results of the 2015 valuation to the Audit Committee at a meeting held on February 18, 2016. The actuary's presentation was included in the Board material. Several key exhibits were highlighted to illustrate for example claim counts, reported (paid amounts plus case reserves) compared with ultimate (paid plus case plus IBNR), and the change in ultimate reserves over the past 12 months. There were no changes in fundamental methodology or assumptions. Mr. Mahoney suggested that in the future the full actuarial report, which is reviewed in detail by the Audit Committee at its meeting, be made available to the Board members on request, as opposed to being included with the Board materials. The Board agreed.

2016 Operating Budget

Mr. Mahoney presented the proposed operating budget for 2016. He advised that the budget had been reviewed with the Chair and reflects his comments. Mr. Mahoney reviewed the operating expenses incurred in 2015 and those being projected for 2016. The proposal includes

a decrease to the Management Services fee of 3.1%, and an increase of 6.5% for Professional Services to reflect the anticipated level of activity for 2016, specifically to the associate firm initiative and the anticipated level of activity associated with the reinsurance renewal. As in the past, the Professional Services are provided on a fee-for-service basis, while the Management Services are fixed fee. The Management Services line will be reduced by commissions received by Axxima on associate firm initiative.

The operating budget includes the change to the Chair's honorarium as discussed and approved at the December 2015 Board meeting.

The Board had previously requested, as part of annual budget cycle, that an analysis of operating expenses on a per-lawyer basis be provided. The letter includes this information for the past five years. Generally speaking, expenses as a percentage of premium have increased over the period, but this is the result of generally decreasing premiums. Expenses on a per lawyer basis have remained relatively stable.

The Board discussed the impact on expenses of the addition of Lenczner as an associate firm, and anticipated the departure of Dentons at the end of current Underwriting Period.

It was moved by Barry Bresner and seconded by John Esvelt that the 2016 budget be approved. The motion was carried unanimously.

ORSA

The Board discussed the ORSA Report which was included with the Board materials under cover of a January 17, 2016 memo from Patrick Mahoney. The Board had expressed general approval of the Report at its December 2015 meeting and had requested that Mr. Mahoney review it with the Alberta Superintendent's office prior to it being finalized. Mr. Mahoney advised that the final Report reflect those discussions.

It was moved by Ken Crofoot and seconded by Barry Bresner that the ORSA Report be adopted as presented. The motion was carried unanimously.

Mr. Mahoney advised that the next steps in the process were:

1. To file the ORSA Report together with a one page Key Metrics Report ("KMR") with the Alberta regulator
2. To finalize CLLAS' Enterprise Risk Management Policy (which has been reviewed in draft by the Board but which needs to reflect some of the information in the final ORSA Report);
3. To prepare timeline to address additional risk mitigation measures identified during the ORSA process; and
4. To discuss with the regulator the form and content of annual ORSA filing requirements (which should be fairly straightforward provided there are no material changes to CLLAS' risk profile) going forward.

7. Report of the Audit Committee

Gordon Goodman reported on behalf of the Audit Committee. The year-end meeting with CLLAS' auditor and actuary took place on February 19, 2015. An unqualified audit opinion was issued. The Audit Committee had an opportunity to meet with the auditor without management and no issues or concerns were identified. Copies of the Audit Findings Report and Audited Financial Statements, as well as the Actuarial Valuation and the Actuarial Peer Review Report were included in the Board meeting materials. The P&C1 regulatory filing will be signed and filed after today's meeting.

It was moved by Gordon Goodman and seconded by Michael Swartz that the Financial Statements at December 31, 2015 be adopted. The motion was carried unanimously.

8. Report of the Claims Committee

Barry Bresner provided a brief report to the Board. There were a number of new large loss reports generated at December 31, 2015 due to reserve increases at the Law Society level. Mr. Mahoney advised that there is always activity at year-end, due to reserve reviews at the Law Society level, but this year seemed busier than usual. He said that there was no pattern to the losses and that they would be monitored closely.

9. Report of the Risk Management Committee

Julia Holland reported to the Board.

Re-Audits

Ms. Holland reported that John Walker had completed the firm re-audits and that, once he had completed his summary report, it would be provided to the Board. In addition, she advised that Lenczner Slaght had agreed to participate in the audit process and that audit took place at the same time as the other audits.

Practice Notes

With respect to the draft practice note on outside counsel guidelines, Ms. Holland reported , that the Committee had discussed the guideline at length at a January Risk Management Committee meeting and intended to recommend its adoption.

Seminar

Ms. Holland advised that the Committee is planning to hold a risk management seminar for senior management of the CLLAS firms at some point during 2016. Further details will be provided.

10. Report of the Policy Committee

Donald Milner reported to the Board. There is one minor clarification to the CLLAS policy being processed as part of the July 1st renewal. CLLAS' cyber coverage was discussed and it was agreed that the Policy Committee should review that issue for a future renewal.

11. Investment Report for Quarter Ending December 31, 2015

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

12. Renewal Strategy

Joe Tontini reviewed his February 23, 2016 memorandum on CLLAS' reinsurance renewal strategy. He reported on information he had obtained on limits of insurance purchased by major US and UK law firms and advised that additional limits could be arranged for CLLAS firms if there was interest. Six of the eleven CLLAS firms have responded to a short survey with respect to additional coverages. The remaining firms were encouraged to respond.

Mr. Tontini advised that the objective for this year's reinsurance renewal was simply to get the best possible terms. This is particularly important as this is the last renewal before the commencement of the next five-year Underwriting Period (July 1, 2017). Consideration can be given to expanding coverages etc. after the start of the next Underwriting Period.

One of the ideas considered to facilitate the renewal was to seek a two-year rate guarantee from reinsurers in return for an early commitment to the next Underwriting Period. The consensus was that this should not be explored further as it would be difficult to obtain the early commitment without firm pricing.

13. Other Business

The CLLAS Annual Dinner will be held on April 21, 2016.

There was no other business.

14. Next Meeting

The next scheduled meeting of the Board is June 22, 2016.

There being no further business, the meeting was adjourned.

Chairman

Secretary



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

Date: June 17, 2016

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

Copy: Patrick Mahoney

From: Joe Tontini and Ryan Durrell

Re: Report on the CLLAS Reinsurance Renewal Placement for July 1, 2016/2017 and Preliminary Rates for CLLAS Members

The purpose of this report is to provide the CLLAS Board with information on the reinsurance placement for July 1, 2016/2017 and preliminary rates for CLLAS members. A more complete report/presentation will be made at the June 22, 2016 Advisory Board meeting.

CLLAS Renewal Objectives

The CLLAS renewal objectives for the period July 1, 2016/2017 are as follows:

- Explore ways of reducing overall reinsurance costs along with possible reduction in insurance rates for CLLAS members;
- Attract new markets;
- Consider a further reduction in Colchester's participation;
- Maintain and enhance existing reinsurer relationships;
- Continue to evaluate ability to distribute surplus to members through premium credits.

Marketing CLLAS to London Underwriters

Every year, we prepare a comprehensive underwriting package for reinsurance underwriters. The underwriting material includes an update on CLLAS and individual firm activities and the most current claims statistics and analyses. The underwriting submission precedes the face-to-face underwriter meetings that are arranged by our London brokers, Mark Popple and Graeme Lynch of Miller Insurance Services LLP.

Last year, we had achieved a 2.5% reduction in the reinsurance rate on Layer 1. The reduction on both the optional excess and umbrella layers was 3.7%. These reductions were achieved prior to a significant claim reserve adjustment resulting from an adverse judgment on a high profile claim. Our reinsurance submission for this year asked for an aggressive 15% reduction across the board, notwithstanding the adverse claim reserve adjustment and the fact that our actuarially determined rates continue to be significantly higher than market rates. Our main arguments for this significant reduction were as follows:

- The continuing “soft market” trend in excess lawyers’ professional liability insurance contributed, in part, by some CLLAS reinsurers;
- The critical nature of this fifth year of the current underwriting cycle and the need for CLLAS members to commit to another five-year period;
- The advantage to underwriters to be able to continue to write the largest excess lawyers’ professional liability insurance group in the country for a period of five years if all CLLAS members renew their commitment to the next underwriting period;
- The positive impact of CLLAS and individual firm risk management efforts;
- An improving territorial risk profile, i.e. a greater percentage of Quebec, Alberta and B.C. lawyers compared to Ontario where claims activity is more pronounced;
- The non-repeatable nature of certain large claims – specifically the class action charitable donation tax claims.

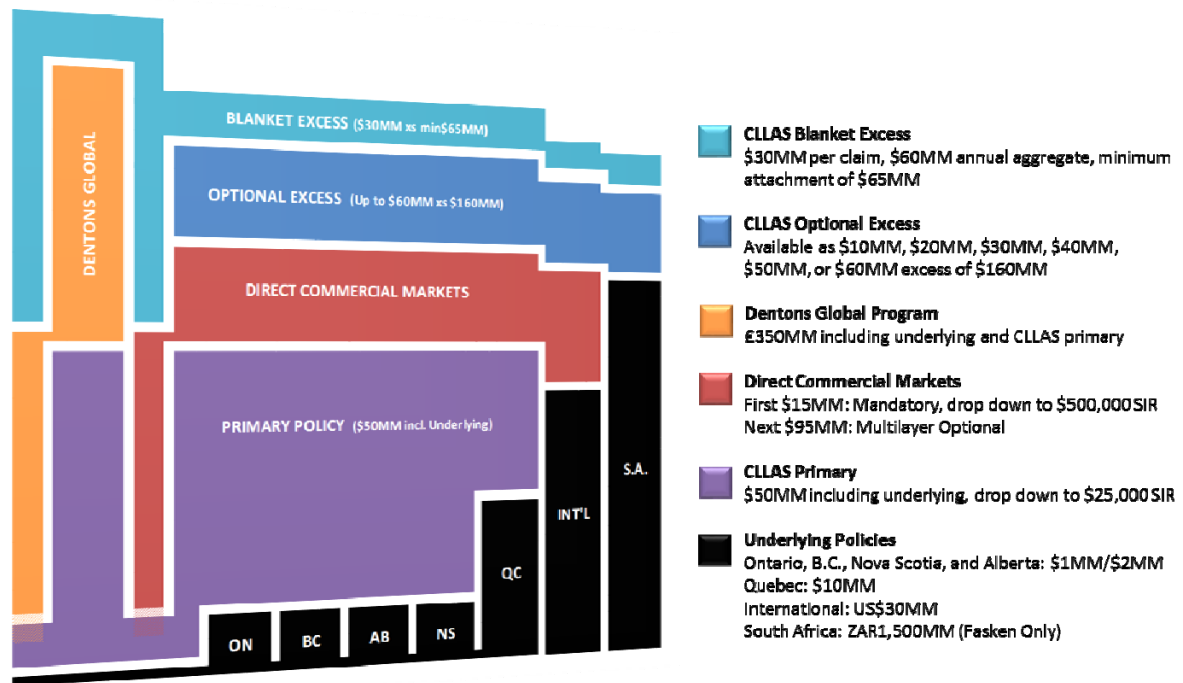
This year, Nick Leblovic, Ken Crofoot, Patrick Mahoney and Joe Tontini met with Miller Insurance Services LLP and most of the incumbent London underwriters and some new underwriters to present our proposed renewal terms. Nick’s practice of introducing other CLLAS Board members to London underwriters has proven to be extremely valuable in terms of enhancing relationships and providing underwriters with new perspectives on risk management. Ken continued the dialogue that Julia Holland began last year by providing underwriters with first-hand knowledge of risk management policies and procedures on a firm specific basis and CLLAS overall.

We do not expect any major change in the reinsurance structure and the current slate of reinsurers except that we are hopeful that some new London underwriters may be added to the slip. This may allow us, if strategically prudent, to reduce Colchester’s participation.

Although the insurance market continues to be fairly soft and competitive, the full proposed 15% reduction will not likely be achievable this year. Most of our underwriters depend on actuarial analyses and our undiscounted actuarial rate for \$49,000,000 excess of \$1,000,000 is over 60% higher than the current reinsurance rate. Underwriters are therefore extremely hesitant to allow another reduction this year but we are hopeful that they will provide some relief on the rate given the importance of the final year of the underwriting period.

CLLAS Insurance Structure

The current CLLAS insurance structure is depicted below:



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

a) **Primary Policy**

\$50,000,000 each and every claim/annual aggregate, inclusive of the minimum mandatory coverage provided by the applicable law society professional liability insurance program or by the professional liability insurance program of the governing body of a self-regulatory profession other than law and/or other applicable insurance and/or \$25,000 per claim self-insured retention.

b) **Optional Excess Policy**

Limit ranges from \$10,000,000 to \$60,000,000 (in increments of \$10,000,000) each and every claim/annual aggregate, excess of \$110,000,000 ¹ each and every claim/annual aggregate, excess of the CLLAS Primary Policy or excess of specific underlying insurance arranged by certain CLLAS firms for their offices in the U.S. and/or other international locations or excess of \$500,000 per claim self-insured retention. This policy follows the terms and conditions of the \$15,000,000 excess of \$50,000,000 commercial policy which in itself has a drop-down feature excess of \$500,000 per claim in the event that it is broader than the CLLAS underlying coverage.

¹ Represents the limits purchased by each firm in the Canadian direct commercial market.

Currently, eight firms purchase the full \$60,000,000 limit. One firm purchases \$40,000,000 and two firms do not purchase this layer.

c) **Blanket Excess Policy**

\$30,000,000 each and every claim/\$60,000,000 annual aggregate for all CLLAS member firms combined excess of not less than \$65,000,000 for each CLLAS member firm. This policy also follows the terms and conditions of the \$15,000,000 excess of \$50,000,000 commercial policy and is excess of the Optional Excess Policy and/or specific underlying insurance arranged by certain CLLAS member firms for their offices in the U.S. and/or other international locations, e.g. this policy acts excess of the South African Policy and the Optional Excess Policy for Fasken as well as the Global Policy for Dentons.

CLLAS Commercial Excess Policies

The CLLAS Commercial Excess policies placed through Pro-Form/Hub and Bob Wilson are for limits of up to \$110,000,000 excess of \$50,000,000. On May 1, 2015, XL Group plc announced that it had completed the acquisition of Catlin Group Limited. This announcement did not affect last year's reinsurance placement but did have an effect on this year's placement. Catlin was a significant reinsurer on the Optional Excess and Umbrella Layers for CLLAS while XL was a significant insurer on Bob Wilson's placement. Since the newly merged group could not double up on its capacity, we agreed to allow the capacity to be used in Bob Wilson's placement because of some challenges posed by AIG in his layers. Our decision was based on the fact that there was a significant amount of overcapacity on the reinsurance placements from last year.

CLLAS International Placement

The CLLAS International policies are also placed by Bob Wilson. In order to maximize our use of the marketplace, we have a long standing agreement with Bob Wilson that the London market would be reserved for the CLLAS reinsurance placement. Due to some licensing issues on the International placement, Bob asked if he could approach some London syndicates to complete CLLAS International. We provided Bob with a list of syndicates that he could approach to complete the placement. The cooperation exhibited on this year's reinsurance, Commercial Excess and CLLAS International placements was critical and we are mindful of how important it is to manage insurance capacity across all domestic and international markets.

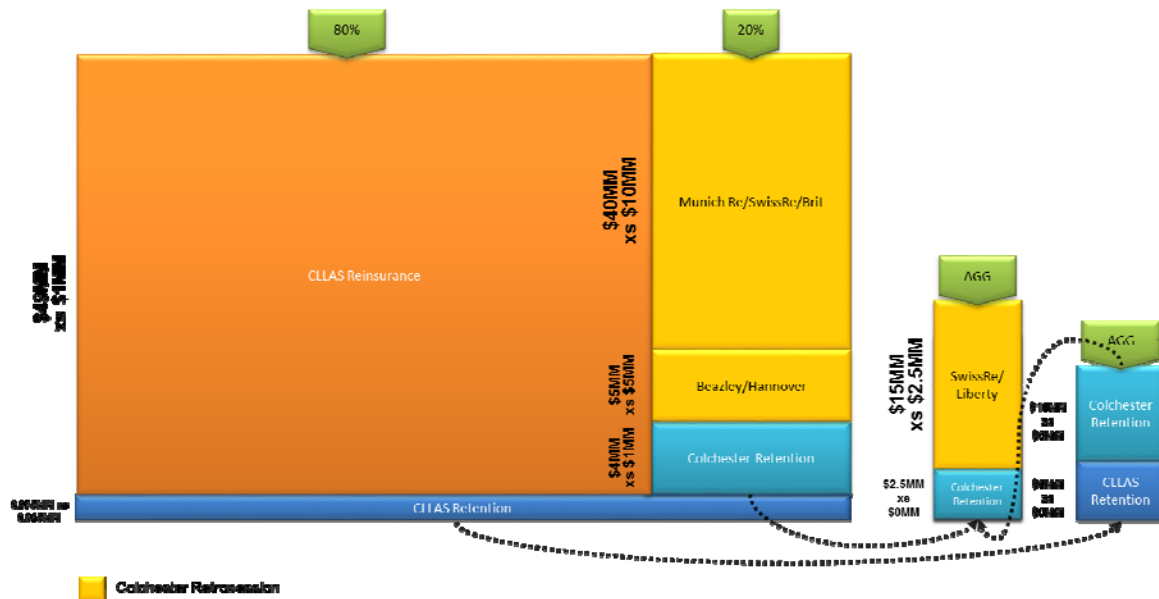
Heenan Blaikie LLP (HB) Tail Coverage

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

Endorsements have been issued to have the tail coverage incorporated into the coverage of each respective firm. A premium is charged on the Primary Policy of CLLAS member firms acquiring HB lawyers every year until the end of the current underwriting period. CLLAS will then reassess the risk to determine if additional premiums should continue to be charged during the next underwriting period.

CLLAS Reinsurance Structure

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



- Primary Policy Reinsurance:** \$49,000,000 excess of \$1,000,000 (\$40,000,000 excess of \$10,000,000 for Quebec lawyers) – 100% reinsured.
 - 80% of this layer is proportionally reinsured with Lloyd's and other reinsurers;
 - 20% is reinsured with Colchester. Colchester's involvement is then layered and retroceded to various markets. A portion of Colchester's participation which is not transferred to other markets is retained by Colchester;
 - CLLAS retains the entire drop down exposure below \$1,000,000.
- Optional Excess Policy Reinsurance:** Between \$10,000,000 and \$60,000,000 excess of \$160,000,000 – 100% reinsured.
- Umbrella Policy Reinsurance:** \$30,000,000/\$60,000,000 excess of \$65,000,000 (minimum) – 100% reinsured.
- Aggregate Stop Loss Reinsurance:** \$10,000,000 aggregate excess of \$5,000,000 aggregate – 100% reinsured by Colchester.
- Loss Portfolio Transfer Reinsurance:** Claims reserves and IBNR as at June 30, 2012 – 100% reinsured by Colchester.

Reinsurance Security

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

- **Lloyd's** has a significant participation in all layers of coverage and also participates in Colchester's retrocession protection. The Argo Syndicate at Lloyd's leads Reinsurance Layer 1 and is the most exposed among the Lloyd's syndicates with 27.26% of the layer. Lloyd's is A rated by Best and A+ rated by S&P;
- **Swiss Re/Westport** has a significant participation in Reinsurance Layers 2 and 3 and also in the Colchester retrocession protection. Swiss Re is A+ rated by Best and AA- rated by S&P;
- **Colchester** has a significant participation in Reinsurance Layer 1 and also provides CLLAS with aggregate stop-loss and loss portfolio transfer protections. Colchester is not registered in Canada and is not rated by the rating agencies but CLLAS is protected through a Reinsurance Security Agreement with Colchester.

Risk Retention Strategy

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

Due to the change in regulatory jurisdiction and the loss portfolio transfer which was put into effect in 2012, CLLAS was able to retain less risk and transfer more risk to Colchester subject to Colchester approval. CLLAS currently retains only the drop down exposure (\$975,000). CLLAS needs to evaluate whether Colchester's current 20% participation on the \$49,000,000 xs \$1,000,000 layer should be maintained or reduced. Colchester has been willing to follow the rates established by the lead London underwriters but in order to do so, Colchester subsidizes a portion of the CLLAS reinsurance premium. How much is subsidized depends on how much risk Colchester retains and how much is transferred through retrocession protection arranged on behalf of Colchester. Colchester's current participation is 20% but with retrocession protection, its net retention per claim is \$1,775,000. With the availability of additional capacity from the London and the domestic markets, Colchester could reduce its retention even more but it may not be strategically advisable to do so since Colchester's net retention is already low and reinsurers expect CLLAS and Colchester to participate in the risk.

Premium Reductions through CLLAS Surplus Contributions

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

It should be noted that Colchester would also contribute a portion of its surplus if it continues to follow the reinsurance rates set by the lead underwriter on the \$49,000,000 excess of \$1,000,000 layer. Colchester would be indirectly contributing a portion of its surplus due to a subsidized reinsurance rate. If Colchester could reduce its participation from 20% to 15% on the quota share reinsurance placement, the surplus contribution would be somewhat decreased.

Proposed CLLAS Structure and Rates – July 1, 2016/2017

As previously discussed, there will be no change to the existing insurance and reinsurance structures at the upcoming renewal. CLLAS will continue to retain 100% of the drop down exposure only.

Negotiations with reinsurers are still going on and reinsurance authorizations are yet to be finalized. We know that underwriters' actuaries would not support a 15% reduction in rates but we feel confident that a 5% reduction on all layers is achievable.

We are confident that:

- a) Reinsurers on the \$49,000,000 excess of \$1,000,000 layer will renew at expiring rates or slightly better than expiring;
- b) Colchester will continue to support 20% of the \$49,000,000 excess of \$1,000,000 placement at the reinsurance rates established by the lead underwriter;
- c) Colchester will continue to support the aggregate stop-loss protection for CLLAS at expiring rates or slightly better;
- d) Reinsurers on the Optional Excess and Umbrella layers will renew at expiring rates or better.

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

Proposed Policy Wording Changes at Renewal

To be consistent with the rest of the wording, a slight amendment will be made to the definition of "Service Company" on the Primary Policy as follow:

"Service Company" means a corporation or partnership (other than a **Professional Corporation**) including its officers, directors, partners and **Employees**, providing services exclusively to or through the **Named Insured**.

The CLLAS Associate Member Initiative

In 2015, a working group was established to review expansion opportunities in CLLAS. The working group launched the "CLLAS Associate Member" initiative that allowed prospective law firms to join CLLAS without having to contribute to the required capital until full membership was attained. The support needed to create the CLLAS Associate Member facility was subsequently secured. This was made up 80% by London underwriters and 20% by CNA Canada through Binding Authorities for which Axxima Insurance Services (Axxima) is the Coverholder. These underwriters also participate on the CLLAS Program. Axxima then approached and held meetings with several Ontario-based law firms to outline the program. After receiving the application from Lenczner Slaght Royce Smith Griffin LLP (Lenczner) and determining that it met the CLLAS underwriting criteria, the firm (with close to 50 lawyers) officially became a CLLAS Associate Member on January 1, 2016. Lenczner purchased total limits of \$95,000,000. The Primary Excess Policy of \$50,000,000 was an 18-month policy (to coincide with the expiry of the CLLAS policy). \$45,000,000 excess of \$50,000,000 was placed through Pro-Form/Hub.

Lenczner has already indicated a strong interest in formally joining CLLAS as a subscriber to the reciprocal on July 1, 2017.

Over the course of the next few months leading up to the January 1, 2017 renewals (for most Ontario firms), Axxima will be selectively approaching a number of other law firms to explore the prospect of joining CLLAS either as full members or as Associate Members.

The Colchester Initiative

Another possible added value initiative relates to the use of Colchester. As a more substantial insurance entity, Colchester has the ability to expand its services to individual members. While a “segregated cell captive” structure was given some consideration by CLLAS members, the business case was not compelling. Discussions were initiated with Blakes and Dentons on the prospect of using its distributable capital and surplus in a more effective manner. These discussions continue but are still very preliminary. Hopefully, they will lead to an expansion of value added possibilities for Colchester shareholders.

Conclusions

This preliminary report should provide the Board with an indication of the renewal terms and conditions for the final year of the current underwriting period.

A more definitive report, including lead reinsurance terms and conditions, will be available at the upcoming Board meeting.



Actuaries & Insurance Management Advisors



CLLAS

Board Presentation – Renewal Strategy

June 22, 2016

Overview

- Renewal Objectives
- Retention Strategy
- Insurance and Reinsurance Structures
- Insurance and Reinsurance Costs
- Return of Surplus
- Final Remarks
- Advisory Board Resolution

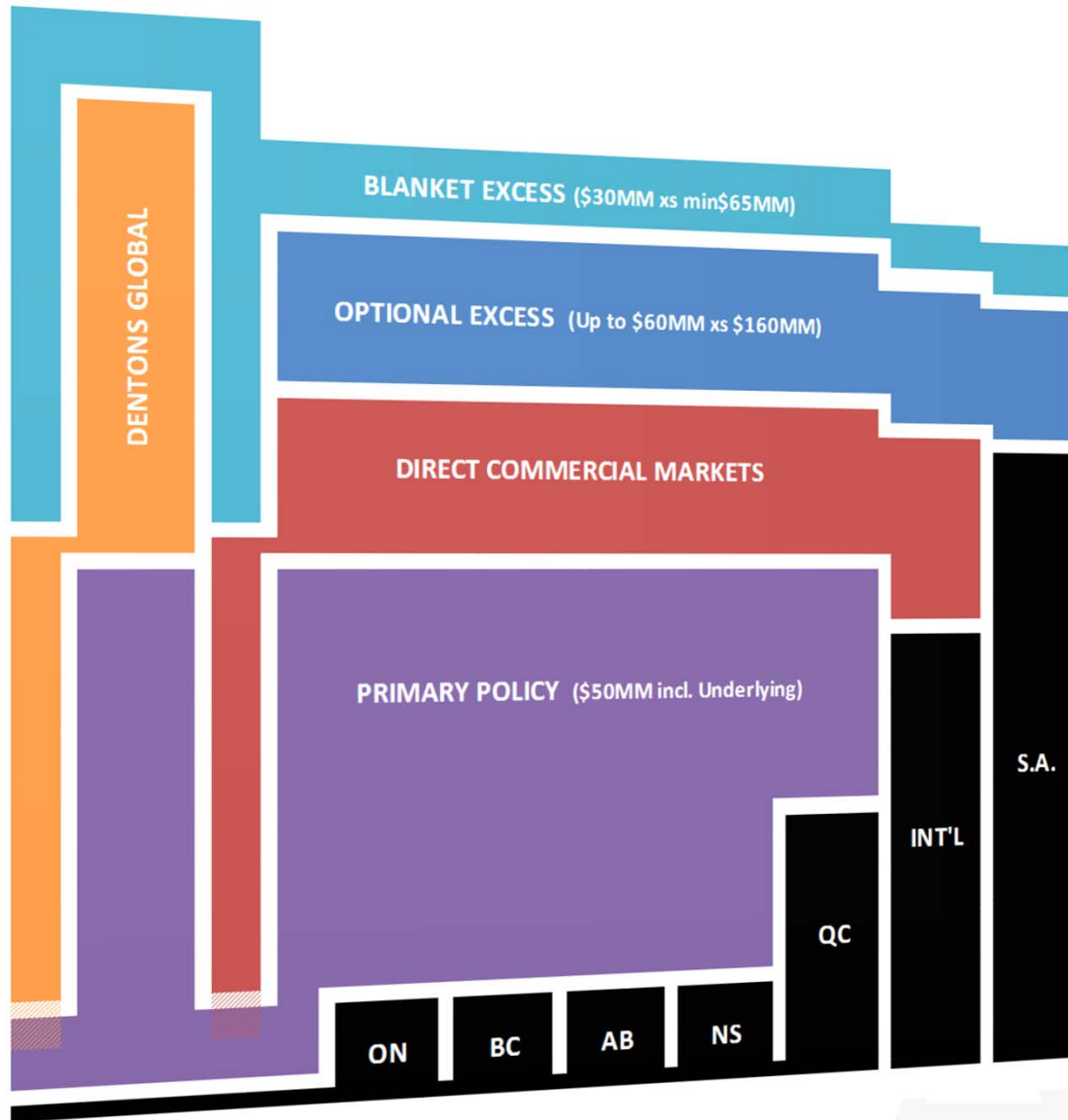
Renewal Objectives

- Explore ways of reducing overall reinsurance costs along with possible reduction in insurance rates for CLLAS members
- Attract new markets
- Consider a further reduction in Colchester's participation
- Maintain and enhance existing reinsurer relationships
- Continue to evaluate ability to distribute surplus to members through premium credits.

Retention Strategy

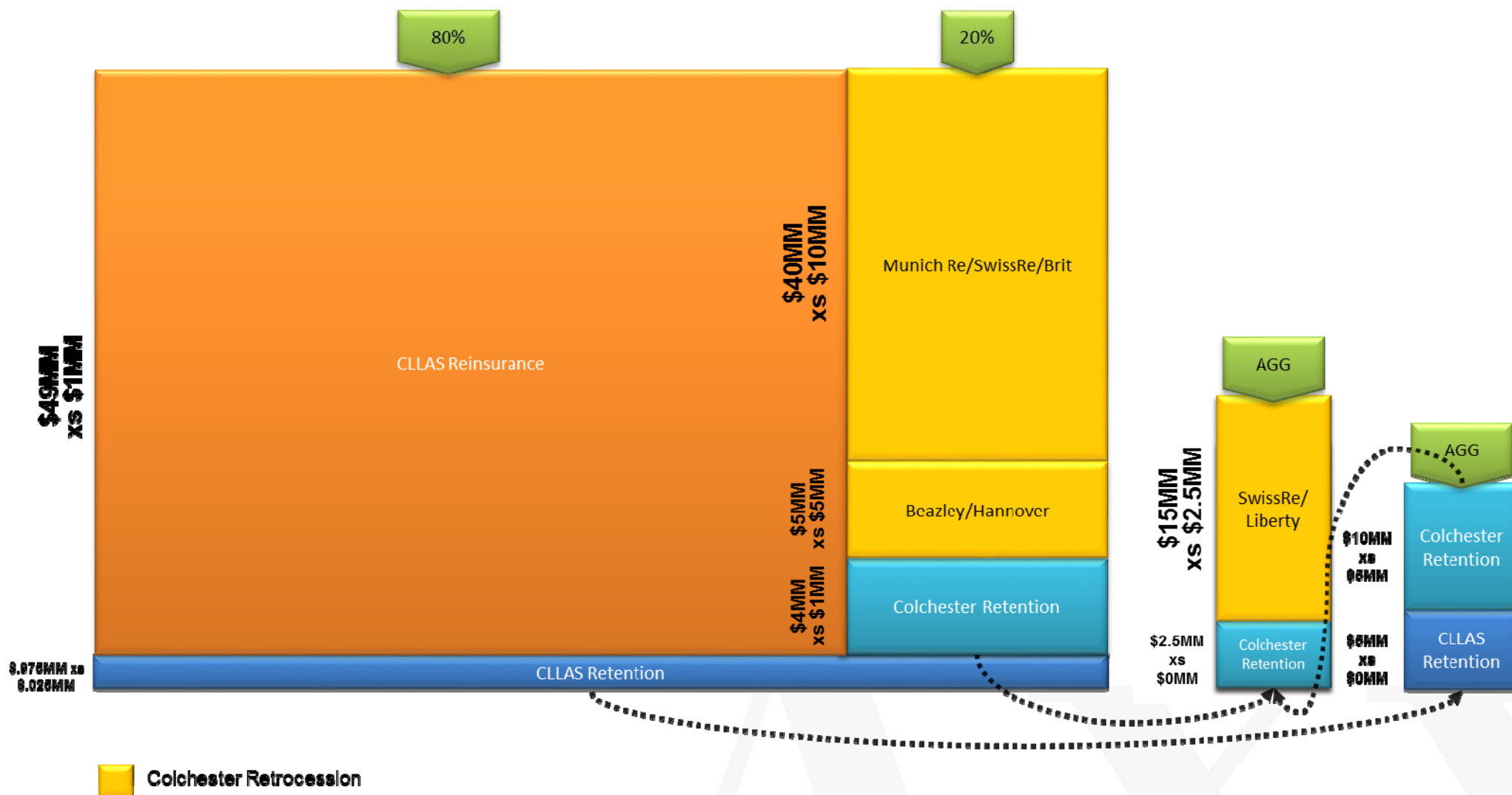
- CLLAS currently retains only the drop-down exposure below \$1,000,000 (maximum exposure of \$975,000, any one loss)
- Colchester's current participation is 20% of the \$49MM xs \$1MM layer, for a per-claim retention of \$9.8MM, however, net retention is just \$800,000 after retrocession
- Colchester also provides an aggregate stop-loss coverage to CLLAS for \$10MM xs \$5MM, which is reinsured excess of \$2.5MM
- On a combined basis, the CLLAS/Colchester per claim retention is expected to be \$1,775,000, which is unchanged from expiring

Insurance Structure



-  **CLLAS Blanket Excess**
\$30MM per claim, \$60MM annual aggregate, minimum attachment of \$65MM
-  **CLLAS Optional Excess**
Available as \$10MM, \$20MM, \$30MM, \$40MM, \$50MM, or \$60MM excess of \$160MM
-  **Dentons Global Program**
£350MM including underlying and CLLAS primary
-  **Direct Commercial Markets**
First \$15MM: Mandatory, drop down to \$500,000 SIR
Next \$95MM: Multilayer Optional
-  **CLLAS Primary**
\$50MM including underlying, drop down to \$25,000 SIR
-  **Underlying Policies**
Ontario, B.C., Nova Scotia, and Alberta: \$1MM/\$2MM
Quebec: \$10MM
International: US\$30MM
South Africa: ZAR1,500MM (Fasken Only)

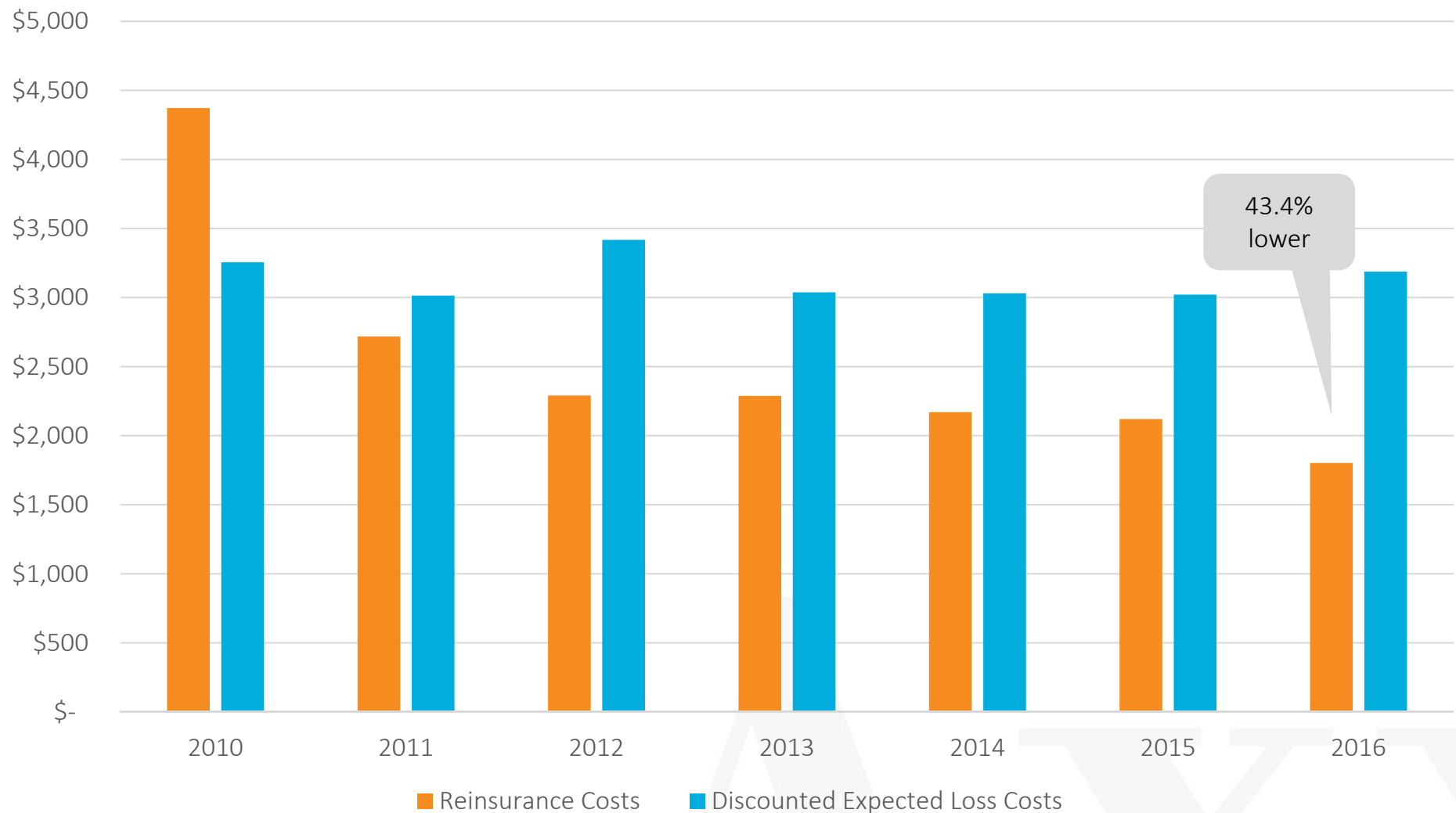
Reinsurance Structure



Reinsurance Costs for 2015/2016

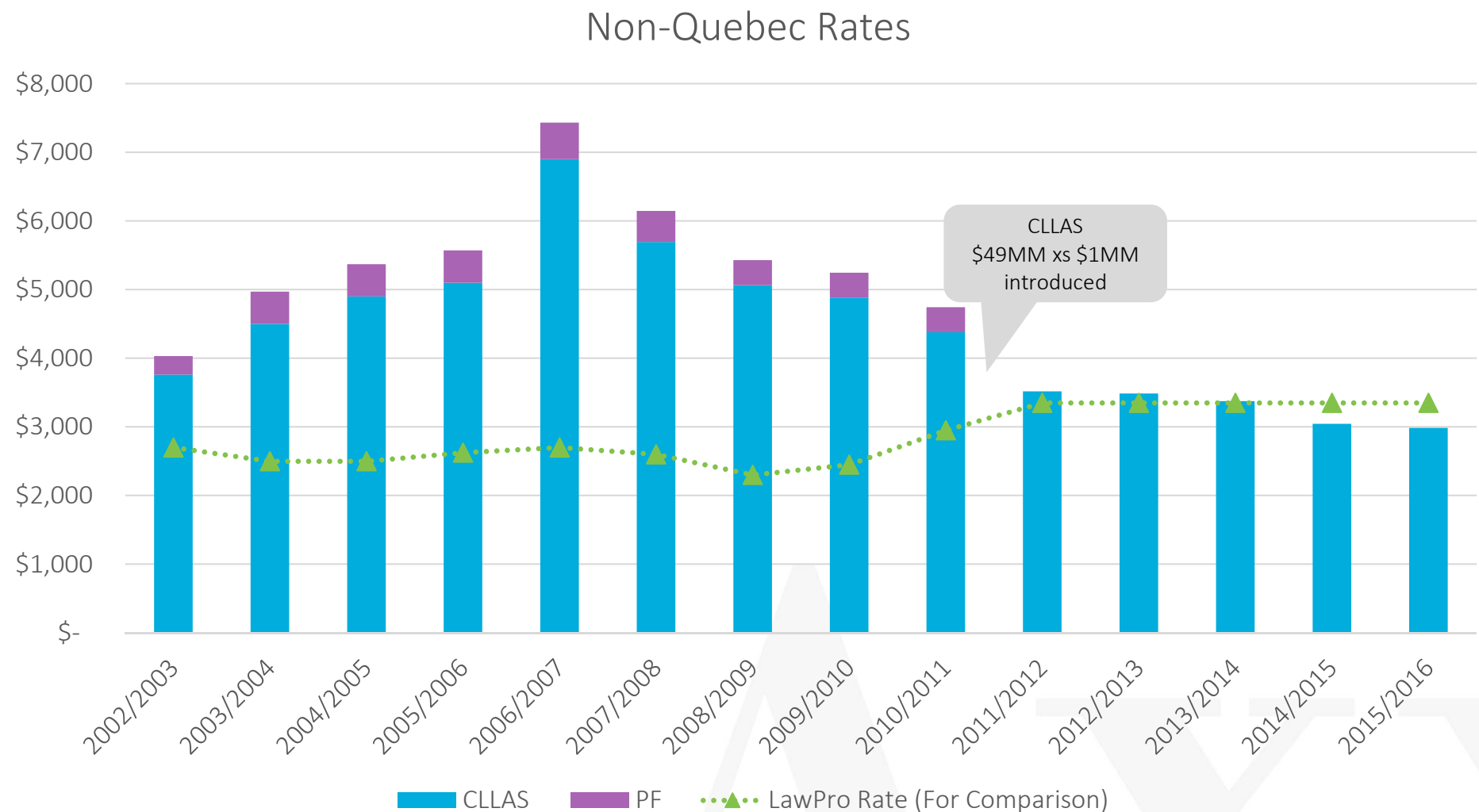
- In light of continued soft market conditions, it was decided to reach for reinsurance reductions of 15% for 2016/2017
- Rate reductions between 7.5% and 15% are likely this year
- A rate reduction of 15% may cost us some markets on the program this year, however additional markets added to the program recently should allow us to complete the placement – albeit with less over-subscription than in the past
- An increase in Colchester participation may be necessary to get to the goal line

\$49MM xs \$1MM Cost Comparison*



* Blended costs between Quebec and Rest of Canada lawyers

\$49MM xs \$1MM Rate History



Summary

	2015/2016*	2016/2017 CONSERVATIVE (7.5% REINS. RATE RED.)	2016/2017 OPTIMISTIC (15% REINS. RATE RED.)	\$ Change	% Change
Required Premium	\$12,010,040	\$11,342,911	\$10,634,110	(\$667,129) - (\$1,375,930)	(5.6%) - (11.5%)
Surplus Return	\$500,000	Est. \$700,000		\$200,000	40.0%
Premium After Surplus Return	\$11,493,046	\$10,617,778	\$9,911,596	(\$875,268) - (\$1,581,450)	(7.6%) - (13.8%)
Premium per Lawyer***	\$2,815	\$2,600	\$2,428	(\$215) - (\$387)	(7.6%) - (13.7%)
Per Claim Retention	\$1,775,000	\$1,775,000		\$0	0.0%

* The 2016/2017 lawyer count (733 in Quebec and 3,350 in the rest of Canada) is applied to the 2015/2016 policy year rates for the purposes of this summary

** Premiums exclude optional excess layers

*** The Premium per Lawyer amount is a simple average of total premium divided by total number of lawyers (4,083), which yields a result higher than actual for Quebec lawyers, and lower than actual for lawyers in the rest of Canada

Return of Surplus

- Return of surplus had traditionally (pre-2012/2013) been arrived at using the following two sources:
 - Investment income on surplus
 - Board-directed surplus disbursement
- In 2011/2012 the amount distributed from CLLAS was \$1,600,000
- In 2012/2013 and 2013/2014 the Board determined that a CLLAS surplus distribution would not be prudent
- With CLLAS' first audit by the Alberta regulator completed, and additional surplus having emerged through 2013, CLLAS was in a position to distribute surplus for 2014/2015 and 2015/2016
- \$500,000 was distributed through rate reductions in each year

Return of Surplus

- CLLAS' minimum surplus is based on the surplus required to maintain the greater of the Minimum Capital Test ("MCT") and the Alberta Minimum Reserve and Guarantee Fund ("AMRGF")
 - In order to protect CLLAS from large claim development, CLLAS targets a minimum MCT of 210% which is the supervisory minimum in Alberta
 - CLLAS targets 120% of the AMRGF in lieu of the regulatory minimum of 100%
- CLLAS' resulting minimum surplus is \$8.8MM, which we refer to as CLLAS' "Regulatory Surplus"

Return of Surplus

- CLLAS Surplus as at December 31, 2015 was \$14.2MM, however CLLAS should retain sufficient surplus to be able to distribute Blakes and Dentons' surplus amounts in 2017 and 2022, respectively
 - The most recent estimate of Blakes and Dentons' combined surplus amounts is \$3.6MM
- CLLAS' available surplus is therefore:

\$14.2MM	Total Surplus
-8.8MM	Regulatory Surplus
<u>-3.6MM</u>	Blakes and Dentons' Surplus
\$1.8MM	Available for Distribution

Return of Surplus

- As CLLAS is approaching its next Underwriting Period renewal, it is recommended that CLLAS plan for continued distribution of surplus through the renewal period
- It is recommended that a surplus return of \$700,000 be planned for 2016/2017 and another \$700,000 be planned for 2017/2018, subject to emerging surplus

Final Remarks

- Reinsurance rates will fall between 7.5% and 15%
- The final rate will depend on the board's decision regarding the return of additional surplus and the final reinsurance rates



MEMORANDUM

DATE: June 10, 2016
TO: CLLAS Advisory Board
FROM: Patrick Mahoney
COPY:
RE: March 31, 2016 Financial Management Report

CLLAS's financial management report for the three months ended March 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 small underwriting loss (premiums minus claims and expenses) of \$63,000 first three months of 2016. After taking into account investment income (including unrealized gains arising during the quarter) the loss was reduced to \$15,000.

The Budget Variance (Exhibit IV) shows that expenses for the first quarter are about 10% (\$71,000) under budget. Expenses associated with the July 1, 2016 reinsurance placement are largely incurred in the second quarter, but barring unforeseen circumstances, operating expenses are on track to finish the year within budget.

At March 31, 2016, CLLAS had a surplus of \$14.2 million, as shown on Exhibit I.

Solvency Tests

The key regulatory solvency test that CLLAS is required to comply with is known as the Alberta Maintenance of Reserve and Guarantee Fund ("AMRGF"). CLLAS must maintain "cash and approved securities" in excess of the reserve fund plus the guarantee fund required by the Alberta regulator. Exhibit VI of the financial management report shows that the AMRGF required for CLLAS at March 31, 2016 was \$7.8 million. CLLAS' cash and approved securities totaled \$20.6 million, i.e. well in excess of the minimum requirement



CLLAS also monitors its Minimum Capital Test ratio. At December 31, 2015, CLLAS' MCT ratio was 359%. At March 31, 2016, it is estimated to be 383%. The increase is partly attributable to the phased in transition to a new MCT calculation basis which is more favourable to CLLAS. As mentioned in previous reports, mid-year MCT calculations are done on a simplified basis in the interest of efficiency; the "official" MCT calculation is done at year-end.

Financial Ratios

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. Exhibit V compares results for CLLAS at December 31, 2014, December 31, 2015 and March 31, 2016 against risk targets and risk limits. The results for March 31, 2016 are all within CLLAS' risk tolerances.

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

March 31, 2016

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

QUARTERLY FINANCIAL MANAGEMENT REPORT

MARCH 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
March 31, 2016

	As at March 31, 2016	As at March 31, 2015
ASSETS		
Cash	3,857,542	2,639,492
Short term investments	11,923,743	12,061,480
Bonds	4,805,287	4,590,449
Interest income due and accrued	26,272	23,923
Premium receivable	0	0
Other receivable	0	0
Prepaid expenses	124,352	139,466
Deferred policy acquisition costs	86,607	44,575
Unearned reinsurance premium ceded	2,492,424	2,598,579
Reinsurance recoverable	563,001	1,655,528
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	96,403,000	68,398,000
	<u>120,282,226</u>	<u>92,151,491</u>
LIABILITIES		
Accounts payable & accrued charges	148,680	357,959
Premium taxes payable	0	0
Unearned premium	3,092,644	3,208,678
Due to reinsurers	0	0
Provision for unpaid claims and adjustment expenses	102,868,000	74,845,000
Premium deficiency liability	0	0
	<u>106,109,324</u>	<u>78,411,636</u>
SUBSCRIBERS' EQUITY		
Surplus	14,033,909	13,573,107
Accumulated Other Comprehensive Income (Loss)	138,993	166,747
	<u>14,172,902</u>	<u>13,739,855</u>
	<u>120,282,226</u>	<u>92,151,491</u>

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

	Current Year		Prior Year	
	Quarter March 31, 2016	Year to Date March 31, 2016	Quarter March 31, 2015	Year to Date March 31, 2015
Written Premium	-	-	-	-
Gross Written Premiums	-	-	-	-
Less: Reinsurance Ceded	-	-	-	-
Net Written Premiums	-	-	-	-
Change in Unearned Premiums	600,221	600,221	603,395	603,395
Earned Premiums	600,221	600,221	603,395	603,395
Claims Paid	(54,653)	(54,653)	65,418	65,418
Change in IBNR	80,000	80,000	41,000	41,000
Change in Case Reserve	(3,000)	(3,000)	13,000	13,000
Premium Deficiency Expense	-	-	-	-
Incurred Claims	22,347	22,347	119,418	119,418
Management and operating expenses	484,181	484,181	416,394	416,394
Reinsurance fees	69,750	69,750	69,750	69,750
Premium taxes	86,607	86,607	44,575	44,575
Total Operating Expenses	640,538	640,538	530,718	530,718
Underwriting Gain (Loss)	(62,664)	(62,664)	(46,742)	(46,742)
Investment Income	36,534	36,534	41,955	41,955
Income on Claim Related Matters	-	-	-	-
Interest Income on Premium Tax	-	-	-	-
NET GAIN/(LOSS)	<u>(26,130)</u>	<u>(26,130)</u>	<u>(4,787)</u>	<u>(4,787)</u>
Other comprehensive income (loss)				
Unrealized gains (losses) on available for sale financial assets arising during the year	11,566	11,566	92,030	92,030
Recognition of realized (gain) loss included in income	-	-	-	-
Other comprehensive income (loss) for the year	11,566	11,566	92,030	92,030
Total comprehensive income (loss)	<u>(14,564)</u>	<u>(14,564)</u>	<u>87,243</u>	<u>87,243</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF CHANGES IN EQUITY
March 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		(26,130)		(26,130)
Other comprehensive income (loss)				
Change in unrealized gain on available-for-sale assets			11,566	11,566
Recognition of realized (gain) loss on available-for-sale assets			-	-
Total comprehensive income (loss) for the year		(26,130)	11,566	(14,564)
Balance at March 31, 2016	50,000	13,983,909	138,993	14,172,902

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS
FOR THE PERIOD ENDED March 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	25%	145,000	145,003	(3)
PROFESSIONAL SERVICES					
Actuarial Services	85,000	22%	18,700	32,300	(13,600)
Reinsurance Matters	325,000	22%	71,500	50,612	20,888
Strategic Matters	160,000	22%	35,200	16,608	18,592
Sub-Total Professional Services	570,000		125,400	99,520	25,880
GST/HST on Consulting Fees	149,500		35,152	31,788	3,364
Total Management & Professional Services * (See Note 2)	1,299,500		305,552	276,311	29,241
OTHER EXPENSES					
Audit Expenses	107,000	25%	26,750	27,491	(741)
Annual Dinner	7,000	25%	1,750	-	1,750
Premium Taxes	355,000	25%	88,750	86,607	2,143
Chairman's Expenses	3,000	25%	750	38	712
Chairman's Honourium	150,000	100%	150,000	150,000	-
Reinsurance Expense	7,500	25%	1,875	-	1,875
D&O Insurance	14,000	25%	3,500	-	3,500
Office Expenses	25,000	25%	6,250	2,004	4,246
Office Expenses - Website management software license	3,000	25%	750	-	750
Claims: Borderaux (LawPro/LIF)	15,000	90%	13,500	13,300	200
Special Services	50,000	25%	12,500	-	12,500
Miller Insurance Fees (Reins. Comm.) (See Note 3)	279,000	25%	69,750	69,750	-
I.B.C Statistical Plan Fees	4,000	25%	1,000	530	470
FSCO Assessment Fees	3,000	100%	3,000	3,500	(500)
Investment counsel fees	32,000	25%	8,000	6,767	1,233
Investment - Custodial	17,000	25%	4,250	4,126	124
Risk Management/Loss Prevention	50,000	25%	12,500	-	12,500
License Fee	6,500	25%	1,625	113	1,512
Insurance: Sundry	-		-	-	-
Sub-total	1,128,000		406,500	364,226	42,274
TOTAL	2,427,500		712,052	640,538	71,515

*** NOTE 1: MANAGEMENT SERVICES**

The actual budget of \$615,000 has been reduced to \$580,000 as a 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
March 31, 2016

	Risk Category	Risk Metric	December 31, 2014	December 31, 2015	March 31, 2016	Target	Limit
(1)	Insurance	Prior year development - Gross of reinsurance	-6%	27%	-3%	0%	20%
(2)		Prior year development - Net of reinsurance	-33%	-29%	-9%	0%	10%
(3a)		3-year net combined ratio	84%	79%	93%		
(3b)		3-year net combined ratio before surplus adjustments via premiums	81%	74%	82%	100%	125%
(4)		Maximum allocation to a single jurisdiction	57%	56%	56%	n/a	67%
(5)	Interest Rate	Interest rate risk per MCT formula at 1.25%	\$201,667	\$162,000	\$156,000	\$250,000	\$600,000
(6a)	Liquidity	Ratio of cash and short-term investments to gross claim liabilities	21%	13%	15%	15%	10%
(6b)		Ratio of short term funds to total short & long term funds	69%	64%	71%	40%	20%
(7a)	Asset Default	Credit rating of invested assets	AA to AAA	AA to AAA	AA to AAA	AA to AAA	A
(7b)		Credit rating of Bankers Acceptance and Certificates of Deposit	R1 - High	R1 - High	R1 - High	R1-High	R1-High
(8)		Maximum allocation to a single non-government security	1.6%	2.4%	1.9%	n/a	5%
(9)	Strategic	Annual Advisory Board turnover	0	0	0	2 members	4 members
(10)	Regulatory Solvency Indicators	AMRGF - Excess of cash and approved securities over required reserve and guarantee fund	\$8,020,000	\$6,934,000	\$12,781,000	\$3,500,000 to \$7,000,000	\$3,500,000
(11)		MCT	346%	359%	383%	210%	210%

Notes

(1) and (2) = Year-over-year change in ultimate losses / Prior year undiscounted unpaid claims (excl. ULAE)

(3a) = [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

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

(4) Based on insured lawyer counts

(8) Maximum allocation does not consider cash and cash equivalents

(11) 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. 2014 MCT ratios shown above were calculated best on the old MCT guidelines.

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

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

	Current Year to Date 03/31/2016 (in \$000's)	Prior Year End 03/31/2015 (in \$000's)
<u>Reserve Fund</u>		
Premiums collected or credited having one year or less to run	(1) -	-
Less: Amount paid to licensed reinsurers	(2) -	-
Premiums collected with more than one year to run, less expired portion	(3) -	-
Less: Amount paid to reinsurers on premiums on line 3, less expired portion.	(4) -	-
Subtotal (lines 1, minus line 2, plus line 3, minus line 4)	(5) -	-
Reserve Fund Required (50% of Line 5)	(6) -	-
<u>Guarantee Fund</u>		
Total Liabilities	(7) 106,109	78,412
Less: Unearned Premiums	(8) 3,093	3,209
Less: Recoverable from licensed reinsurers	(9) 95,261	67,900
Plus: Statutory Margin	(10) 50	50
Guarantee Fund Required (Line 7 minus Lines 8 and 9 plus line 10)	(11) 7,805	7,353
TOTAL RESERVE & GUARANTEE FUND REQUIRED (Line 6+11)	(12) 7,805	7,353
Cash & Approved Securities	(13) 20,586	19,291
Excess of Cash & Securities over Reserve & Guarantee Fund (line 13 minus line 12)	(14) 12,781	11,938

May 25, 2016

Sent Electronically

Mr. Patrick Mahoney
Canadian Lawyers Liability Assurance Society
36 Toronto Street, Suite 510
Toronto, ON M5C 2C5

Dear Mr. Mahoney:

Re: 2015 CLLAS Annual Return Review

The Superintendent of Insurance ("Superintendent") completed a review of the Canadian Lawyers Liability Assurance Society's ("CLLAS") 2015 Annual Return in accordance with section 756 of the *Insurance Act* ("Act").

During the review, the Superintendent determined that CLLAS was in compliance with all license and reporting requirements pursuant to the Act.

It is important that CLLAS follow the [P&C detailed filing instructions](#), which are provided to assist entities in preparing their annual return. The P&C return is utilized by the Superintendent to ensure legislative compliance and the files are loaded into a data base to enable automated analysis of key sections, there for numeric responses are required to some fields. The following was noted as incomplete and/or inaccurate.

- Page 40.07, Lines 60 and 61 – Largest and Second-Largest Exposure to a Pooled Holding– Investment in pools must be recorded on those lines that best describe the underlying assets of the pool, if the response is nil, then zero should be entered.

40.07									
<u>Canadian Lawyers Liability Assurance Society</u>									
Canadian Foreign Insurer									2015 Date
CONSOLIDATED									
SUMMARY OF INVESTMENTS (\$'000)									
Individual Holdings:									
Largest Exposure to an Entity or Connected Group	50							361	
2nd Largest Exposure to an Entity or Connected Group	51							336	
Largest Pooled Holding	60								
2nd Largest Pooled Holding	61								

Please be reminded non-compliance can result in administrative penalties being issued in accordance with section 780 of the Act. We do not intend to issue administrative penalties at this time; however, please note that the Superintendent may issue penalties, if CLLAS is not in compliance with the Act in the future.

May 25, 2016

Page 2

In closing, the Superintendent appreciates the level of effort put into the annual return and looks forward to working with CLLAS in 2016. Should you have any questions or concerns regarding these recommendations, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to be 'LB' or 'L. Balfour', written in a cursive style.

Laurie Balfour, MBA, CPA, CMA
Senior Manager, Prudential Supervision



June 13, 2016

By email: laurie.balfour@gov.ab.ca

Laurie Balfour, MBA, CMA
Senior Manager, Financial Compliance
Alberta Treasury Board and Finance
Financial Sector Regulation and Policy
Superintendent of Insurance
Room 402, Terrace Building
9515 – 107 Street
Edmonton, Alberta T5K 2C3

Dear Ms. Balfour:

RE: CLLAS – 2015 Annual Review

The purpose of this letter is to address the comment in your annual review letter dated May 25, 2016.

Comment: P&C-1, page 40.07, lines 60 and 61: Investments in pools must be recorded on those lines that best describe the underlying assets of the pool; if the response is nil, then zero should be entered.

CLLAS has no investments in pools and therefore these lines were left blank. If it is a requirement of the Superintendent in order to adequately populate its database, CLLAS will ensure that zeroes are added in future P&C-1 reports.

Yours truly,

Patrick Mahoney
General Manager



June 23, 2016

By email: laurie.balfour@gov.ab.ca

Laurie Balfour, MBA, CMA
Senior Manager, Financial Compliance
Alberta Treasury Board and Finance
Financial Sector Regulation and Policy
Superintendent of Insurance
Room 402, Terrace Building
9515 – 107 Street
Edmonton, Alberta T5K 2C3

Dear Laurie:

RE: Progress Update on CLLAS' Solvency, Compliance & Governance Examination

The purpose of this letter is to document outstanding items and inform you of our progress with respect to the recommendations in your Solvency, Compliance and Governance Examination of CLLAS. Please note that the recommendations already adopted by CLLAS are not documented in this letter.

The letter is organized using the same numbering as our initial action plan letter dated April 4, 2014 and in our subsequent letters dated May 2, 2014 and July 10, 2015.

Since the last progress update on governance and compliance, CLLAS has completed the following governance items:

- Terms of reference have been developed and adopted by the Advisory Board;
- The first ORSA report has been adopted by the Advisory Board;
- Stress testing has been performed in the context of the ORSA analysis;
- A draft ERM policy has been discussed by the Advisory Board;
- An outsourcing policy was created;
- New member criteria were reviewed and confirmed,
- A related party transaction policy was created; and
- The investment policy was reviewed and amended to align it with regulatory guidelines.

Further, it is expected that the following will take place at the June 2016 Board meeting:

- A draft reinsurance policy will be presented to and discussed by the Advisory Board.

Legislative Compliance

	Section(s)	Requirements	Prior Suggested Timing	Status
5	315, 316, 318	Subscribers Agreement must indicate min and max number of Board members, Agreement may provide that appointments are for max 3 years	Dec. 31, 2015	Timeline revised as other governance items were given priority. Timing now coincides with commencement of next Underwriting Period. <u>Revised timing: July 1, 2017</u>

Governance

	Section(s)	Requirements	Prior Suggested Timing	Status
7	Page 9	Define risk appetite and develop an ERM policy	Oct. 31, 2016	Advisory Board discussions on risk appetite, risk tolerance and risk limits have taken place since 2014. A draft ERM policy has been presented to the Board. An ORSA report was filed in early 2016. <u>No change to timing.</u>
8	Page 9	Develop an equity management policy	Oct. 31, 2016	CLLAS already has a surplus policy but will make it more comprehensive to meet regulatory guidelines. An internal target of 210% was selected based on the ORSA analysis. <u>No change to timing.</u>
13	Page 15	Develop a business plan and a strategic plan	Dec. 31, 2015 (strategic plan)	Business plans have been submitted in May 2014 and 2015. CLLAS has developed a strategic plan in 2014 and 2015. The strategic plan will be updated and adopted by the end of 2016. <u>Revised timing: Dec 31, 2016</u>
16	Page 16	Develop a professional code of conduct	June 30, 2017	<u>No change to timing.</u>



	Section(s)	Requirements	Prior Suggested Timing	Status
17	Page 17	Amend Subscribers Agreement to address responsibilities of Committees and Board, etc.	June 30, 2017	<u>No change to timing.</u>
21	Page 20	Amend RSA to address technical points	June 30, 2017	Timeline revised as other governance items were given priority. <u>Revised timing: June 30, 2017</u>
22	Page 21	Unaffiliated non-subscriber subject matter experts can be added to the CLLAS Board and size restrictions on the Board can be added	June 30, 2017	<u>No change to timing.</u>
23	Page 21	Establish a process to review Board effectiveness (individually and as a unit)	June 30, 2016	Timeline revised as other governance items were given priority. <u>Revised timing: Dec 31, 2016</u>

We would be pleased to discuss the matters noted above with you at your convenience.

Sincerely,

Patrick Mahoney
General Manager

Copy: Nicholas Leblovic, CLLAS Chair



CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Reinsurance Policy

Last Updated
June 10, 2016

DRAFT



REINSURANCE POLICY

Effective date: [DATE]

1. Purpose and Scope

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

2. Objectives

CLLAS' objectives in purchasing reinsurance are the following:

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



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

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



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

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

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

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

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

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



- Concentration by reinsurer measured against criteria recommended by the Broker and reviewed by the Audit Committee;
- Collectability issues;
- Licensing status in Canada (registered vs. unregistered).

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

4.2. The Broker will report to the Audit Committee on an annual basis. The Audit Committee will report any recommendations to the Board.

4.3. The General Manager will ensure the following:

- The reinsurance risk management practices and procedures comply with this reinsurance policy;
- The reinsurance arrangements effect a transfer of risk; and
- The reinsurance arrangements are accounted for in the appropriate manner.

4.4. The General Manager, with the assistance of the Broker, will maintain a complete description of all reinsurance arrangements, including reinsurance contracts and records of due diligence performed on reinsurance counterparties.

5. Roles and Responsibilities

5.1. The Board is responsible for the following:

- Annually reviewing and approving the reinsurance strategy and structure;
- Annually reviewing and approving policies and procedures to manage and control reinsurance risks; and
- Annually reviewing and approving this reinsurance policy on the recommendation of the Audit Committee.

5.2. The Audit Committee is responsible for the following:

- Annually reviewing the report on reinsurance security prepared by the Broker, including the criteria used measure financial health and concentration risk; and
- Annually reviewing this reinsurance policy and recommending appropriate changes in reinsurance structure to the Advisory Board for the upcoming renewal.

5.3. The Principal Attorney is responsible for the following:

- Annually participating in the negotiation of reinsurance rates and coverage; and
- Annually signing and executing reinsurance agreements on behalf of the Subscribers.



5.4. The General Manager is responsible for the following:

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

5.5. The Broker is responsible for the following:

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

6. Authority

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

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

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

7. History of Modifications

The reinsurance policy was first approved by CLLAS on [DATE].



The reinsurance policy will be reviewed by CLLAS by [DATE PLUS 1 YEAR].



CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Business Plan Projected for the
Fiscal Years Ending December 31, 2016, 2017 and 2018

Final Report
March 11, 2016



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1. Executive Summary

This report summarizes the business plan for the Canadian Lawyers Liability Assurance Society (“CLLAS”) for fiscal years 2016 to 2018. A copy of this report was submitted to the Alberta Superintendent of Insurance (“Superintendent”), the regulatory authority responsible for the supervision of CLLAS under the Alberta Insurance Act.

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

Operations and Operating Environment

CLLAS’ core business objective is to meet the liability insurance needs of its subscribers. It provides professional liability insurance to select Canadian law firms since 1987. Professional liability claims are subject to significant volatility and are expected to trend at 6% per year.

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

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

Summary of Financial Projections for Fiscal Year 2016

The underwriting income and investment income for fiscal year 2016 are projected at (\$447,000) and \$229,000 respectively, for a total net income of (\$218,000). The surplus at December 31, 2016 is projected at \$13,969,000. The projections assume that the premiums reflect surplus distributions of \$450,000 per year from 2016 to 2018, consistent with the surplus distribution in the 2015/2016 premium rates.

CLLAS is expected to meet the Alberta Maintenance of Reserves and Guarantee (“AMRGF”) Funds requirement with an excess margin of \$8,099,000 at December 31, 2016. The Minimum Capital Test (“MCT”) ratio at December 31, 2016 is projected at 434%, an increase over the MCT ratio of 360% at December 31, 2015 which is mainly due to the decrease in the mandatory phase-in adjustment. The MCT ratio is expected to remain comfortably above CLLAS’ internal target and regulatory expectations of 210%.



This business plan report is organized as follows:

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

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

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General Manager
Canadian Lawyers Liability Assurance Society
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Toronto, ON M5C 2C5
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2. Overview of CLLAS Operations

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

Insurance Operations

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

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

In the fiscal year ending December 31, 2015, CLLAS issued 21 insurance policies issued to 11 Canadian law firms providing a combined maximum limit of liability insurance per occurrence of \$139,975,000 to cover the cost of damages that an insured is legally obligated to pay as a result of single or related



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

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

Reinsurance

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

In addition, for its treaty underwriting year from July 1, 2015 to June 30, 2016, CLLAS purchased an annual stop-loss coverage that provides \$10,000,000 of coverage in excess of \$5,000,000. Annual stop-loss coverage limiting CLLAS' overall annual net retained losses in any one treaty year was also purchased in prior treaty years.

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

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

Operational Results for Fiscal Year 2015

In 2015, CLLAS generated written premium volumes of \$12,439,000 and \$2,414,000 on gross and net of reinsurance bases respectively. \$10,025,000 of written premium volume was ceded to proportional and aggregate stop loss reinsurers.

The net income was \$482,000 and the net subscribers' equity inclusive of accumulated other comprehensive income was \$14,187,000 at December 31, 2015.



At December 31, 2015, CLLAS held \$18,206,000 in invested assets comprised of cash and fixed-income securities. CLLAS' main liability was its net provision for unpaid claims in the amount of \$6,388,000.

3. Operating Environment

Professional liability losses are subject to significant volatility surrounding the timing, frequency and severity of claims, especially in higher insured layers such as the layer in excess of \$1,000,000. In addition, claim frequency is expected to remain stable but individual claims are expected to trend up faster than inflation at a rate of approximately 6% per year.

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

Reinsurance

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

Regulatory Environment

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

The key impacts of the adoption of OSFI guidelines on CLLAS are the following:

- Adoption of the Minimum Capital Test ("MCT") as a regulatory solvency requirement;
- Need for a formal enterprise risk management policy;
- Need for a formal equity management policy;
- Need for a formal outsourcing policy;
- Need for a formal reinsurance risk management policy;
- Need for regular stress testing;
- Need for a formal strategic plan; and
- Additional miscellaneous documentation requirements.



4. Short-Term Opportunities and Threats

CLLAS offers professional liability insurance coverage to a select number of law firms in Canada. One firm representing approximately 12% of CLLAS' insured lawyers, Blake, Cassels & Graydon LLP, withdrew from CLLAS at June 30, 2012. Under the terms of its Reciprocal Insurance Exchange Agreement, CLLAS is obligated to return a share of its surplus, if any, to any a departed subscriber when the Board is satisfied that the liabilities for which a departed subscriber is responsible have crystallized. As a result, a payment may be due to Blake, Cassels & Graydon LLP subsequent to June 30, 2017. CLLAS would consider whether as of June 30, 2017 there are no further liabilities relating to the underwriting periods prior to the date of the Subscribers' withdrawal in determining whether the distribution should be made as at June 30, 2017 or a later date. Depending on the amount of such payment and the amount of CLLAS' surplus at that time, such payment may have a material effect on the equity position of CLLAS. As the impact has not yet been quantified by CLLAS, the projections in this business plan assume there is no surplus withdrawal as at June 30, 2017.

In 2014, approximately 125 lawyers joined CLLAS firms as a result of the dissolution of Heenan Blaikie, thereby increasing the number of insured lawyers by approximately 3%. In addition, CLLAS is considering inviting one or two firms to join its subscriber base. A growth in the subscriber base would further spread risk among existing subscribers and, in addition, translate into the operational expenses being pooled among a greater number of members, thereby decreasing premiums for all members.

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

5. Short-Term Priorities and Initiatives

During 2016, CLLAS will focus on the following initiatives in addition to the management of its usual insurance operations:

1. Development of a budget and business plan for fiscal year 2016;
2. Determination of expected loss costs and premium rates for the policy year starting July 1, 2016;
3. Negotiation of reinsurance contracts and costs for the policy year starting July 1, 2016;
4. Periodic review of reinsurance concentration and risk;
5. Quarterly valuation of policy liabilities;
6. Own risk and solvency assessment ("ORSA") and quarterly risk monitoring;
7. Adoption of a formal enterprise risk management policy;
8. Development of a formal equity management policy;
9. Adoption of a formal medium- to long-term strategic plan; and
10. Other work further to the Superintendent's Solvency, Compliance and Governance examination.



6. Financial Performance Measures

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

- **Claims development:** All open case files are reviewed quarterly and case reserve estimates are adjusted accordingly. The provision for Incurred but not Reported (“IBNR”) claims is reviewed quarterly by CLLAS’ Appointed Actuary. Claims development is compared against the actuary’s prior estimates (i.e. estimates from prior actuarial valuations and estimates of expected loss costs underlying premium rates);
- **Expenses:** Expenses are tracked by category (e.g., financial services, claims administration, actuarial services, reinsurance services, audit services, etc.) and compared quarterly against the expense budget; and
- **Investment income:** Investment returns are compared against benchmarks established per the investment policy.

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

Quarterly financial statements are provided to the Advisory Board.

7. Financial Condition Measures and Regulatory Solvency Requirements

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

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

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

CLLAS must maintain cash and securities in excess of the regulatory requirement to avoid a retroassessment. At December 31, 2015, CLLAS met this requirement with an excess margin of \$6,934,000.

The AMRGF is shown in Exhibit 3.



b. Minimum Capital Test (“MCT”)

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

The MCT ratio is calculated as follows:

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

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

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

At December 31, 2015, CLLAS’s MCT ratio was 360%. CLLAS’ internal target MCT ratio is 210%.

The MCT is shown in Exhibit 4.

8. Financial Projections

The expected financial performance over fiscal years 2016 to 2018 is presented in Exhibits 1 to 4 as follows:

Exhibit 1: Proforma Statement of Financial Position

Exhibit 2: Proforma Statement of Income

Exhibit 3: Proforma AMRGF Requirement

Exhibit 4: Proforma Minimum Capital Test

These projections are based on a starting financial position at December 31, 2015 and were completed in accordance with the directives of the Superintendent issued for the completion of the 2015 P&C-1 Annual Return filed by CLLAS. We present below details of the analysis for the 2016 projection. Similar assumptions were taken to project the results for 2017 and 2018.



Data

To develop the expected financial performance, we relied on the following information developed by CLLAS at December 31, 2015:

- The 2015 P&C-1 Annual Return and AMRGF worksheet filed by CLLAS with the Alberta Superintendent of Insurance;
- The 2015 Auditor's Report issued by Deloitte LLP;
- The Report on the Valuation of the Policy Liabilities as at December 31, 2015 issued by Ms. Julie-Linda Laforce, the Appointed Actuary for CLLAS; and
- The operating expense budget for 2016 approved by the Advisory Board.

Projection of Premiums

Net premiums written in 2016 are expected to be \$2,479,000, up from \$2,414,000 in 2015. Renewal premiums were assumed to increase based on a trend of 6% in retained loss costs and inflation of 3% on operating expenses. In addition, net premiums reflect an annual surplus distribution of \$450,000, in line with the surplus distribution reflected in the 2015/2016 rates.

Projection of Investment Income

The expected investment income for 2016 is \$229,000 (\$167,000 in 2015). The yield-to-maturity on invested assets at December 31, 2015 was 1.64% gross of investment management expenses and the investment yield gross of investment management expenses was projected at 1.64% for 2016.

Projection of Claims

Claims were projected on bases gross and net of reinsurance. These projections assume, to a large extent, that the reinsurance structure in effect at December 31, 2015 is maintained on renewal. Gross and net incurred losses for 2016 were projected in two steps:

a. Settlement of claim liabilities incurred on or prior to December 31, 2015

Paid claims during 2016 and undiscounted claim liabilities at December 31, 2016 were projected based on the Appointed Actuary's estimates at December 31, 2015 and CLLAS' historical claims settlement patterns. There is no expected gain or loss relative to the actuary's ultimate estimates at December 31, 2015.

Per accepted actuarial practice in Canada, undiscounted claim liabilities were then discounted and a provision for adverse deviation ("PfAD") was added. The assumptions used in the December 31, 2015 actuarial valuation were used. PfADs are assumed to be gradually released as losses are paid.



On a gross of reinsurance basis, CLLAS' expected payments in 2016 are \$18,175,000 and the claim liabilities on a discounted basis including PfAD at December 31, 2016 are expected to be \$83,977,000.

On a net of reinsurance basis, CLLAS' expected payments in 2016 are \$122,000 and the claim liabilities on a discounted basis including PfAD at December 31, 2016 are expected to be \$5,433,000.

b. Projected claims incurred after December 31, 2015 on policies in-force at December 31, 2015 and on policies expected to be renewed on July 1, 2016 under the new 2016/2017 policy year

Ultimate gross and net incurred claims for those policies were estimated based on the projected loss cost per layer estimated by the Appointed Actuary at December 31, 2015 with a 6% loss severity trend. These loss costs were then applied to the estimated in-force lawyers at December 31, 2015, since no growth at renewal was assumed for the underlying number of insured lawyers.

The expected projected loss costs per layer for the first and second half of 2016 are as listed in the following table.

Projected Loss Costs by Reinsured Layer for Fiscal Year 2016

Reinsurance Layers	Estimated loss cost for 1st Half of 2016	Estimated loss cost for 2nd Half of 2016
\$975,000 xs \$25,000	\$ 110	\$ 117
\$49,000,000 xs \$1,000,000	3,378	3,581
\$30,000,000 xs Umbrella	10	11
\$40,000,000 xs \$160,000,000	15	16
\$60,000,000 xs \$160,000,000	18	19

On a gross of reinsurance basis, CLLAS' expected payments in 2016 are \$586,000 and the claim liabilities on a discounted basis including PfAD at December 31, 2016 are expected to be \$15,276,000.

On a net of reinsurance basis, CLLAS' expected payments in 2016 are \$18,000 and the claim liabilities on a discounted basis including PfAD at December 31, 2016 are expected to be \$1,235,000.

Total Claims

Total net claim liabilities at December 31, 2016 were estimated at \$6,668,000, which represents an increase of \$280,000 over the December 31, 2015 net claim liabilities of \$6,388,000. Net paid losses were projected at \$140,000 during 2016.



Estimated incurred claims for fiscal year 2016 are estimated at \$420,000 as the sum of net paid claims in the year and the change in net claim liabilities.

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

Summary of Outstanding Claim Liabilities Projections for December 31, 2016

Net Amounts	Occurrences on or prior to Dec. 31, 2015	Occurrences after Dec. 31, 2015	Total
(1) Net Payments during 2016	\$ 122,000	\$ 18,000	\$ 140,000
(2) Net Claim Liabilities at December 31, 2016 *	5,433,000	1,235,000	6,668,000
(3) Net Claim Liabilities at December 31, 2015 *	6,388,000	n/a	6,388,000
(4) Net Incurred Claims in 2016 [(1) + (2) – (3)]	\$ (833,000)	\$ 1,253,000	\$ 420,000

* Liabilities on a discounted basis including PfAD.

Projection of Operating Expenses

Operating expenses are projected at \$1,831,000 for general management fees, \$279,000 for reinsurance fees and \$357,000 for premium taxes. Premium taxes vary by province and are expected to average 2.8% of direct written premiums. A portion of premium taxes is deferred in order for the expense to be recognized as the premium is earned. At December 31, 2016, the deferred policy acquisition cost asset is estimated at \$183,000.

Summary of Results

Based on the foregoing assumptions, the underwriting income and investment income for fiscal year 2016 are projected at (\$447,000) and \$229,000 respectively, for a total net income of (\$218,000) as shown in Exhibit 2. The surplus at December 31, 2016 is projected at \$13,969,000 as shown in Exhibit 1.

CLLAS is expected to meet the AMRGF requirement with an excess margin of \$8,099,000 at December 31, 2016, as shown in Exhibit 3.

CLLAS' MCT ratio at December 31, 2016 is projected at 435%, an increase over the MCT ratio of 360% at December 31, 2015, as shown in Exhibit 4. The increase is mainly driven by the phasing-out of the transitional adjustment required under the MCT rules. The MCT ratio is expected to remain above CLLAS' internal target of 210%.

Exhibit 1
Canadian Lawyers Liability Assurance Society

Proforma Statement of Financial Position

	2015 Actual	2016 Projected	2017 Projected	2018 Projected
Assets				
Cash	\$ 5,008,412	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000
Investments				
Short Term	8,404,974	9,683,000	9,705,000	9,706,000
Long Term	4,793,017	5,214,000	5,226,000	5,227,000
Interest Income Due and Accrued	19,936	0	0	0
Premiums Receivable	4,059,591	4,325,000	4,435,000	4,547,000
Unearned Reinsurance Premium Ceded	4,984,847	5,313,000	5,430,000	5,549,000
Prepaid Expenses	139,500	144,000	148,000	152,000
Deferred Policy Acquisition Costs	173,213	183,000	188,000	193,000
Reinsurance and Other Claims Receivable	1,597,292	800,000	800,000	800,000
Other Receivable	0	0	0	0
Provision for Unpaid Claims and Adjustment Expenses Recoverable from Reinsurers	96,120,000	92,585,000	91,476,000	93,476,000
Total Assets	125,300,782	123,247,000	122,408,000	124,650,000
Liabilities				
Provision for Unpaid Claims and Adjustment Expenses	102,508,000	99,253,000	98,476,000	100,896,000
Premium Deficiency Liability	0	0	0	0
Unearned Premium	6,185,289	6,552,000	6,719,000	6,890,000
Due to Reinsurers	1,509,338	1,620,000	1,656,000	1,692,000
Accounts Payable & Accrued Charges	843,543	987,000	1,018,000	1,048,000
Premium Taxes Payable	67,147	66,000	67,000	69,000
Total Liabilities	111,113,316	108,478,000	107,936,000	110,595,000
Subscribers' Equity				
Retained Earnings	14,060,039	13,842,000	13,544,000	13,128,000
Accumulated Other Comprehensive Income (Loss)	127,427	127,000	127,000	127,000
Total Subscribers' Equity	14,187,466	13,969,000	13,671,000	13,255,000
Total Liabilities and Subscribers' Equity	125,300,782	122,447,000	121,607,000	123,850,000

Exhibit 2
Canadian Lawyers Liability Assurance Society

Proforma Statement of Income

	2015 Actual	2016 Projected	2017 Projected	2018 Projected
Premiums				
Gross Written Premiums	\$ 12,438,547	\$ 13,105,000	\$ 13,438,000	\$ 13,780,000
Less: Reinsurance Ceded	10,024,473	10,626,000	10,860,000	11,099,000
Net Written Premiums	2,414,074	2,479,000	2,578,000	2,681,000
Change in Net Unearned Premiums	13,052	(39,000)	(50,000)	(52,000)
Net Earned Premiums	2,427,127	2,440,000	2,528,000	2,629,000
Incurred Claims				
Net Claims Paid	(42,792)	140,000	192,000	248,000
Change in Net Reserves	(5,000)	280,000	332,000	420,000
Premium Deficiency Expense	0	0	0	0
Net Incurred Claims	(47,792)	420,000	524,000	668,000
Operating Expenses				
Management and Operating Expenses *	1,618,159	1,831,000	1,886,000	1,943,000
Reinsurance Fees	279,000	279,000	287,000	296,000
Premium Taxes	262,362	357,000	372,000	381,000
Total Operating Expenses	2,159,521	2,467,000	2,545,000	2,620,000
Underwriting Gain (Loss)	315,398	(447,000)	(541,000)	(659,000)
Investment Income	166,747	229,000	243,000	243,000
Other Income	0	0	0	0
Comprehensive Income (Loss) for the year	482,144	(218,000)	(298,000)	(416,000)
Retained Earnings, Beginning of Period	13,577,895	14,060,000	13,842,000	13,544,000
Retained Earnings, End of Period	14,060,039	13,842,000	13,544,000	13,128,000

* Includes investment management fees

Exhibit 3
Canadian Lawyers Liability Assurance Society

Proforma Alberta Maintenance of Reserve and Guarantee Fund Requirement

	2015 Actual	2016 Projected	2017 Projected	2018 Projected
Reserve Fund				
(1) Premiums Collected or Credited Having One Year or Less to Run	12,439,000	13,105,000	13,438,000	13,780,000
(2) Less: Amount Paid to Licensed Reinsurers	9,919,000	10,514,000	10,746,000	10,982,000
(3) Premiums Collected With More Than One Year to Run, Less Expired Portion	0	0	0	0
(4) Less: Amount Paid to Reinsurers on Premiums on Line 3, Less Expired Portion	0	0	0	0
(5) Subtotal [(1) - (2) + (3) - (4)]	2,520,000	2,591,000	2,692,000	2,798,000
(6) Reserve Fund Required [50% x (5)]	1,260,000	1,295,500	1,346,000	1,399,000
Guarantee Fund				
(7) Total Liabilities	111,113,000	108,478,000	107,936,000	110,595,000
(8) Less: Unearned Premiums	6,185,000	6,552,000	6,719,000	6,890,000
(9) Less: Recoverable from Licensed Reinsurers *	94,966,000	91,473,000	90,378,000	92,354,000
(10) Plus: Statutory Margin	50,000	50,000	50,000	50,000
(11) Guarantee Fund Required [(7) - (8) - (9) + (10)]	10,012,000	10,503,000	10,889,000	11,401,000
(12) Total Reserve and Guarantee Fund Required [(6) + (11)]	11,272,000	11,798,500	12,235,000	12,800,000
(13) Cash & Approved Securities	18,206,000	19,897,000	19,931,000	19,933,000
(14) Excess of Cash & Securities over Reserve & Guarantee Fund [(13) - (12)]	6,934,000	8,098,500	7,696,000	7,133,000

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

Exhibit 4
Canadian Lawyers Liability Assurance Society

Proforma Minimum Capital Test

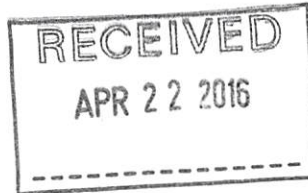
	2015 Actual	2016 Projected	2017 Projected	2018 Projected
Capital Available				
Total Equity	14,187,000	13,969,000	13,671,000	13,255,000
Less: Deductions from Capital Available	1,206,000	982,000	725,000	592,000
(1) Capital Available	12,981,000	12,987,000	12,946,000	12,663,000
Capital Required				
Insurance Risk				
Premium Liabilities	217,000	223,000	232,000	241,000
Unpaid Claims	712,000	805,000	891,000	972,000
Catastrophes	0	0	0	0
Margin Required for Reinsurance Ceded to Unregistered Insurers	181,000	175,000	168,000	165,000
Subtotal	1,110,000	1,203,000	1,291,000	1,378,000
Market Risk				
Interest Rate Risk	162,000	158,000	177,000	202,000
Foreign Exchange Risk	0	0	0	0
Equity Risk	0	0	0	0
Real Estate Risk	0	0	0	0
Other Market Risk Exposures	0	0	0	0
Subtotal	162,000	158,000	177,000	202,000
Credit Risk				
Counterparty Default Risk for Balance Sheet Assets	1,660,000	1,575,000	1,560,000	1,593,000
Counterparty Default Risk for Off-Balance Sheet Exposures	0	0	0	0
Counterparty Default Risk for Unregistered Reinsurance Collateral and SIRs	142,000	137,000	136,000	139,000
Subtotal	1,802,000	1,712,000	1,696,000	1,732,000
Operational Risk				
	823,000	855,000	877,000	904,000
Diversification Credit				
	(378,000)	(391,000)	(408,000)	(430,000)
(2) Total Capital Required at 150% MCT (Prior to Phase-In Adjustment)	3,519,000	3,537,000	3,633,000	3,786,000
(3) Total Capital Required at 100% MCT (Prior to Phase-In Adjustment) [= (2) / 1.5]	2,346,000	2,358,000	2,422,000	2,524,000
(4) Phase-In Adjustment of Capital Required	1,264,000	632,000	0	0
(5) Total Capital Required at 100% MCT (After Phase-In Adjustment) [= (3) + (4)]	3,610,000	2,990,000	2,422,000	2,524,000
(6) MCT Ratio [= (1) / (5)]	359.6%	434.3%	534.5%	501.7%

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

April 19, 2016

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 March 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.

Bond prices ended the quarter moderately higher on balance. The short term bond index lost 0.3%, while the mid and long bond indices rose 0.8% and 1.7% respectively.

Reflecting these shifts, the Long Term Investment Fund recorded a capital increase of 0.3%.

Activity during the quarter centred on the roll-over of maturities in the Short Term Investment Fund. Further activity involved the purchase of a Banker's Acceptance and Treasury Bill following the \$3.5 million capital addition.

Turning to regulatory matters, it is our responsibility to regularly review our Know Your Client (KYC) form to ensure that the information we have on file is current. Accordingly, we have enclosed a copy of this form (excluding the final signature page) and would kindly ask you to review this for the completeness and accuracy of the KYC information. It is not necessary to return the form.

If any changes to the KYC form are required, or if there are any questions, please let us know.

With best regards,

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Andrew Bell". The signature is fluid and cursive, with a large initial "A" and "B".

RWB/mab
Enclosures

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

Duplicate

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

April 19, 2016

In account with

Canadian Lawyers Liability Assurance Society
- Short Term Investment Fund

Valuation of Short Term Investment Fund at March 31, 2016	\$11,939,915
Investment Counsel Fee for the period January 1 to March 31, 2016 at .025% (1/4 of .10% per annum)	\$2,984.98
Harmonized Sales Tax (HST) at 13%	<u>388.05</u>
	<u><u>\$3,373.03</u></u>

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

HST Registration No. R103546115

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

Duplicate

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E-MAIL: INFO@MLSINVEST.COM

April 19, 2016

In account with

Canadian Lawyers Liability Assurance Society
- Long Term Investment Fund

Valuation of Long Term Investment Fund at March 31, 2016	\$4,805,334
Investment Counsel Fee for the period January 1 to March 31, 2016 at .0625% (1/4 of .25% per annum)	\$3,003.33
Harmonized Sales Tax (HST) at 13%	<u>390.43</u>
	<u><u>\$3,393.76</u></u>

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receipted and sent back to you.

HST Registration No. R103546115

CLLAS
CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

INVESTMENT REPORT
MARCH 31, 2016

MARTIN, LUCAS & SEAGRAM LTD.
INDEPENDENT INVESTMENT COUNSEL

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Toronto, Ontario
M5E 1G9

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CLLAS
CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

COMMENTARY FOR THE QUARTER ENDING MARCH 31, 2016

Review of Market Yields

After drifting gradually lower during the first half of the quarter, bond yields retraced the ground lost before settling into a sideways trading range for the balance of the quarter. At the end of March, the results were mixed with yields in the 3-month to 7-year maturity range showing small changes in both directions, while 10-year yields moved down by 16 basis points.

As a result of these shifts, the yield curve flattened slightly during the first quarter as the yield advantage of 10-year issues over Treasury Bills declined to 78 points at the end of March from 88 basis points three months earlier.

	Jan. 1/95	Sep. 30/15	Dec. 31/15	Mar. 31/16
3-Month Treasury Bills	6.80%	0.43%	0.51%	0.45%
5-year Canadas	8.99%	0.81%	0.73%	0.68%
10-year Canadas	9.09%	1.45%	1.39%	1.23%

During the quarter, in the Short Term Investment Fund, activity involved the roll-over of money market securities. Further activity involved the purchase of a Banker's Acceptance and Treasury Bill following the \$3.5 million capital addition.

There were no transactions in the Long Term Investment Fund during the period.

During the first quarter, the market value of the Long Term Investment Fund holdings increased by \$12,242, which represents a capital increase of 0.3%.

At March 31, 2016, the average term to maturity of the Long Term Investment Fund stood at 3.7 years.

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

<i>Distribution at March 31, 2016</i>	<i>Valuation</i>	<i>%</i>
Short Term Investment Fund	\$11,939,915	71.3%
Long Term Investment Fund	4,805,334	28.7%
TOTAL COMBINED VALUATION	\$16,745,249	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 March 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 MARCH 31, 2016

	Since Inception Dec. 17/13*	2 Years*	1 Year	Last 3 months
<i>Long Term Investment Fund – Gross of Fees</i>	3.67%	3.74%	1.57%	0.84%
<i>Long Term Investment Fund – Net of Fees</i>	3.37%	3.44%	1.29%	0.77%
Benchmark Portfolio **	4.20%	3.94%	1.50%	0.86%

*Annualized

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

SHORT TERM INVESTMENT FUND

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

	Since Inception Oct. 1/08 *	3 Years*	2 Years *	1 Year	Last 3 Months
<i>Short Term Investment Fund – Gross of Fees</i>	0.79%	0.77%	0.69%	0.50%	0.13%
<i>Short Term Investment Fund – Net of Fees</i>	0.66%	0.66%	0.58%	0.40%	0.10%
Benchmark Portfolio **	0.76%	0.77%	0.69%	0.49%	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	Jun. 30/15	Sep. 30/15	Dec. 31/15	Mar. 31/16
Bonds, Treasury Bills & Cash Less than 1 year term	100.0%	0.0%	6.3%	16.8%	16.8%
Canadas Greater than 1 year term		25.7%	25.8%	19.5%	19.5%
Provincials Greater than 1 year term		37.5%	31.2%	31.2%	31.2%
Corporates Greater than 1 year term		36.8%	36.7%	32.5%	32.5%
TOTAL PORTFOLIO	100.0%	100.0%	100.0%	100.0%	100.0%

LONG TERM INVESTMENT FUND

DISTRIBUTION OF SECURITIES BY MATURITY
 (Based on Market Values)

	Jun. 30/15	Sep. 30/15	Dec. 31/15	Mar. 31/16
Under 1 year	0.0%	6.3%	16.8%	16.8%
1 - 3 years	37.8%	39.0%	28.4%	28.2%
3 - 5 years	29.2%	21.6%	21.6%	21.6%
5 - 7 years	15.8%	15.8%	20.2%	23.6%
7 - 10 years	17.2%	17.3%	13.0%	9.8%
TOTAL	100.0%	100.0%	100.0%	100.0%
Average Maturity (yrs)	4.43	4.18	3.94	3.70
Average Duration	4.09	3.85	3.65	3.43

SHORT TERM INVESTMENT FUND

	Jun. 30/15	Sep. 30/15	Dec. 31/15	Mar. 31/16
Short Term Average Duration	0.10	0.11	0.12	0.07

CLLAS

COMPLIANCE WITH INVESTMENT POLICY STATEMENT

AT MARCH 31, 2016

	Investment Limits	Investment Funds	Compliance
<i>Short Term Investment Fund</i>			
Maximum Term of Any Issue	1 year	0.2 years	Yes
Minimum Percentage of Total Fund (Short & Long)	40% of Total	71.3%	Yes
Minimum Canada & Provincial Percentage	50%	50.2%	Yes
Minimum Provincial Quality	A	N/A	Yes
Minimum Bank CD & BA Quality	R1	R1	Yes
<i>Long Term Investment Fund</i>			
Maximum Term of Any Issue	10 years	9.2 years	Yes
Maximum Percentage of Total Fund (Short & Long)	60% of Total	28.7%	Yes
Minimum Canada Percentage	20%	25.8%	Yes
Maximum Provincial Percentage	40%	37.5%	Yes
Minimum Canada & Provincial Percentage	60%	63.3%	Yes
Minimum Provincial Quality *	A	AA (low)	Yes
Maximum Corporate Percentage	40%	36.7%	Yes
Minimum Corporate Quality *	A	AA	Yes

** At time of purchase*

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

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

CLLAS

Martin, Lucas & Seagram Ltd.
PERFORMANCE REPORT
GROSS OF FEES
CLLAS - LONG TERM INVESTMENT FUND
From 12-31-15 to 03-31-16

Portfolio Value on 12-31-15	4,793,092
Accrued Interest	20,453
Contributions	0
Withdrawals	-22,167
Realized Gains	0
Unrealized Gains	12,242
Interest	22,167
Dividends	0
Change in Accrued Interest	5,820
Portfolio Value on 03-31-16	4,805,334
Accrued Interest	26,272
Average Capital	4,804,609
Total Gain before Fees	40,229
IRR for 0.25 Years	0.84%

CLLAS

BOND MARKET COMMENTARY AND FUTURE POLICY

Through most of January and February, global equity markets sold off and volatility spiked higher as investor confidence was again shaken by a variety of concerns that carried over from 2015. This resulted in the worst start for a year on record for global equity markets and the heightened aversion to risk helped push already depressed bond yields even lower. However, much of the ground lost in the equity markets has been subsequently regained and bond yields shifted higher in the wake of better-than-expected economic data in the latter half of the quarter and additional stimulus from offshore central banks, which tempered investor uncertainty. Since mid-March, both bond and equity markets have settled into a sideways range as investors continue to focus on the prospects for global growth, commodity prices, and the course of U.S. monetary policy.

The Canadian economy showed promise early this year by recovering from December's decline in retail sales with a surge of 2.1% in January, far more than analysts had expected. Despite an unexpected downturn in export data in February and an uptick in unemployment, improvements in manufacturing, ongoing strength in services and a rebound in employment in March suggests aggregate growth in the first quarter will be well above the Bank of Canada's preliminary estimate of 1%. Looking ahead, the economy's resiliency and the Federal budget's new deficit-spending initiatives has considerably reduced the chances of further interest rate cuts by the Bank of Canada. However, overall growth is likely to remain below 2% for the second consecutive year due to weak business investment, led by declines in the oil patch and record levels of household debt, which will weigh on consumer spending.

Meanwhile, the U.S. economy, which appeared to be building upward momentum early in the New Year, has since faltered and GDP growth for the first quarter is now expected to fall short of the 1% gain recorded in the previous quarter. The Federal Reserve recently downgraded its 2016 projection for U.S. aggregate growth to 2.2% from its more optimistic 2.4% figure announced back in December. This adjustment was attributed to the potential repercussions of a softening global economy, which has also diminished the magnitude of the Fed's anticipated interest rate hikes. Although manufacturing activity in March expanded for the first time in six months, net exports and orders for durable goods continued to disappoint, reflecting a weakening in the offshore backdrop and a slowdown in capital investment, especially in the energy sector. Fortunately, American consumers, who fuel more than two-thirds of the economy, provide a valuable offset to these headwinds. Strong job market gains, that continue to exceed expectations, have finally translated into higher real disposable incomes. This has lowered U.S. households' debt as a share of disposable income to levels not seen since 2002 and left households better equipped to weather financial shocks. Furthermore, since improved household wealth generally translates into stronger consumer spending this, combined with the gains in income and house prices, should help the U.S. expansion gain some upward momentum later this year.

CLLAS

Following a difficult start to the year for Asian markets, Chinese equities were among the strongest to rebound in March. Despite lowering expectations for GDP growth in 2016 to a range of 6.5% to 7.0% from the 7.0% target in 2015, Chinese policy makers managed to calm investor concerns by making it clear that they would spur growth with new monetary and fiscal measures, rather than through currency depreciation. Meanwhile, growth in Japan has again faltered and the economy has now shrunk in two of the past three quarters. In light of persistent weakness in the domestic economy and the region's difficulties, the Bank of Japan introduced negative interest rates early this year. However, this has had little measurable impact thus far and, instead of making their currency more competitive, the move to negative rates has unexpectedly driven the yen higher. Turning to Europe, the economic recovery, although fragile, appears to be gradually improving, led by the area's most significant contributor, Germany, which has reported a surge in industrial production. However, despite this and a bolder-than-anticipated stimulus plan from the European Central Bank last month, growth prospects in the area are likely to remain challenged by the rise of anti-EU populist parties, the refugee crisis, a potential Brexit and a possible default by Greece.

While the news flow on a number of fronts has improved in recent weeks, the recent recovery in stock prices has been largely fuelled by a marked shift in investor sentiment, rather than significant improvements in the underlying fundamentals. In our view, investor sentiment remains fragile and we believe stocks are vulnerable to another pullback, since many of the economic uncertainties that derailed investor confidence over the past year could resurface and push investment flows into the relative safety of government bonds. Furthermore, the course of political developments offshore and in the U.S. has the potential to undermine investors' appetite for risk, which would provide additional support for bond prices.

With estimates for global growth being steadily reduced, this has diminished the global economy's ability to absorb shocks and, as a result, the macro risks have increased. However, in weighing the possibilities, we believe the global expansion will remain intact, led by a U.S. economy that has shown considerable resilience in the face of offshore headwinds and ongoing support from the major central banks, including the U.S. Fed, which has shown increased sensitivity to global financial conditions. Given the likelihood that an improvement in the underlying fundamentals will remain slow and uneven, we expect domestic bond yields will remain in a sideways trading range around current levels over the near term, with periodic bouts of volatility as investors vacillate between risk-on and risk-off trades. Looking further ahead, we expect deflationary forces will eventually subside and the prospect that the U.S. Fed will resume the normalization of administered rates later this year will result in upward pressure on both the Canadian and U.S. yield curves. While this is still some way off, we think the risks of extending the duration of the Long Term Fund portfolio at this juncture outweigh the incremental returns available and believe the portfolio's laddered maturity structure and current duration of 3.4 years is appropriate.

RWB/mab
April 19, 2016

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

Portfolio Holdings at March 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			20,660	0
MONEY MARKET ISSUES					
1,750,000	Toronto Dominion Bank BA .72% due April 1, 2016	99.95	99.97	1,749,542	12,594
1,475,000	Canada Treasury Bill .294% due April 7, 2016	99.93	99.99	1,474,873	4,334
300,000	CIBC BA .627% due April 8, 2016	99.86	99.97	299,896	1,878
1,500,000	Royal Bank BA .706% due April 14, 2016	99.94	99.95	1,499,246	10,584
1,000,000	CIBC BA .711% due April 19, 2016	99.88	99.95	999,520	7,101
1,000,000	Canada Treasury Bill .425% due April 21, 2016	99.90	99.97	999,749	4,246
1,385,000	Bank of Nova Scotia BA .711% due May 9, 2016	99.84	99.91	1,383,802	9,831
1,765,000	Canada Treasury Bill .405% due May 19, 2016	99.91	99.94	1,763,957	7,142
1,750,000	Canada Treasury Bill .40% due June 2, 2016	99.91	99.92	1,748,672	6,993
				<u>11,919,256</u>	<u>64,704</u>
TOTAL PORTFOLIO				11,939,915	64,704

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
From 01-01-16 To 03-31-16

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
PURCHASES					
01-13-16	01-14-16	300,000	CIBC BA .627% due April 8, 2016	99.86	299,567.40
01-13-16	01-14-16	1,475,000	Canada Treasury Bill .294% due April 7, 2016	99.93	1,474,016.18
01-27-16	01-28-16	1,000,000	Canada Treasury Bill .425% due April 21, 2016	99.90	999,034.00
02-12-16	02-16-16	1,385,000	Bank of Nova Scotia BA .711% due May 9, 2016	99.84	1,382,770.15
02-12-16	02-16-16	1,000,000	CIBC BA .711% due April 19, 2016	99.88	998,776.00
02-24-16	02-25-16	1,765,000	Canada Treasury Bill .405% due May 19, 2016	99.91	1,763,376.20
03-07-16	03-08-16	1,750,000	Canada Treasury Bill .40% due June 2, 2016	99.91	1,748,351.50
03-07-16	03-08-16	1,750,000	Toronto Dominion Bank BA .72% due April 1, 2016	99.95	1,749,172.25
03-14-16	03-15-16	1,500,000	Royal Bank BA .706% due April 14, 2016	99.94	1,499,130.00
					11,914,193.68
SALES					
01-14-16	01-14-16	1,765,000	Canada Treasury Bill .30% due January 14, 2016	100.00	1,765,000.00
01-28-16	01-28-16	1,000,000	Canada Treasury Bill .36% due January 28, 2016	100.00	1,000,000.00
02-16-16	02-16-16	865,000	CIBC BA .72% due February 16, 2016	100.00	865,000.00
02-16-16	02-16-16	1,520,000	FirstBank BA .71% due February 16, 2016	100.00	1,520,000.00
02-25-16	02-25-16	1,755,000	Canada Treasury Bill .40% due February 25, 2016	100.00	1,755,000.00
03-15-16	03-15-16	1,500,000	Royal Bank BA .702% due March 15, 2016	100.00	1,500,000.00
					8,405,000.00

Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - SHORT TERM INVESTMENT FUND
From 01-01-16 to 03-31-16

Cash Balance at January 1, 2016			17,474.23
ADD:			
Proceeds from Sales	8,405,000.00		
Capital Added	3,500,000.00		
Bond Interest Credited (from Long Term Investment Fund)	22,167.00		
Bank Interest Credited	100.87	<u>11,927,267.87</u>	
			11,944,742.10
LESS:			
Cost of Purchases	11,914,193.68		
Investment Counsel Fees - Short Term Investment Fund	2,377.43		
Investment Counsel Fees - Long Term Investment Fund	3,385.12		
Trust Company Charges	4,126.35	<u>11,924,082.58</u>	
Cash Balance at March 31, 2016			20,659.52

Martin, Lucas & Seagram Ltd.

EXTERNAL INDIVIDUAL CREDIT RATING REPORT - MARCH 31, 2016

CLLAS - SHORT TERM INVESTMENT FUND

Quantity	Security		Rating	Unit Cost	Total Cost	Price	Market Value	Pct. Assets
CASH								
	Cash Account				20,660		20,660	0
MONEY MARKET ISSUES								
1,750,000	Toronto Dominion Bank BA .72%	due April 1, 2016	R-1 (high)	99.95	1,749,172	99.97	1,749,542	14.7
1,475,000	Canada Treasury Bill .294%	due April 7, 2016	R-1 (high)	99.93	1,474,016	99.99	1,474,873	12.4
300,000	CIBC BA .627%	due April 8, 2016	R-1 (high)	99.86	299,567	99.97	299,896	2.5
1,500,000	Royal Bank BA .706%	due April 14, 2016	R-1 (high)	99.94	1,499,130	99.95	1,499,246	12.6
1,000,000	CIBC BA .711%	due April 19, 2016	R-1 (high)	99.88	998,776	99.95	999,520	8.4
1,000,000	Canada Treasury Bill .425%	due April 21, 2016	R-1 (high)	99.90	999,034	99.97	999,749	8.4
1,385,000	Bank of Nova Scotia .711%	due May 9, 2016	R-1 (high)	99.84	1,382,770	99.91	1,383,802	11.6
1,765,000	Canada Treasury Bill .405%	due May 19, 2016	R-1 (high)	99.91	1,763,376	99.94	1,763,957	14.8
1,750,000	Canada Treasury Bill .40%	due June 2, 2016	R-1 (high)	99.91	1,748,352	99.92	1,748,672	14.6
					11,914,194		11,919,256	100
TOTAL PORTFOLIO					11,934,853		11,939,915	100

Martin, Lucas & Seagram Ltd.

CLLAS - LONG TERM INVESTMENT FUND

Portfolio Holdings at March 31, 2016

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
GOVERNMENT BONDS					
300,000	Canada Housing Trust 1.85% Series 43 due December 15, 2016	101.30	100.87	302,622	5,550
250,000	Canada Housing Trust 1.75% due June 15, 2018	100.11	102.09	255,235	4,375
250,000	Canada Housing Trust 1.95% due June 15, 2019	100.10	103.25	258,115	4,875
200,000	Canada Housing Trust 2.4% Series 48 due December 15, 2022	100.37	106.21	212,420	4,800
200,000	Canada Housing Trust 2.35% due September 15, 2023	105.62	105.73	211,458	4,700
				<hr/> 1,239,850	<hr/> 24,300
PROVINCIAL BONDS					
300,000	Alberta 1.85% due September 1, 2016	101.35	100.48	301,443	5,550
330,000	Ontario 1.90% due September 8, 2017	100.18	101.55	335,112	6,270
350,000	Ontario 2.1% due September 8, 2018	99.57	102.69	359,398	7,350
250,000	British Columbia 3.25% due December 18, 2021	102.30	109.82	274,553	8,125
250,000	Ontario 3.15% due June 2, 2022	99.04	108.80	272,003	7,875
250,000	Ontario 2.60% due June 2, 2025	100.15	103.47	258,680	6,500
				<hr/> 1,801,187	<hr/> 41,670
CORPORATE BONDS					
200,000	Bank of Nova Scotia Dep. Note 2.1% due November 8, 2016	100.32	100.66	201,318	4,200
200,000	Toronto Dominion Bank Dep. Note 2.433% due August 15, 2017	100.73	101.55	203,098	4,866
200,000	Royal Bank Dep. Note 2.26% due March 12, 2018	99.28	101.65	203,304	4,520
200,000	Wells Fargo Canada 2.944% due July 25, 2019	100.02	104.14	208,286	5,888
300,000	Bank of Montreal 2.84% due June 4, 2020	101.77	104.71	314,127	8,520
250,000	Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	104.57	103.48	258,688	6,408
200,000	Bank of Montreal 3.4% due April 23, 2021	100.65	107.37	214,742	6,800

Martin, Lucas & Seagram Ltd.

CLLAS - LONG TERM INVESTMENT FUND

Portfolio Holdings at March 31, 2016

<u>Quantity</u>	<u>Security</u>	<u>Unit Cost</u>	<u>Price</u>	<u>Market Value</u>	<u>Annual Income</u>
150,000	Wells Fargo 3.46% due January 24, 2023	102.36	107.16	160,734	5,190
				1,764,297	46,392
TOTAL PORTFOLIO				4,805,334	112,362

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - LONG TERM INVESTMENT FUND
From 01-01-16 To 03-31-16

<u>Trade Date</u>	<u>Settle Date</u>	<u>Quantity</u>	<u>Security</u>	<u>Unit Price</u>	<u>Amount</u>
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No transactions were found!

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Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - LONG TERM INVESTMENT FUND
From 01-01-16 to 03-31-16

Cash Balance at January 1, 2016	0.00
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Cash Balance at March 31, 2016	0.00
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Martin, Lucas & Seagram Ltd.

EXTERNAL INDIVIDUAL CREDIT RATING REPORT - MARCH 31, 2016

CLLAS - LONG TERM INVESTMENT FUND

Quantity	Security		Rating	Unit Cost	Total Cost	Price	Market Value	Pct. Assets
GOVERNMENT BONDS								
300,000	Canada Housing Trust 1.85% Series 43	due December 15, 2016	AAA	101.30	303,900	100.87	302,622	6.3
250,000	Canada Housing Trust 1.75%	due June 15, 2018	AAA	100.11	250,275	102.09	255,235	5.3
250,000	Canada Housing Trust 1.95%	due June 15, 2019	AAA	100.10	250,238	103.25	258,115	5.4
200,000	Canada Housing Trust 2.4% Series 48	due December 15, 2022	AAA	100.37	200,740	106.21	212,420	4.4
200,000	Canada Housing Trust 2.35%	due September 15, 2023	AAA	105.62	211,240	105.73	211,458	4.4
					1,216,393		1,239,850	25.8
PROVINCIAL BONDS								
300,000	Alberta 1.85%	due September 1, 2016	AAA	101.35	304,050	100.48	301,443	6.3
330,000	Ontario 1.90%	due September 8, 2017	AA (low)	100.18	330,594	101.55	335,112	7.0
350,000	Ontario 2.1%	due September 8, 2018	AA (low)	99.57	348,495	102.69	359,398	7.5
250,000	British Columbia 3.25%	due December 18, 2021	AA (high)	102.30	255,750	109.82	274,553	5.7
250,000	Ontario 3.15%	due June 2, 2022	AA (low)	99.04	247,600	108.80	272,003	5.7
250,000	Ontario 2.60%	due June 2, 2025	AA (low)	100.15	250,375	103.47	258,680	5.4
					1,736,864		1,801,187	37.5
CORPORATE BONDS								
200,000	Bank of Nova Scotia Dep. Note 2.1%	due November 8, 2016	AA	100.32	200,640	100.66	201,318	4.2
200,000	Toronto Dominion Bank Dep. Note 2.433%	due August 15, 2017	AA	100.73	201,460	101.55	203,098	4.2
200,000	Royal Bank Dep. Note 2.26%	due March 12, 2018	AA	99.28	198,560	101.65	203,304	4.2
200,000	Wells Fargo Canada 2.944%	due July 25, 2019	AA	100.02	200,040	104.14	208,286	4.3
300,000	Bank of Montreal 2.84%	due June 4, 2020	AA	101.77	305,307	104.71	314,127	6.5
250,000	Toronto Dominion Bank Dep. Note 2.563%	due June 24, 2020	AA	104.57	261,425	103.48	258,688	5.4
200,000	Bank of Montreal 3.4%	due April 23, 2021	AA	100.65	201,300	107.37	214,742	4.5
150,000	Wells Fargo 3.46%	due January 24, 2023	AA	102.36	153,542	107.16	160,734	3.3
					1,722,274		1,764,297	36.7
TOTAL PORTFOLIO					4,675,530		4,805,334	100

Martin, Lucas & Seagram Ltd.

CLLAS - LONG TERM INVESTMENT FUND

From 12-31-15 to 03-31-16

Security	12-31-15 Market Value	Additions Withdrawals	03-31-16 Market Value	03-31-16 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
GOVERNMENT BONDS								
Canada Housing Trust 1.85% Series 43 due December 15, 2016	303,534	0	302,622	303,900	0	0	-1,278	-912
Canada Housing Trust 1.75% due June 15, 2018	255,788	0	255,235	250,275	0	0	4,960	-553
Canada Housing Trust 1.95% due June 15, 2019	258,175	0	258,115	250,238	0	0	7,878	-60
Canada Housing Trust 2.4% Series 48 due December 15, 2022	210,182	0	212,420	200,740	0	0	11,680	2,238
Canada Housing Trust 2.35% due September 15, 2023	208,668	-2,350	211,458	211,240	0	0	218	2,790
GOVERNMENT BONDS Total	1,236,347		1,239,850	1,216,393	0	0	23,458	3,504
PROVINCIAL BONDS								
Alberta 1.85% due September 1, 2016	302,451	-2,775	301,443	304,050	0	0	-2,607	-1,008
Ontario 1.90% due September 8, 2017	336,263	-3,135	335,112	330,594	0	0	4,518	-1,152
Ontario 2.1% due September 8, 2018	360,532	-3,675	359,398	348,495	0	0	10,903	-1,134
British Columbia 3.25% due December 18, 2021	273,540	0	274,553	255,750	0	0	18,803	1,013
Ontario 3.15% due June 2, 2022	270,308	0	272,003	247,600	0	0	24,403	1,695
Ontario 2.60% due June 2, 2025	255,390	0	258,680	250,375	0	0	8,305	3,290
PROVINCIAL BONDS Total	1,798,483		1,801,187	1,736,864	0	0	64,323	2,704
CORPORATE BONDS								
Bank of Nova Scotia Dep. Note 2.1% due November 8, 2016	201,712	0	201,318	200,640	0	0	678	-394
Toronto Dominion Bank Dep. Note 2.433% due August 15, 2017	203,736	-2,433	203,098	201,460	0	0	1,638	-638
Royal Bank Dep. Note 2.26% due March 12, 2018	203,564	-2,260	203,304	198,560	0	0	4,744	-260
Wells Fargo Canada 2.944% due July 25, 2019	208,032	-2,944	208,286	200,040	0	0	8,246	254
Bank of Montreal 2.84% due June 4, 2020	312,333	0	314,127	305,307	0	0	8,820	1,794
Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	257,353	0	258,688	261,425	0	0	-2,738	1,335
Bank of Montreal 3.4% due April 23, 2021	212,990	0	214,742	201,300	0	0	13,442	1,752
Wells Fargo 3.46% due January 24, 2023	158,543	-2,595	160,734	153,542	0	0	7,193	2,192
CORPORATE BONDS Total	1,758,262		1,764,297	1,722,274	0	0	42,023	6,035
TOTAL PORTFOLIO	4,793,092		4,805,334	4,675,530	0	0	129,804	12,242
TOTAL DATE TO DATE GAIN OR LOSS % CHANGE DURING PERIOD								12,242 0.26