

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

Minutes of the Meeting of the Advisory Board

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

Tuesday, December 11, 2012

Present:

Nicholas Leblovic (Chairman)	Davies Ward Phillips & Vineberg LLP
Natasha MacParland	Davies Ward Phillips & Vineberg LLP
Barry Bresner	Borden Ladner Gervais LLP
Gordon Goodman	Cassels Brock & Blackwell LLP
John Esvelt	Fraser Milner Casgrain LLP
Donald Milner	Fasken Martineau DuMoulin LLP
Eugene Cipparone	Goodmans LLP
Caroline Zayid	McCarthy Tetrault LLP
Carol Lyons	McMillan LLP
David Morritt	Oslers LLP
Julia Holland	Torys LLP
Michael Swartz	WeirFoulds
Patrick Mahoney	Office of the General Manager
Norma Ibbetson	Office of the General Manager

1. Constitution of Meeting

The Chairman brought the meeting to order.

2. Appointment of Secretary

Norma Ibbetson acted as Secretary.

3. Approval of Minutes of the September 11, 2012 Meeting of the Advisory Board

It was moved by Gordon Goodman and seconded by Donald Milner that the minutes of the September 11, 2012 meeting of the Advisory Board be approved. The motion was carried unanimously.

Approval of Minutes of the December 3, 2012 Meeting of the Advisory Board

It was moved by Gordon Goodman and seconded by John Esvelt that the minutes of the December 3, 2012 meeting of the Advisory Board be approved. The motion was carried unanimously.

4. Comments of the Chair

E-learning Roll-out

At this time not all the firms have rolled out the program. It was acknowledged that Bluedrop was backed up in tailoring the program to make it firm-specific but the Chair asked to be informed if there are specific reasons that firms have not implemented the program. He also reminded the Board that firms can deal directly with John Walker to facilitate implementation.

The Chair provided an update on the possible commercialization of the program. It was clear that it would not be appropriate for CLLAS itself to license the program and collect fees as a not-for-profit entity. The decision was made not to invest further energy at this time in considering the licensing of the e-learning program. This issue can be re-examined at the time when the system is updated. One possibility would be to allow Bluedrop to license it to non-CLLAS firms and while CLLAS firms have access to the program and upgrades for free. The Chair also tying access to the program to membership in CLLAS might help in any recruitment efforts undertaken by CLLAS.

The Chair will give further consideration to forming ad-hoc committee to deal specifically with the e-learning program.

New Membership

The Chair has connected with various firms to discuss the benefits of joining CLLAS. The discussions were in the very early stages and may not lead to anything for some time, but the Board agreed that it was appropriate to begin to have these discussions.

5. Report of the General Manager's Office

Management Report at September 30, 2012

Mr. Mahoney reviewed the financial statements with the Board.

Mr. Mahoney reported that CLLAS' balance sheet reflects the impact of the Loss Portfolio Transfer ("LPT") implemented effective June 30, 2012. This increases the provision for claims recoverable from the reinsurers so that \$65 million of the \$70 million gross claims provision is now shown as a recoverable. He said that at the date of the financial statements (i.e. September 30, 2012) the premium for the LPT had not been paid because the reinsurance security arrangement had not been finalized but that this has now happened and the funds have been transferred. He said the the impact of the LPT is shown on the Income Statement by the dramatic increase in written premiums and the fact that there were significant reductions in CLLAS' case reserves and IBNR.

Mr. Mahoney referred to the December 7, 2012 memo addressing CLLAS' surplus. He said that surplus declined from \$21.5 million at June 30, 2011 to \$9.8 million at June 30, 2012, primarily as a result of the LPT. However the corresponding reduction in liabilities meant that the Minimum Capital Test ratio for CLLAS (the regulatory solvency test imposed on incorporated insurers) actually increases slightly, to 259% from 251% a year earlier. He said that the risk retained by CLLAS is much less volatile than before but that the actuary recommended closing the current year end to see how the regulators would view the filings before making any explicit decisions with respect to surplus. The Board that surplus be considered at the June 2013 meeting, as part of finalizing the rates and reinsurance terms for the 2013/14 policy year.

Mr. Mahoney provided an update on the Quebec licensing issue. He said that the regulator had confirmed that as CLLAS currently does business, it is not required to be licensed in Quebec. The regulator has confirmed in writing that CLLAS does not have to pay premium tax on premiums attributable to lawyers in Quebec.

6. Report of the Claims Committee

Barry Bresner reported to the Board. Things remain relatively quiet on the claims front but the Committee is keeping close watch on a small number of serious and complicated claims. CLLAS is defending some class actions, and these always attract the attention of reinsurers. There will be some reserve strengthening prior to year-end. The quarterly teleconference calls to review specific large loss matters with reinsurers continue.

(The Board members returned the summary handout)

7. Report of the Risk Management Committee

Julie Holland reported to the Board.

Risk Management Seminar – The Committee continues to work on formulating a structure for the seminar including the timing and target audience. The plan is to cover off five or six “best practices” in two hours.

Re-audits – These are going slowly and the firms were requested to connect with John Walker with respect to scheduling.

8. Report of the Audit Committee

Gordon Goodman reported on behalf of the Committee. There has been no activity since the December 3, 2012 Board call.

9. Report of the Policy Committee

Donald Milner reported to the Board. There was discussion regarding non-lawyer consultants. The commercial excess policy does not include a definition of consultant, however the policy’s “employee” definition may capture the concept. Mr. Milner advised that this matter would likely be clarified in the July 1, 2013 as opposed to simply relying on the liberalization clause.

Discussion also took place regarding lateral hires. Coverage for work done prior to joining the CLLAS firm is not currently covered (as it is in the case of firm mergers) in part because the level of due diligence is different for lateral hires.

Donald Milner advised that he and the CLLAS Chair had recently been invited to attend an Intellectual Property meeting and that the P&T association promoted their insurance policy but it did not seem to add to what CLLAS already provides.

There was some discussion on what firms are doing with respect to the reporting requirement introduced with respect to the Terrorism/Sanctions List and whether provisions in CLLAS’ reinsurance contracts would lead to coverage restrictions. Further discussion on this issue is required.

10. Investment Report for Quarter Ending September 30, 2012

This was an information item. No changes are proposed for current Investment Guidelines but they will need revamping now that the Loss Portfolio Transfer has taken place. The General Manager's office will propose changes to the current investment policy, although it seems best that any formal changes should be integrated with the new surplus policy to be considered at the June 2013 meeting.

12. 2013 Meeting Dates

February 26, 2013
June 25, 2013
September 10, 2013
December 10, 2013

13. Annual Dinner

The date will be Friday, April 12, 2013 and the location will be the Toronto Club.

14. Other Business

(Mr. Leblovic left the meeting)

The Chairman's term comes to an end at December 31, 2013 and it is important to ensure that CLLAS has stability and continuity in the role, so Mr. Leblovic left the meeting and the Board discussed options for the next term.

It was moved by Gordon Goodman and seconded by Donald Milner that Nick Leblovic be asked to stay on as Chairman for a further term to expire December 31, 2016, with the caveat that if he wishes, he can provide notice to transition out of the role prior to that date. The motion was carried unanimously.

There being no other business, the meeting was adjourned.

Chairman

Secretary

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

FINANCIAL MANAGEMENT REPORT

For the Period Ending December 31, 2012

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

FINANCIAL MANAGEMENT REPORT

December 31, 2012

CONTENTS

Exhibit I	Statement of Financial Position
Exhibit II	Statement of Comprehensive Income
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Exhibit IV	Operating Budget Variance Analysis

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF FINANCIAL POSITION
December 31, 2012

	As at December 31, 2012	As at December 31, 2011
ASSETS		
Cash	1,680,722	4,538,284
Short term investments	13,253,831	12,216,563
Bonds	0	44,248,315
Interest income due and accrued	0	308,227
Premium receivable	6,359,506	5,003,937
Other receivable	0	1,733,852
Prepaid expenses	136,500	136,500
Deferred policy acquisition costs	147,759	0
Unearned reinsurance premium ceded	5,398,507	5,920,338
Reinsurance recoverable	1,869,508	5,739,425
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	68,609,000	34,431,000
	<u>97,455,332</u>	<u>114,276,441</u>
LIABILITIES		
Accounts payable & accrued charges	459,268	515,807
Premium taxes payable	11,917	141,850
Unearned premium	7,055,890	8,456,905
Due to reinsurers	3,338,523	4,506,997
Provision for unpaid claims and adjustment expenses	74,790,000	79,943,000
Premium deficiency liability	0	586,000
	<u>85,655,598</u>	<u>94,150,559</u>
SUBSCRIBERS' EQUITY		
Surplus	11,809,747	17,823,450
Accumulated Other Comprehensive Income (Loss),	(10,012)	2,302,432
	<u>11,799,734</u>	<u>20,125,881</u>
	<u>97,455,332</u>	<u>114,276,441</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF COMPREHENSIVE INCOME
For the Period Ending December 31, 2012

	Current Year		Prior Year	
	Quarter December 31, 2012	Year to Date December 31, 2012	Quarter December 31, 2011	Year to Date December 31, 2011
Written Premium	0	14,228,728	0	17,006,743
Gross Written Premiums	0	14,228,728	0	17,006,743
Less: Reinsurance Ceded	0	55,146,493	0	11,905,735
Net Written Premiums	0	(40,917,765)	0	5,101,008
Change in Unearned Premiums	842,426	879,185	1,282,221	1,450,866
Earned Premiums	842,426	(40,038,580)	1,282,221	6,551,875
Claims Paid	0	6,294,394	7,836,541	8,297,638
Change in IBNR	831,000	(25,268,000)	(1,329,000)	425,000
Change in Case Reserve	0	(14,063,000)	(3,381,000)	706,000
Premium Deficiency Expense	0	(586,000)	586,000	38,000
Incurred Claims	831,000	(33,622,606)	3,712,541	9,466,638
Management and operating expenses	368,066	2,054,796	497,726	2,379,454
Reinsurance fees	68,250	273,000	68,250	273,000
Premium taxes	151,879	251,759	357,486	(117,787)
Total Operating Expenses	588,196	2,579,555	923,462	2,534,667
Underwriting Gain (Loss)	(576,769)	(8,995,529)	(3,353,782)	(5,449,431)
Investment Income	1,716,007	2,899,388	385,701	1,694,950
Income on Claim Related Matters	0	0	0	1,559,658
Interest Income on Premium Tax	0	82,438	0	0
NET GAIN/(LOSS)	<u>1,139,237</u>	<u>(6,013,703)</u>	<u>(2,968,082)</u>	<u>(2,194,823)</u>
Other comprehensive income (loss)				
Unrealized gains (losses) on available for sale financial assets arising during the year	(2,400,709)	(2,691,690)	46,657	1,104,379
Recognition of realized (gain) loss included in income	373,362	379,246	-	-
Other comprehensive income (loss) for the year	(2,027,347)	(2,312,444)	46,657	1,104,379
Total comprehensive income (loss)	<u>(888,109)</u>	<u>(8,326,147)</u>	<u>(2,921,425)</u>	<u>(1,090,444)</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF CHANGES IN EQUITY
December 31, 2012

	Minimum Surplus	Additional Surplus	Unrealized gains and losses on AFS financial assets	Total Equity
Balance, beginning of year	50,000	17,773,450	2,302,432	20,125,881
Prior year adjustment		-		-
Comprehensive income (loss) for the year				
Net gain (loss) for the year		(6,013,703)		(6,013,703)
Other comprehensive income (loss)				
Change in unrealized gain on available-for-sale assets			(2,691,690)	(2,691,690)
Recognition of realized (gain) loss on available-for-sale assets			379,246	379,246
Total comprehensive income (loss) for the year		(6,013,703)	(2,312,444)	(8,326,147)
Balance at December 31, 2012	50,000	11,759,747	(10,012)	11,799,734

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS
FOR THE PERIOD ENDED December 31, 2012

	Annual Budget	Year to Date Budget % Accrued to Date	Year to Date Budget \$	Year to Date Actual \$	Fav/(Unfav) Variance \$
MANAGEMENT SERVICES	588,000	100%	588,000	577,393	10,607
PROFESSIONAL SERVICES					
Actuarial Services	102,000	100%	102,000	90,928	11,072
Reinsurance Matters	375,000	100%	375,000	335,106	39,894
Strategic Matters	120,000	100%	120,000	17,639	102,361
Restructuring	225,000	100%	225,000	222,792	2,208
Sub-Total Professional Services	822,000		822,000	666,465	155,535
GST/HST on Consulting Fees	183,300		183,300	161,702	21,598
Total Management & Professional Services * (See Note 1)	1,593,300		1,593,300	1,405,560	187,740
OTHER EXPENSES					
Audit Expenses	84,000	100%	84,000	105,655	(21,655)
Annual Dinner	7,000	100%	7,000	6,714	287
Premium Taxes	545,000	100%	545,000	251,759	293,241
Premium Taxes: Interest	-		-	46,013	(46,013)
Chairman's Expenses	2,000	100%	2,000	507	1,493
Chairman's Honourarium	75,000	100%	75,000	75,000	-
Reinsurance Expense	10,000	100%	10,000	6,332	3,668
Office Expenses	25,000	100%	25,000	26,169	(1,169)
Office Expenses - Website management software license	1,000	100%	1,000	1,188	(188)
Claims: Borderaux (LPIC/LIF)	15,000	100%	15,000	15,740	(740)
Special Services	100,000	100%	100,000	90,910	9,090
Special Services - Restructuring	75,000	100%	75,000	34,591	40,409
Miller Insurance Fees (Reins. Comm.) (See Note 2)	300,000	100%	300,000	273,000	27,000
I.B.C Statistical Plan Fees	16,000	100%	16,000	15,719	281
Assessment Fees	10,000	100%	10,000	(312)	10,312
Investment counsel fees	167,000	100%	167,000	122,312	44,688
Investment - Custodial	47,000	100%	47,000	39,032	7,969
Risk Management/Loss Prevention	100,000	100%	100,000	59,355	40,645
License Fee	5,000	100%	5,000	4,314	686
Sub-total	1,584,000		1,584,000	1,173,995	410,005
TOTAL	3,177,300		3,177,300	2,579,555	597,745

*** NOTE 1: 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	26%
Second Quarter, ending June 30th	41%
Third Quarter, ending September 30th	16%
Fourth Quarter, ending December 31st	17%
	<u>100%</u>

*** NOTE 2: MILLER INSURANCE FEES (Reins. Comm.)**

The annual budget is based upon the annual fee estimated for the policy period 2011/2012.



Dion Durrell

Canadian Lawyers Liability Assurance Society

Report on the Valuation of Policyholder Liabilities as at December 31, 2012

February 20, 2013

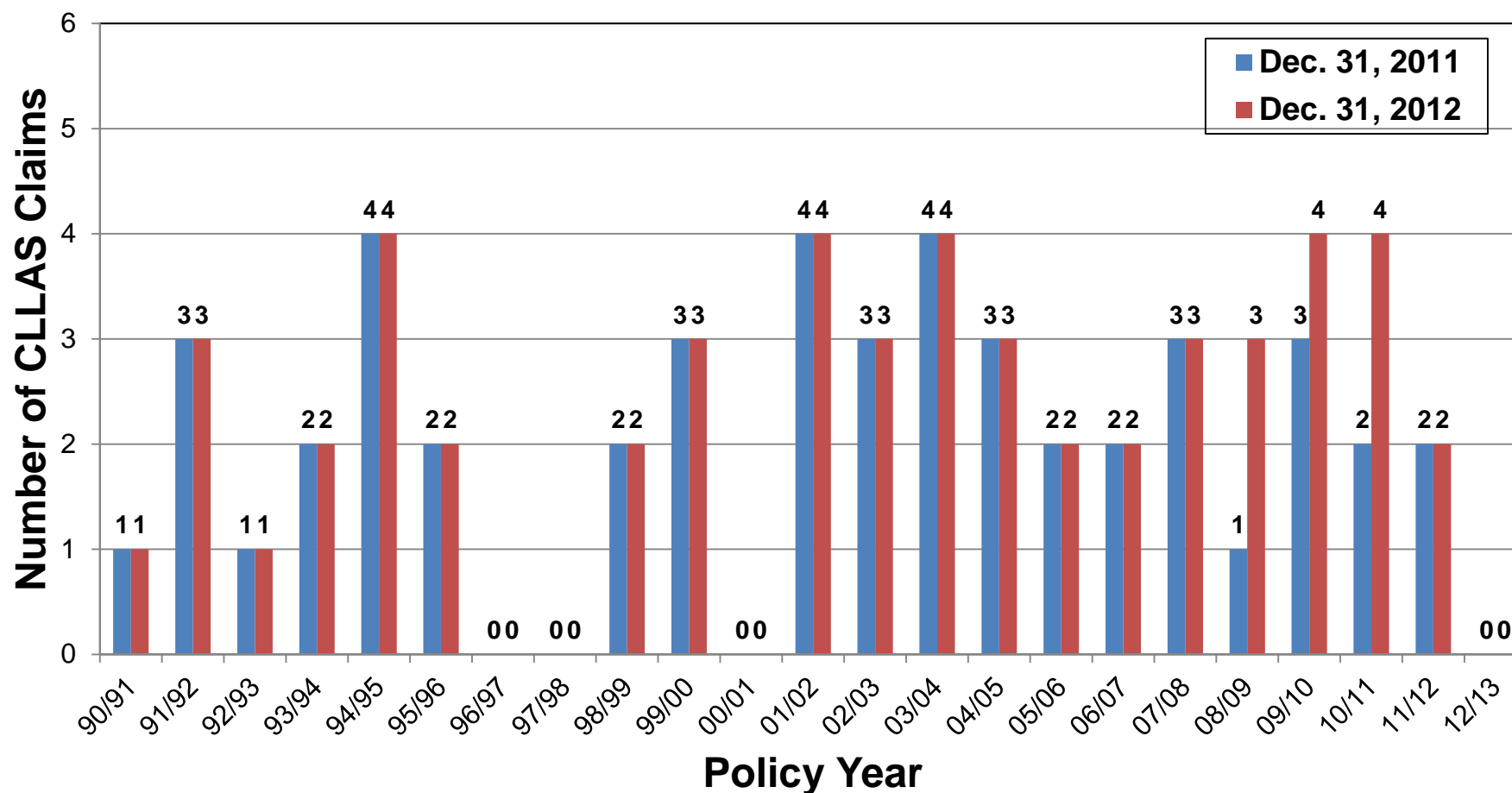
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Case Reserves versus Actuarial Reserves

- Case Reserves
 - Individual Estimates
 - Based on known facts at time reserves are established
- Actuarial Reserves
 - Aggregate Estimates
 - Recognize reserving/settlement patterns and project unknown events
- IBNR is difference between actuarial reserves and case reserves
- Can result from 2 sources:
 - Pure IBNR: Unknown Claims
 - Loss Development: Change in values of known claims

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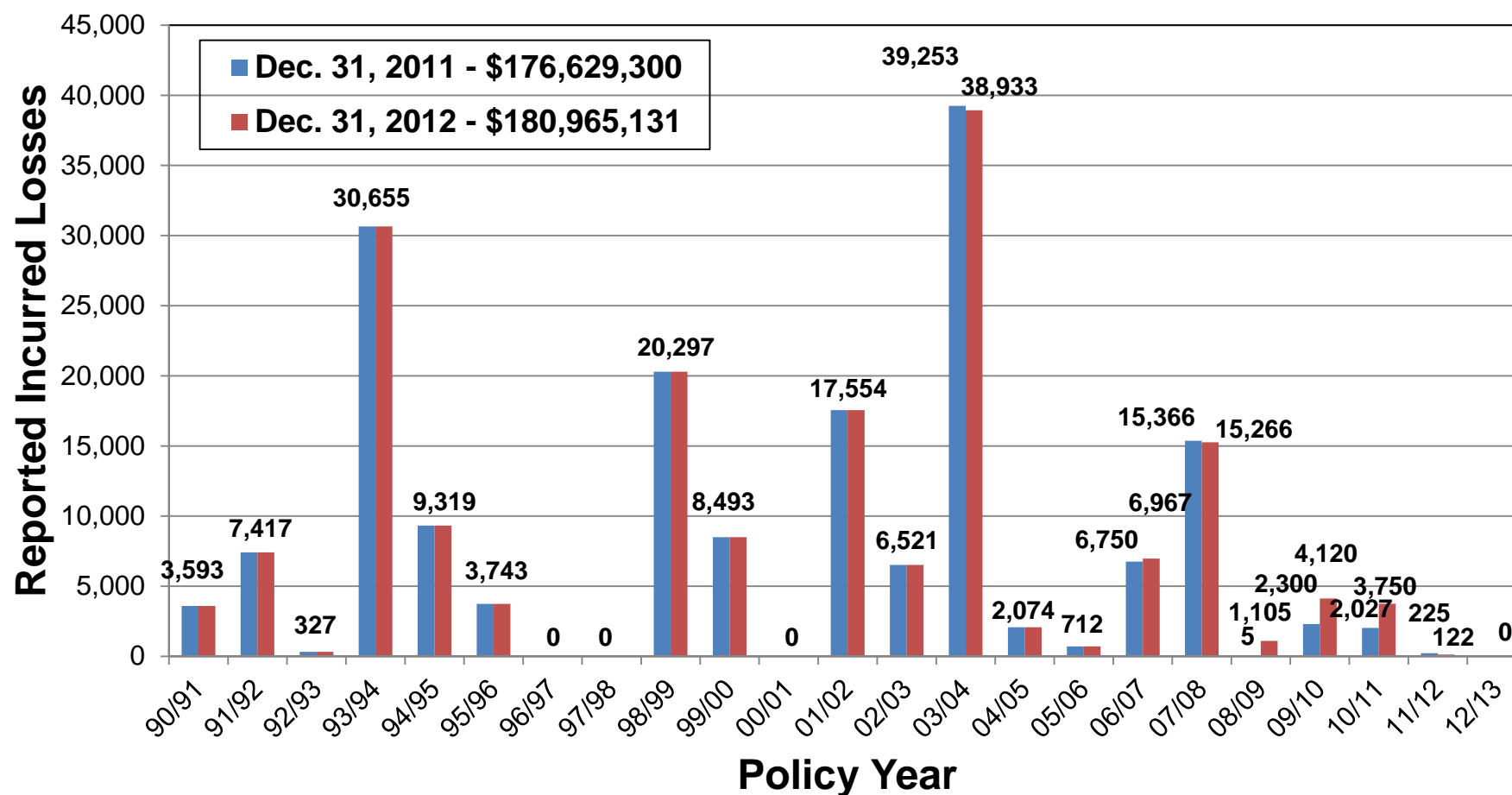
Reported Incurred Loss Activity – Counts *



* Includes non-zero claims only.

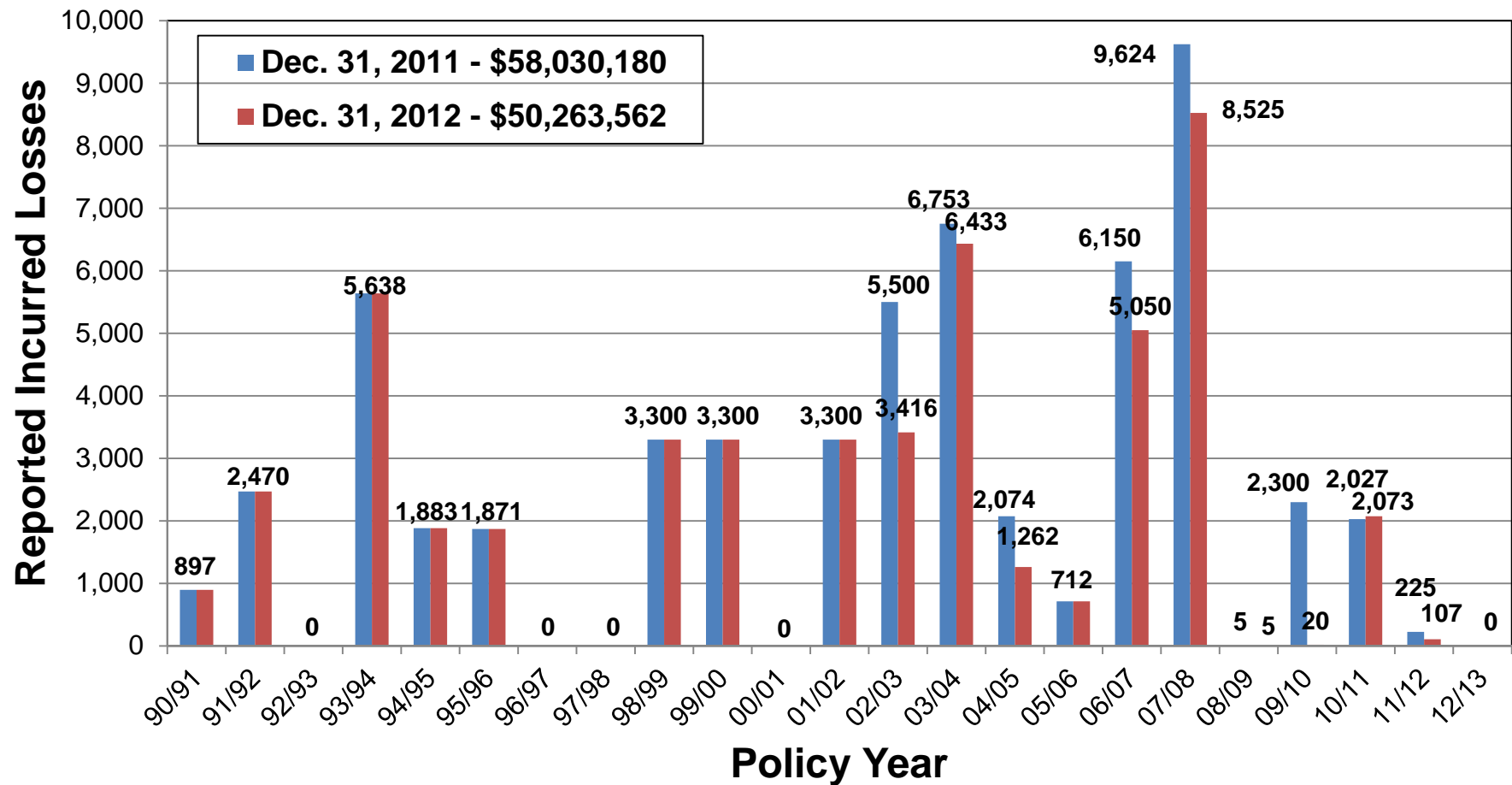
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Gross Reported Incurred Losses (in \$000s)



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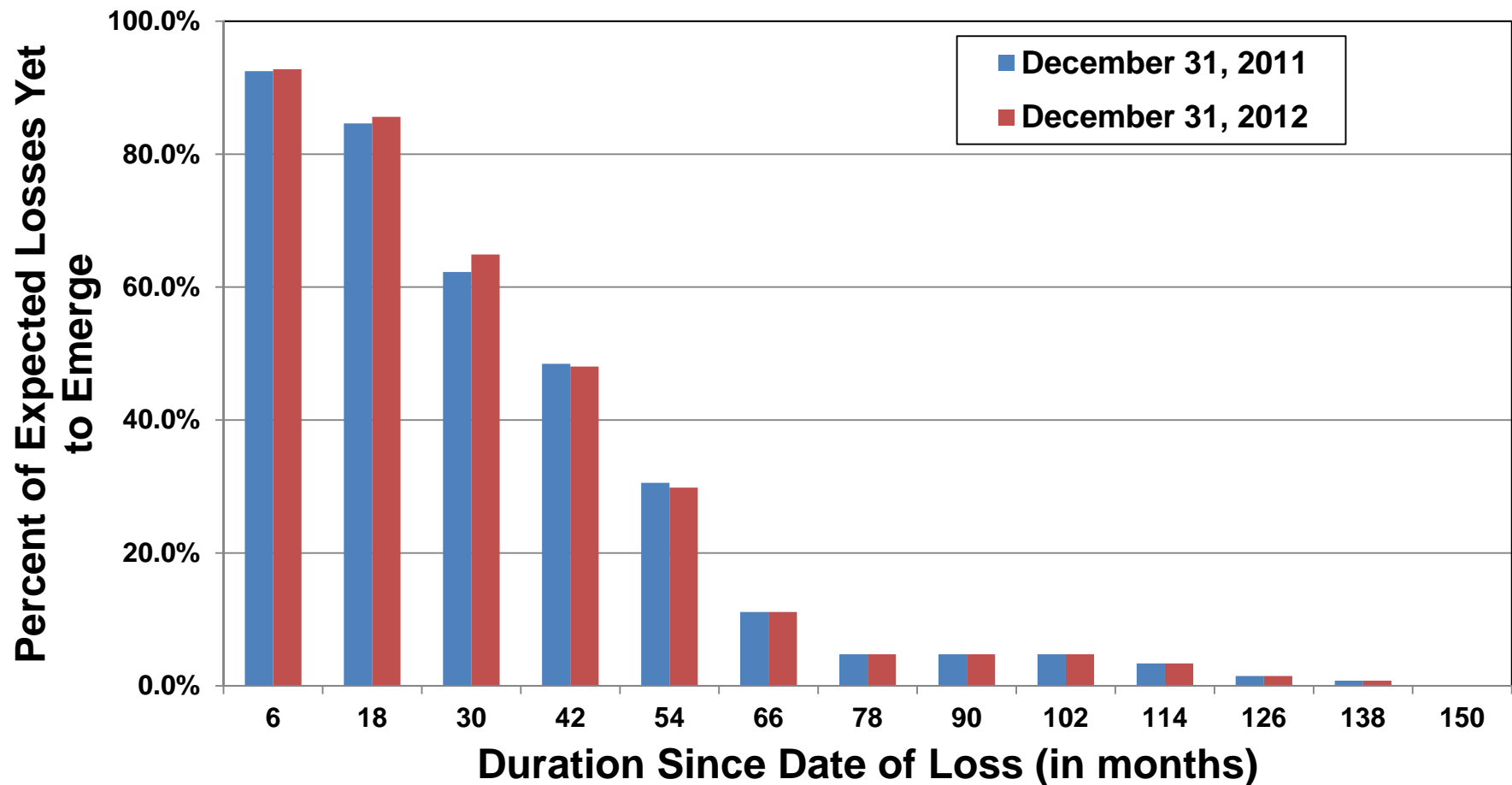
Net Reported Incurred Losses (in \$000s)



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Loss Development Factors

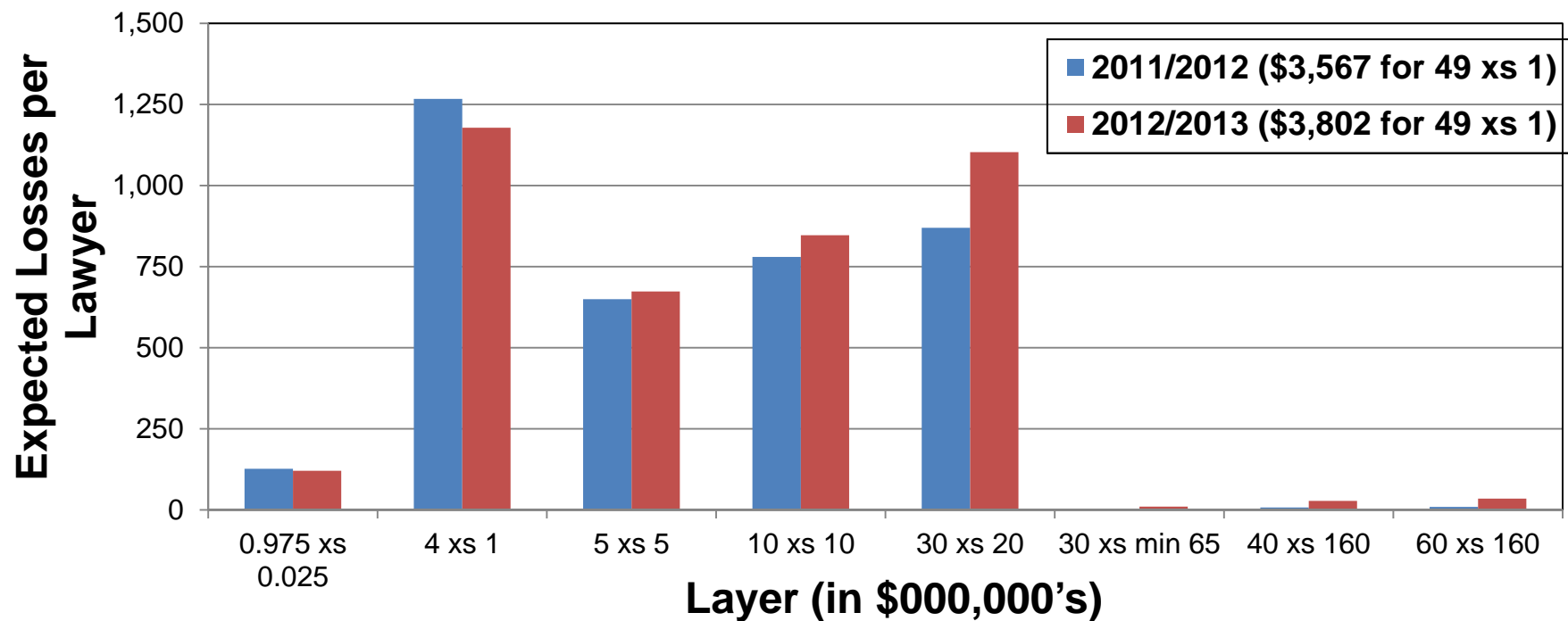
- Revision of Loss Development Factors for IBNR projection



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2012/2013 Expected Loss Costs

- Revision of expected loss costs for 2012/2013 reflects emerging expectations of expected losses in each layer.
- The \$49 xs \$1 layer is broken down into smaller layers for valuation purposes: \$4 xs \$1, \$5 xs \$5, \$10 xs \$10 and \$30 xs \$20.



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Arrangement between CLLAS and Colchester for 2012/2013

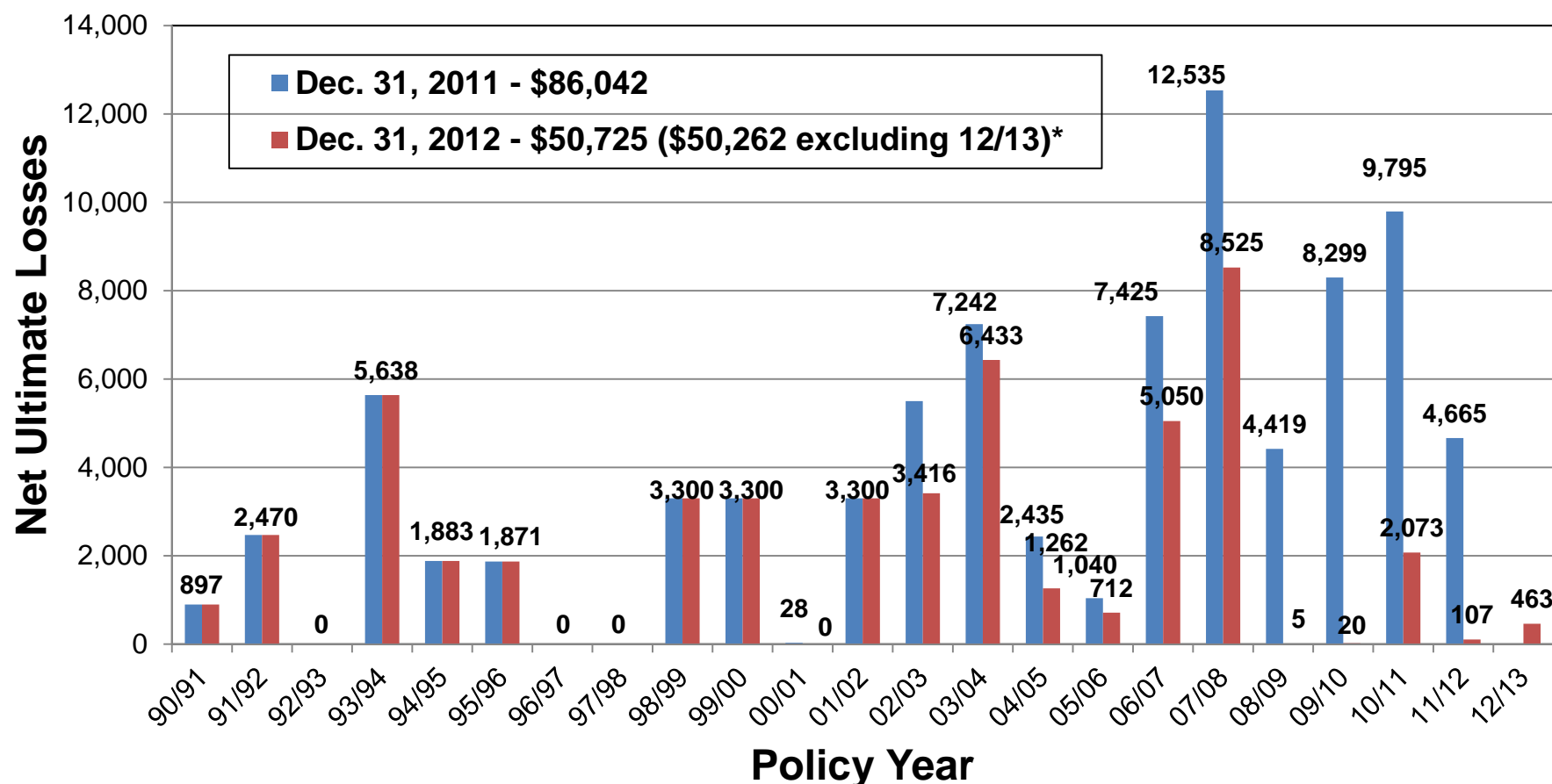
- Colchester retains 35% of the layer \$49 million excess of \$1 million.
- The per claim retention for CLLAS subject to the aggregate limit includes:
 - 100% of the layer \$975,000 excess of \$25,000
 - 0% of the layer \$49,000,000 excess of \$1,000,000
- Colchester provides aggregate reinsurance coverage of \$10,000,000 in excess of a \$5,000,000 limit.

Loss Portfolio Transfer to Colchester on June 30, 2012

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

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Net Ultimate Losses (in \$000s)



* Note that favorable development of \$31,898,000 is attributable to the Loss Portfolio Transfer with Colchester.

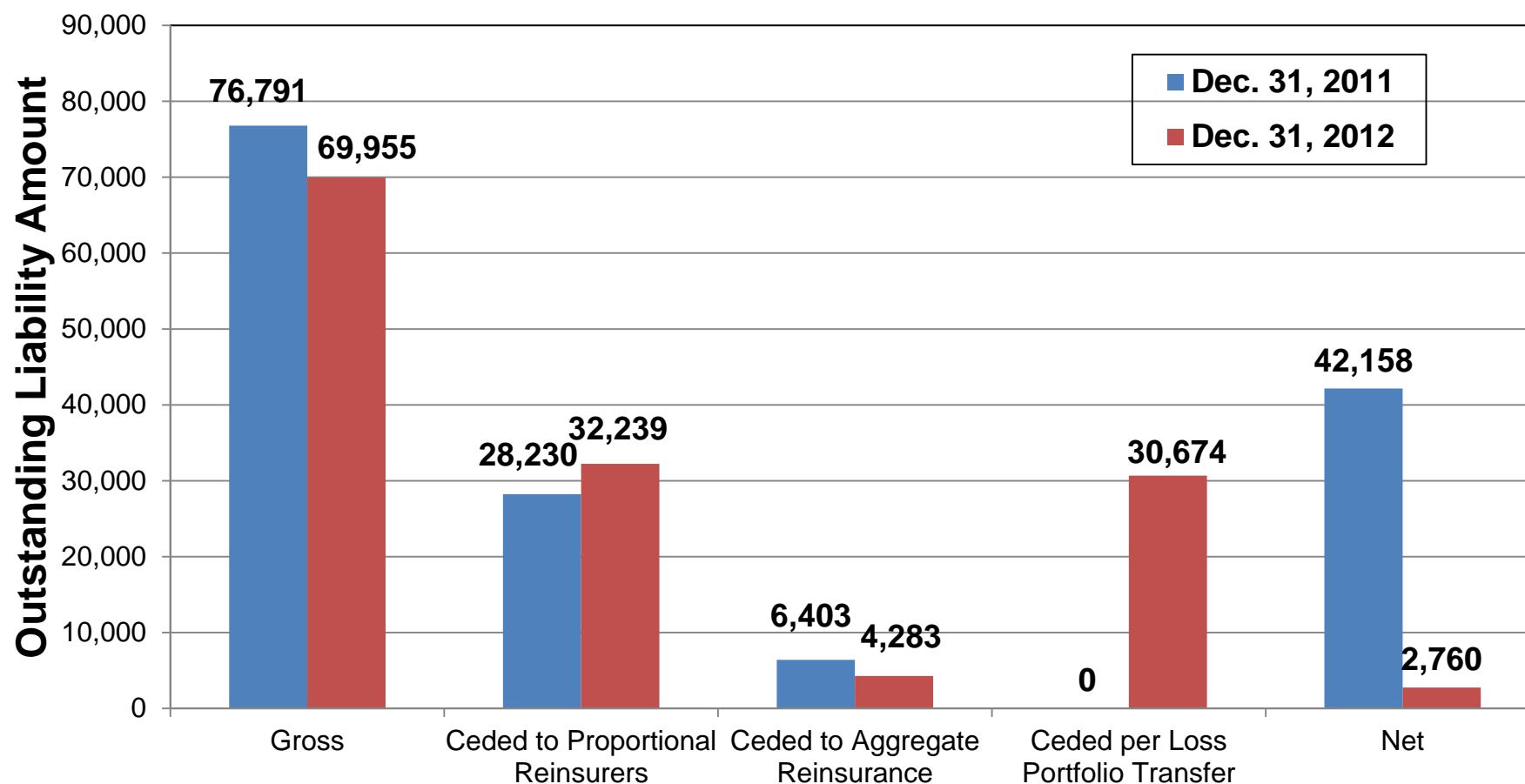
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Unallocated Loss Adjustment Expenses (“ULAE”)

- Represents the provision for the claims management function to service existing obligations if CLLAS were to cease writing business on December 31, 2012
- Loading of 3.75% applied to gross case reserves and gross IBNR (versus 3.25% used in December 31, 2011 valuation)

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Breakdown of Outstanding Claims Liabilities*



* On an undiscounted basis.

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Impact of Changes in Assumptions

- The impact of the change in loss development factors and ULAE load represents an increase of \$352,000 in the net undiscounted liabilities

Discount Rate

- The discount rate is used for the discounting of future claims payments and related PfAD margin
- A discount rate of 0.85% (1.85% in 2011) was selected based on the market yield of CLLAS' fixed income portfolio as at December 31, 2012 since CLLAS has classified its fixed income portfolio as available-for-sale per IAS 39
- The PfAD margin on interest rate was reduced to 0.25% (0.75% in 2011)
- The impact of the change in discounting assumptions rate is an increase of \$188,000 in the December 31, 2012 net claims liabilities (discounted + PfAD)

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Valuation Basis

- Statutory Purposes and Professional Requirements:

Discounted Liabilities

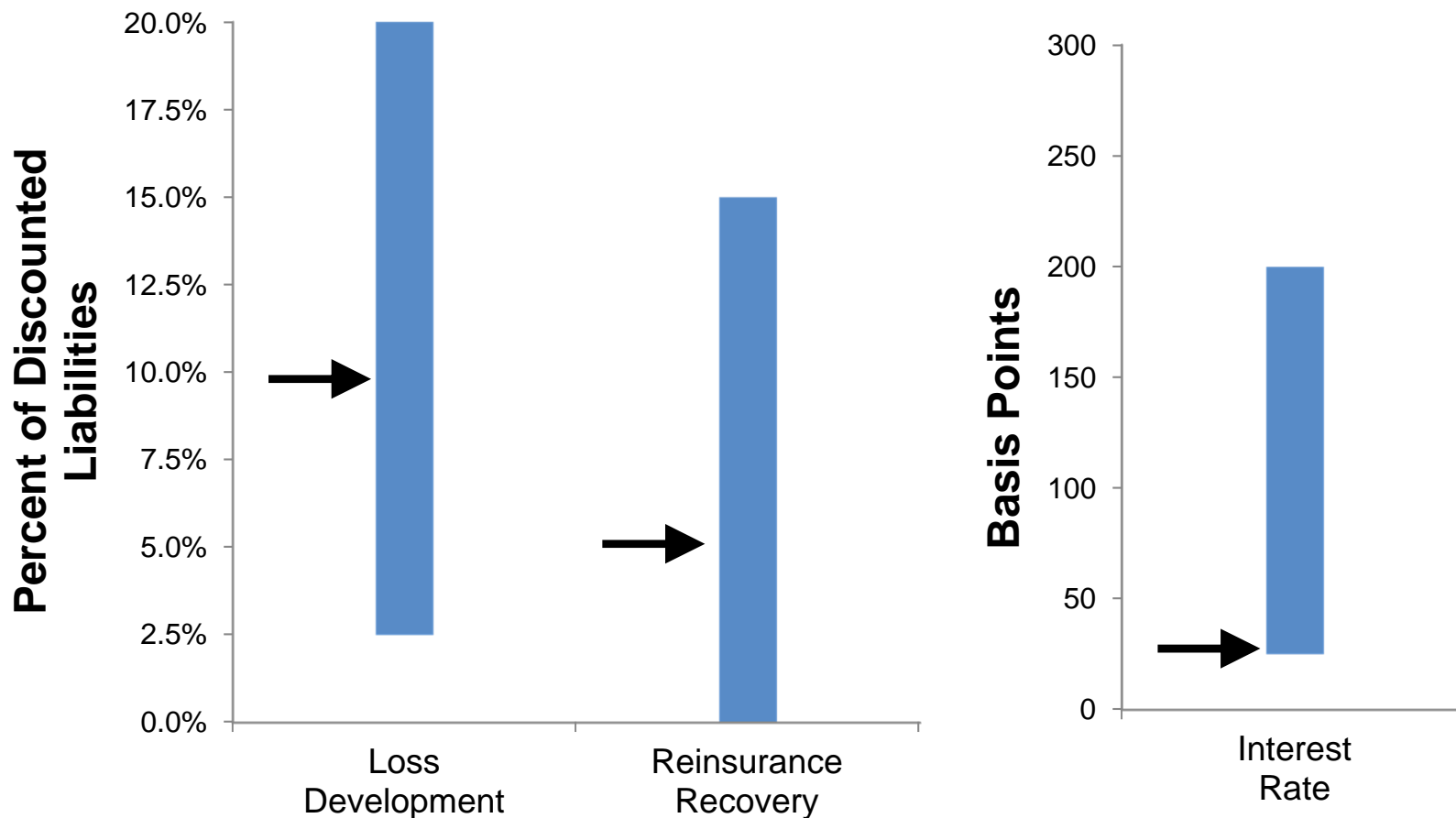
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Provision for Adverse Deviation (PfAD)

- PfAD reflects three variables:
 - Claims Development: Claims experience worse than expected
 - Reinsurance Recoveries: Reinsurers default on their obligations
 - Interest Rate: Investment yield below expectation

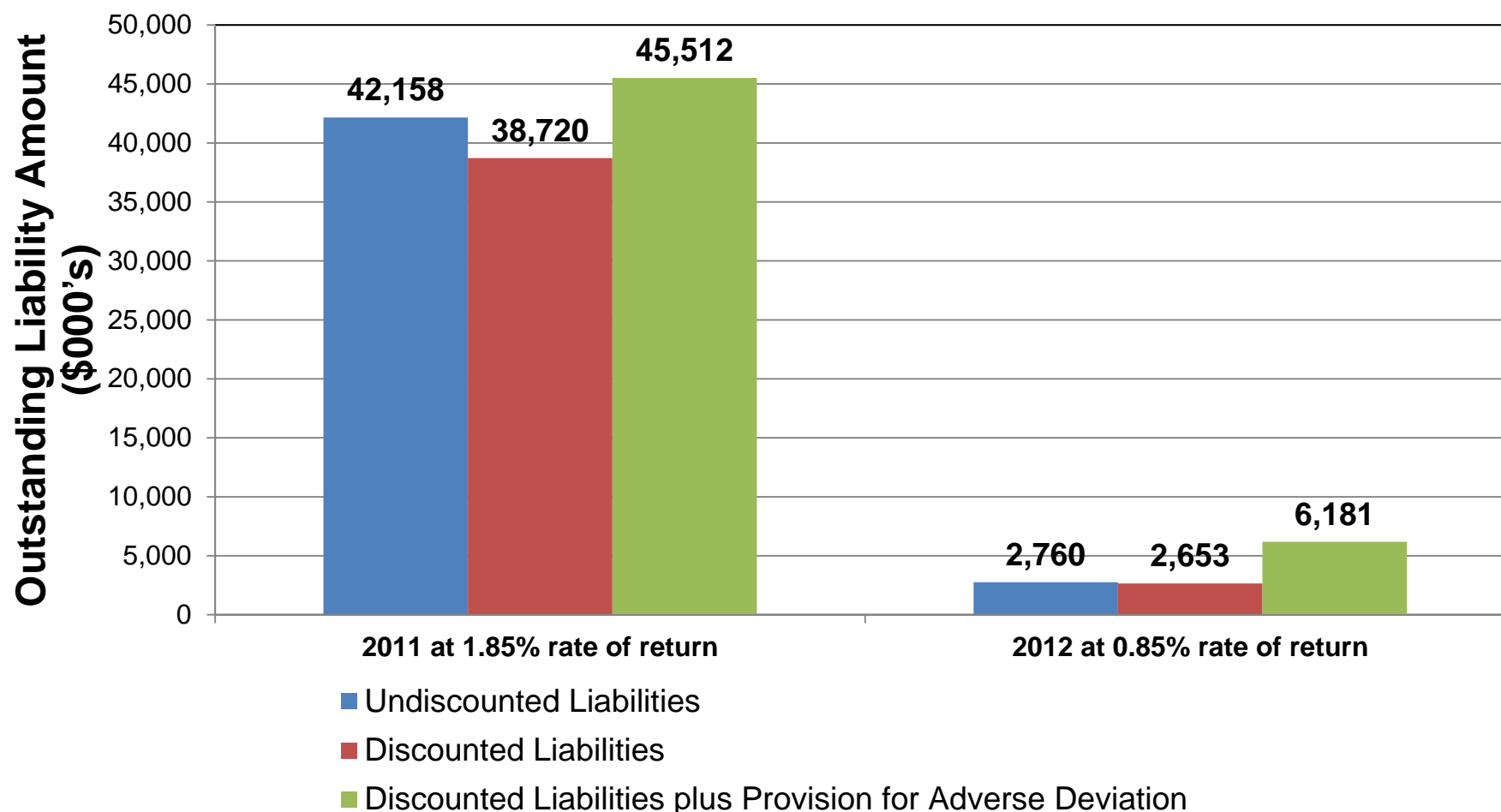
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Valuation of Claims Liabilities, Margins for Adverse Deviation



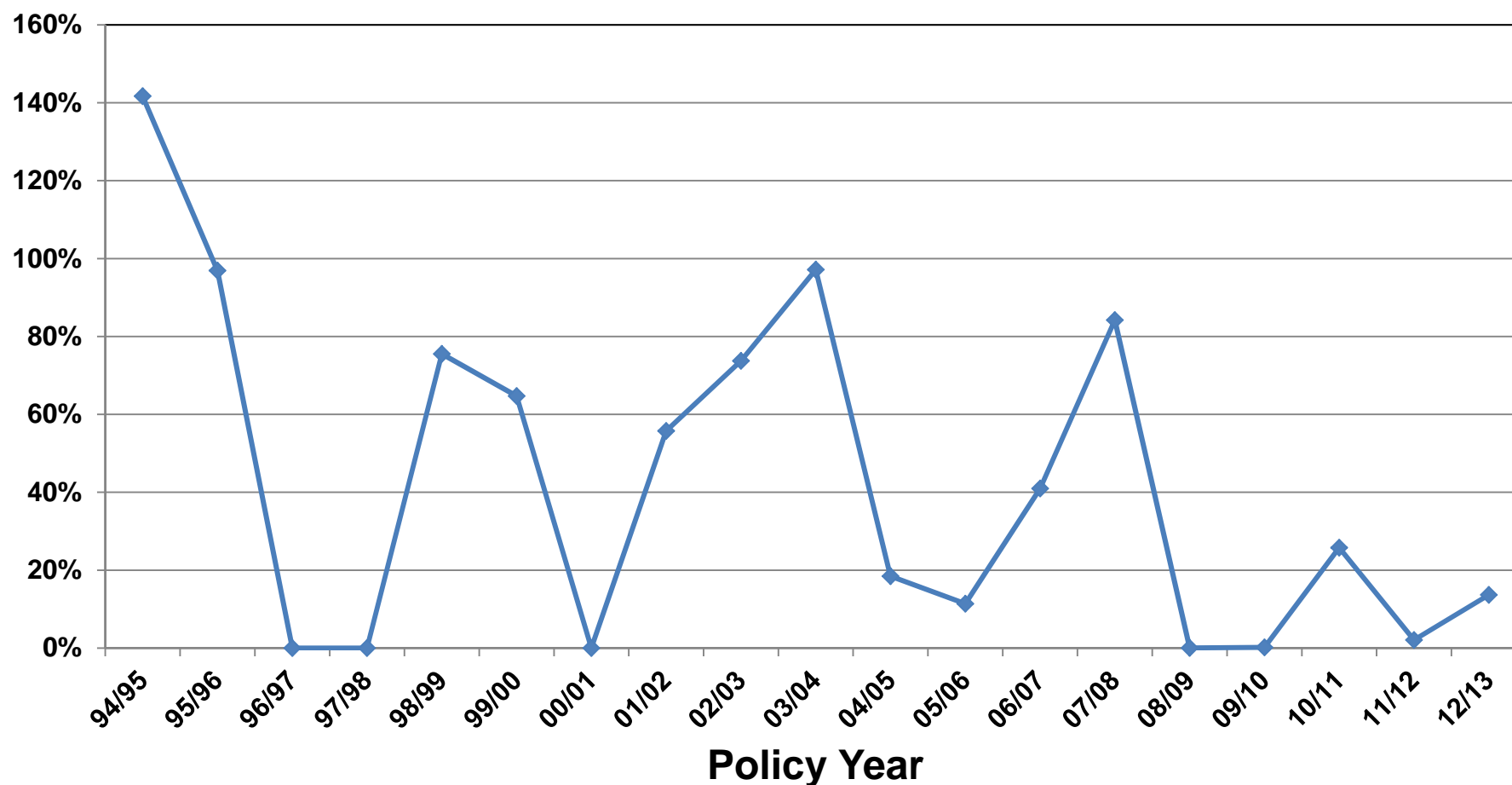
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Impact of Provision for Adverse Deviation on Net Outstanding Liabilities



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Net Ultimate Loss Ratio By Policy Year



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Premium Liabilities

- There is no premium deficiency at December 31, 2012
- This means that the premiums yet to be earned are expected to sustain the expected expenses associated with earning them
- A deficiency is generated if:
 - Net Unearned Premiums
 - Net Liabilities in connection with Unearned Premiums
 - The company's stated Deferred Policy Acquisition Expenses
 - = Less than zero
- CLLAS' deferred policy acquisition expense asset is \$148,000 at December 31, 2012

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY (CLLAS)

REPORT ON THE VALUATION OF POLICYHOLDER LIABILITIES

As at December 31, 2012

Prepared by Julie-Linda Laforce, FCIA, FCAS

Draft Report – February 8, 2013

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PART 1 - INTRODUCTION AND SCOPE

INTRODUCTION

Company:	Canadian Lawyers Liability Assurance Society (CLLAS)
Date of Valuation:	December 31, 2012
Purpose:	Actuarial opinion and valuation report as required under section 407 of the Alberta Insurance Act.
Author:	Ms. Julie-Linda Laforce, F.C.I.A , F.C.A.S. Dion, Durrell + Associates Inc. 630 Rene-Levesque Blvd. West, suite 2940 Montréal, QC, H3B 1S6 (514) 673-4708
Authority:	Actuary to the Canadian Lawyers Liability Assurance Society.
Distribution:	<p>This report is strictly for the use of CLLAS, its external auditors, its advisors and the regulatory authorities in the context of their work in connection with the financial statements and Annual Return. Any other use or disclosure should be discussed first with Dion, Durrell + Associates Inc. If our report is distributed further, the report must be distributed in its entirety. All recipients of this report should be aware that the person signing it is available to answer questions about it.</p> <p>This report was prepared and filed with the regulatory authorities in accordance with the relevant legislation and accepted actuarial practice based on the appropriate Standards of Practice of the Canadian Actuarial Standards Board.</p>

SCOPE

Actuarial valuation of all policyholder liabilities, including:

- (1) Claims liabilities,
- (2) Liabilities in connection with unearned premium, and
- (3) Other policyholder liabilities.

No actuarial liabilities have been excluded from this report.

No other report will be issued to the subscribers of CLLAS.

OPERATIONS

General

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

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

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

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

CLLAS HISTORICAL COVERAGE SUMMARY	
Coverage Period	Coverage Provided (in million \$)
July 1, 2003 to June 30, 2004 to July 1, 2005 to June 30, 2006 ***	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$140.0 (optional layer)
July 1, 2006 to June 30, 2007 to July 1, 2007 to June 30, 2008 ***	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$140.0 (optional layer 1) \$20.0 excess of \$160.0 (optional layer 2)
July 1, 2008 to June 30, 2009 to July 1, 2009 to June 30, 2010 ***	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$140.0 (optional layer 1) \$10.0/20.0/30.0 excess of \$160.0 (optional layer 2)
July 1, 2010 to June 30, 2011 ***	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$140.0 (optional layer 1) \$20.0/30.0/40.0 excess of \$160.0 (optional layer 2)
July 1, 2011 to June 30, 2012 to July 1, 2012 to June 30, 2013 ****	\$49.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$65.0 \$10.0/20.0/30.0/40.0/50.0/60.0 excess of \$160.0 (optional layer)

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

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

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

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

The policy limits presented above are also firm aggregate limits. As of July 1, 2002 the firm aggregate limit on the first \$5 million of coverage, inclusive of underlying, was set at \$25 million. This was reduced as of July 1, 2007 to \$12 million and further reduced to \$5 million as of July 1, 2008. Starting on July 1, 2011 there is no longer a firm aggregate specific to the first \$5 million.

The umbrella layer of coverage (\$30 million excess of a minimum of \$65 million) is subject to an annual aggregate of \$60 million for all law firms combined. Coverage between the basic coverages described above (\$49 million excess of \$1 million) and the minimum attachment point of \$65 million of the umbrella layer is not provided by CLLAS, but left to individual subscribers to arrange. As of July 1, 2008, CLLAS began offering an option of \$10 million excess of \$160 million, \$20 million excess of \$160 million or \$30 million excess of \$160 million in optional layer 2. As of July 1, 2010, CLLAS began offering an option of \$20 million excess of \$160 million, \$30 million excess of \$160 million or \$40 million excess of \$160 million in optional layer 2. As of July 1, 2011, CLLAS has replaced its two optional layers with a single layer excess of \$160 million (increased from previous years' \$140 million attachment point) with options ranging from \$10 million to \$60 million in \$10 million increments.

Reinsurance

The coverage provided by CLLAS is divided into layers with varying amounts of proportional reinsurance purchased in each layer. The size and the number of layers have varied over time. Effective July 1, 2002, CLLAS retains 100% of its losses in the layer \$4 million excess of \$1 million. In previous policy years the retained portion has been 50% in said layer. Effective July 1, 2011,

CLLAS retains 25% of its losses in the layer \$49 million excess of \$1 million. Effective July 1, 2012, CLLAS retains 0% of this layer.

In addition, beginning July 1, 1989 reinsurance on the aggregate retention of CLLAS, after reflection of the proportional reinsurance, has been purchased from Colchester Reinsurance Limited (“Colchester”). Colchester is an unlicensed reinsurer which is domiciled in Barbados. Effective July 1, 2011, Colchester assumes 25% of the layer \$49 million excess of \$1 million in addition to its aggregate retention. Effective July 1, 2012, the layer \$49 million excess \$1 million is reinsured at 100%. Colchester assumes 35% of this layer in addition to its aggregate retention.

The current and historical reinsurance arrangements are summarized in Schedule 1.

As of June 30, 2012, Colchester purchased CLLAS’ loss portfolio of net outstanding claims obligations on policies written between July 1, 1987 and June 30, 2012. CLLAS’ remaining net claims liabilities attributable to the business written prior to June 30, 2012 are provisions for unallocated loss adjustment expenses.

Membership/Management Changes

The number of insured lawyers has increased from approximately 1,450 to 4,305 (including 48 patent and trademark agents) from 1987 to 2012. There has been a decrease in the number of lawyers insured by CLLAS since last year due to the withdrawal at June 30, 2012 of one firm, Blake, Cassels & Graydon LLP. Included in the 4,305 lawyers are 166 lawyers practicing in the US or the UK which are covered by the optional layers and the shared umbrella layer. CLLAS has been managed by The Wyatt Company from its inception in 1987 up until late 1995, and by Dion, Durrell + Associates Inc. thereafter.

To the best of my knowledge, there have not been any major changes in management policies and philosophy in recent years. There have been no management changes in 2012. A chartered accountant who provided high level support on the financial services side left in May 2012; there are no plans to replace him. In addition, a lawyer who managed some of CLLAS’ claims left in August 2012; management is currently searching for a replacement.

Claims Administration/Reserving

Based on discussions with CLLAS management, claims administration and reserving practices are generally consistent with prior years. CLLAS establishes its own claims reserves with consideration for the reserves set by the Law Society of Upper Canada (LSUC) and other law societies which offer the underlying compulsory program, as well as the circumstances of individual claims. CLLAS reserves are monitored on an ongoing basis and are reviewed and modified on a quarterly basis by CLLAS Claims Committee as deemed appropriate.

STANDARD OF MATERIALITY

I have selected a standard of materiality deemed to be appropriate under the circumstances.

In selecting this materiality level, I have given due consideration to:

- The surplus position of CLLAS,
- The value of the unpaid liabilities,
- The potential impact of errors on future premium levels and retro-assessments,
- The potential users of CLLAS' financial statements, and
- The overall level of materiality selected by the auditor.

The potential users of the CLLAS' financial statements include:

- Regulators,
- Management,
- Auditors, and
- Subscribers.

The level of materiality selected encompasses approximation errors as well as errors due to inaccurate information.

The foregoing considerations have resulted in the selection of a level of materiality of \$250,000, which corresponds to approximately 0.3% of CLLAS' assets and 4.0% of its net claims liabilities as of December 31, 2012.

CONDITIONS AND LIMITATIONS

In carrying out this valuation, I have relied on CLLAS' financial records and I have verified the consistency of the valuation data with the CLLAS financial records. I have asked Deloitte, CLLAS' external auditor:

- (a) To employ appropriate tests and sampling of CLLAS's individual records to ensure accurate and proper recording of premium, claim and asset information,
- (b) To employ appropriate tests and sampling to ascertain that proper management controls are in place to ensure the completeness of premium, claim and asset data, and
- (c) To employ appropriate tests to ensure that our premium and claim data sets correspond in aggregate to internal CLLAS reports.

I have received a satisfactory report from the auditors for the year ended December 31, 2012.

I am satisfied that the data utilized are reliable and sufficient for the valuation of these liabilities.

Policyholder liabilities are estimates. The ultimate liabilities will depend upon future contingent, and by definition, uncertain events. Examples of such events include unanticipated changes in inflation, changes to the legal system and judgements establishing precedents.

It must be recognized that the future emergence of loss and loss adjustment expenses may deviate from our estimates by a significant margin. In estimating these liabilities, I have used procedures and assumptions which, in my opinion, are reasonable and appropriate and I believe the resulting estimates are reasonable given the information available.

SPECIFIC DISCLOSURE REQUIREMENTS

Annual Required Reporting to the Board or Audit Committee

I will meet with the audit committee on February 20, 2013 to present the results of this report. I met with the audit committee on February 15, 2012 to present the December 31, 2011 results. I met with the audit committee on February 16, 2011 to present the December 31, 2010 results.

Continuing Professional Development Requirements

I am in compliance with the Continuing Professional Development requirements of the Canadian Institute of Actuaries.

Dynamic Capital Adequacy Testing (DCAT)

No DCAT analysis was requested by the regulator in 2012.

External Peer Review

No external peer review was requested by the regulator in 2012.

Disclosure of Compensation

I attest that all my direct and indirect compensation is derived using the following methodology:

Dion Durrell operates on a fee for service basis and hence the compensation that we receive from CLLAS is a function of the time and personnel involved in the engagement.

I confirm that I have performed my duties without regard to my personal considerations or to any influence, interest or relationship in respect to the affairs of my client or employer that might impair my professional judgement or objectivity.

I confirm that my ability to act fairly is unimpaired, that there has been full disclosure of the methodology used to derive my compensation to all known direct users of my services.

PART 2 - EXPRESSION OF OPINION

I have valued the policy liabilities of the Canadian Lawyers Liability Assurance Society for its statement of financial position at December 31, 2012 and their changes in the statement of comprehensive income for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods. I am satisfied that the data utilized are reliable and sufficient for the valuation of these liabilities. I verified the consistency of the valuation data with the company financial records.

The results of my valuation together with items from the Annual Return are as follows:

Claim Liabilities	Carried in Annual Return	Actuary's Estimate
(1) Direct unpaid claims and adjustment expenses	\$74,790,000	\$74,790,000
(2) Assumed unpaid claims and adjustment expenses	0	0
(3) Gross unpaid claims and adjustment expenses	\$74,790,000	\$74,790,000
(4) Ceded unpaid claims and adjustment expenses	68,609,000	68,609,000
(5) Other amounts to recover	0	0
(6) Other net liabilities	0	0
(7) Net unpaid claims and adjustment expenses (3)-(4)-(5)+(6)	\$6,181,000	\$6,181,000

Premium Liabilities	Carried in Annual Return (Col. 1)	Actuary's Estimate (Col. 2)
(1) Gross policyholder liabilities in connection with unearned premiums		\$10,722,000
(2) Net policyholder liabilities in connection with unearned premiums		1,509,000
(3) Gross unearned premiums	\$7,056,000	
(4) Net unearned premiums	1,657,000	
(5) Premium deficiency	0	\$ 0
(6) Other net liabilities	0	0
(7) Deferred policy acquisition expenses	148,000	
(8) Maximum policy acquisition expenses deferrable [(4)+(5)+(9)] _{Col. 1} - (2) _{Col.2}		\$ 149,000
(9) Unearned Commissions	\$ 0	

In my opinion the amount of policy liabilities makes appropriate provision for all policy obligations and the financial statements fairly present the results of the valuation.

_____, FCIA
Signature of Actuary

February 20, 2013
Date opinion was rendered

Julie-Linda Laforce, FCIA
Printed name of Actuary

PART 3 - COMPARISON OF ACTUAL EXPERIENCE WITH EXPECTED EXPERIENCE

The expected experience represents the net ultimate loss projections as of December 31, 2003, through December 31, 2011, and the actual experience represents the net ultimate loss projections as of December 31, 2012. Exhibit XIV shows both actual and expected experience net of proportional reinsurance, stop loss reinsurance and loss portfolio transfer with Colchester.

Net development on prior years was favorable by \$35,780,000 for all policy periods combined. The majority of the favorable development is explained by the June 30, 2012 loss portfolio transfer with Colchester, for which incurred losses at December 31, 2012 amount to \$31,898,000. Loss portfolio transfer incurred losses by policy year are documented in Exhibit VII.

Net development on prior years not due to the loss portfolio transfer with Colchester amounts to \$3,882,000, i.e., 4.5% of the prior year-end estimate. It is explained by better than expected experience and is concentrated in policy years 2003/2004, 2006/2007, 2007/2008, 2008/2009 and 2011/2012.

PART 4A - COMMENTARY - CLAIMS LIABILITIES, LIABILITIES IN CONNECTION WITH UNEARNED PREMIUM AND OTHER POLICYHOLDER LIABILITIES

CLAIMS LIABILITIES

Considerations

The following were considered in estimating the claims liabilities:

Homogeneity/Credibility

The same coverage is offered to all subscribers. We consider the risk exposures of the CLLAS subscribers to be homogeneous for estimating claims liabilities.

Given the excess nature of the coverage provided by CLLAS, claims experience is very limited. For that reason, we have estimated IBNR reserves based upon anticipated future development of expected losses.

Frequency/Severity

Given the excess nature of the coverage provided by CLLAS, claims experience has been very volatile from year to year.

Claims Runoff

As at December 31, 2011, there are a total of 52 claims with an incurred value of \$180,965,000 that exceed the underlying coverage, or self-insured retention in the event a claim is not covered, consisting of gross case reserves of \$11,900,000 and gross payments of \$169,065,000. At the end of 2011, there were 50 claims with an incurred value of \$176,629,000 within the CLLAS coverage layers, consisting of gross case reserves of \$17,204,000 and gross payments of \$159,425,000.

Retention/Reinsurance

The 2012/2013 reinsurance arrangements changed from those in place in 2011/2012. The details of the current and historical reinsurance arrangements are provided in Schedule 1 of this report.

Moreover, as of June 30, 2012, Colchester purchased CLLAS' loss portfolio of net outstanding claims obligations on policies written between July 1, 1987 and June 30, 2012. More details are provided in Part 4C of this report.

External Influences

I am not aware of any legal or regulatory changes or any precedents set in case law that would impact our estimates.

Marketing Strategy

There have been no changes in marketing strategy since CLLAS' inception. The number of insured lawyers decreased in the 2012/2013 policy period due to the withdrawal of one firm.

Mix of Business

There has not been any material change in the mix of business since CLLAS' inception.

Claims Recording/Settlement

Claims recording and claims settlement practices during 2012 were consistent with historical practices. The year-end cut-off date was December 31, 2012.

Reopened Claim Potential

One claim was re-opened in 2012. Our analysis indicates that in the past, no material reopening claim activity has taken place. I am not aware of any precedent-setting judicial opinions, liberalizing legislation or company procedures which might affect the claims reopening potential.

Aggregate Limits

The aggregate limits of CLLAS' reinsurance with Colchester have changed at July 1, 1998 and subsequently at July 1, 2002, July 1, 2005, July 1, 2006, July 1, 2011 and July 1, 2012 as described in detail in Part 4 – Commentary – Reinsurance.

Collateral Sources

Case reserves used in this valuation are assumed to be net of salvage and subrogation. We are not aware of any other collateral sources which might reduce the claims liabilities.

Pools and Associations

CLLAS does not participate in any voluntary or involuntary underwriting pools or associations. Therefore, CLLAS is not subject to any liabilities from participation in any pools or associations.

Coverage Changes

For Québec, for policy years 2003/2004 and after, CLLAS coverage is provided in excess of a \$10 million retention compared to a \$5 million retention for policy years 1999/2000 to 2002/2003. Starting in 2008/2009, coverage can drop down to \$25,000 in certain instances compared to \$250,000 in prior policy periods. Starting in 2009/2010, optional layer 2 can also be purchased for \$10M, \$20M or \$30M in excess of \$160M. Starting in 2010/2011, optional layer 2 can also be purchased for \$20M, \$30M or \$40M in excess of \$160M. Starting in 2011/2012, mandatory coverage has increased from \$34M excess of \$1M to \$49M excess of \$1M and the two optional coverage layers have been combined into one layer that is available in \$10M increments up to \$60M in excess of \$160M. There have been no coverage changes since my last valuation of CLLAS.

Case Reserving Practices

CLLAS utilizes case reserves set by the law societies and reviews large claims. However it may, if deemed appropriate, set reserves higher than the law societies for claims which have the potential of piercing into CLLAS' coverage layers. The case reserving practices have been consistent over time.

Regulatory Changes

Effective July 1, 2012, CLLAS' lead regulator was changed from Ontario to Alberta. I do not anticipate that this would affect my valuation of CLLAS.

Harmonized Sales Tax

Effective July 1, 2010, the Ontario Retail Sales Tax ("ORST") was harmonized with the 5% federal Goods and Services Tax ("GST"), resulting in a federally administered 13% Ontario harmonized sales tax ("HST"), of which the Ontario portion is 8%. Similar changes took place in British Columbia, which will be reversed in 2013 as a result of the BC HST referendum in 2011. Due to the nature of CLLAS' business as an excess program which has few files with legal reserves, we have considered the impact of the HST immaterial to our valuation.

Methodology and Assumptions - Losses and Loss Adjustment Expenses

In estimating the ultimate loss and allocated loss adjustment expense liabilities faced by CLLAS, I have utilized methodologies consistent with last year. The data underlying our projections and estimates can be found in Part 5 of this report.

The Incurred But Not Reported ("IBNR") liabilities have been established using a Bornhuetter-Ferguson approach, based upon expected losses for each coverage period, and an assumed claim emergence pattern. The expected loss volumes have been estimated as the product of the exposure count (earned lawyer years) and pure premiums (expected loss costs per lawyer).

Rating studies have been performed annually since 1995 and expected loss costs assumptions have been revised from time to time. The last such rating study took place in early 2012 which led to revised expected loss costs per lawyer for the period covering from July 1, 2012 through June 30, 2013. These were used in my December 31, 2012 valuation. I have summarized below the revised and prior loss costs per lawyer assumptions for each layer of proportional reinsurance.

Reinsurance Layer (in million \$)	Expected Loss Costs Per Lawyer	
	Prior	Revised
\$0.975 xs \$0.025	\$ 127	\$ 121
\$4.0 xs \$1.0	1,267	1,178
\$5.0 xs \$5.0	n/a	673
\$7.5 xs \$5.0	650	n/a
\$10.0 xs \$10.0	n/a	847
\$12.5 xs \$12.5	780	n/a
\$30.0 xs \$20.0	n/a	1,103
\$10.0 xs \$25.0	870	n/a
\$30.0 xs minimum \$50.0	1	n/a
\$30.0 xs minimum \$65.0	n/a	10
\$20.0 xs \$140.0	8	n/a
\$40.0 xs \$160.0	9	28
\$60.0 xs \$160.0	n/a	35

The assumed claim emergence pattern has been derived using the observed development for lawyers professional liability excess loss experience from a number of the law societies as a guide as shown

in Exhibit III. The loss development patterns were revised based upon the indications from Exhibit III. The selected developments and resulting IBNR factors are shown below.

Duration (in months)	Loss Development Factor	IBNR Factor
6	13.850	0.928
18	6.950	0.856
30	2.850	0.649
42	1.925	0.481
54	1.425	0.298
66	1.125	0.111
78	1.050	0.048
90	1.050	0.048
102	1.050	0.048
114	1.035	0.034
126	1.015	0.015
138	1.008	0.008
150+	1.000	0.000

The assumed claim payout pattern has been derived using the observed payout for lawyers' professional liability excess loss experience from a number of the law societies as a guide. The selected payout pattern is shown in Exhibit 1, pages 1 and 6 on a gross and net basis respectively.

I have established the liabilities for unallocated loss adjusting expenses (ULAE) at 3.75% of the gross indemnity and legal expense liabilities and have assumed that all ULAE costs would be retained by CLLAS. I selected a factor of 3.75% based on an analysis of unallocated loss adjustment expenses provision and gross outstanding liabilities. It should be noted that ULAE represents solely CLLAS internal claims management expenses.

The derivation of the ULAE % as shown in Exhibit IV is based upon the following key assumptions:

- Estimated internal claims management expenses equal to \$593,000 in 2013.
- Indexing of such expenses at 3% a year in future years.
- The portion of such annual expenses related to the outstanding claims liabilities as of December 31, 2012 will decrease at an annual rate of 1/7 per year from 2013 to 2019.

The ULAE provision resulting from the above assumptions represents, as indicated in Exhibit IV, 3.74% of the gross case reserves and IBNR provision as of December 31, 2012. A 3.75% assumption was selected to determine the ULAE provision as of December 31, 2012. As shown in Exhibit VIII, such provision amounts to \$2,528,000 (i.e. \$446,000 based on gross case reserves plus \$2,082,000 based on gross IBNR).

Exhibits V, VII, and VIII show the ground-up incurred loss amounts as well as the impact of proportional reinsurance, aggregate reinsurance, loss portfolio transfer to Colchester, and unallocated loss adjustment expenses.

Exhibit VIII shows the net CLLAS losses after consideration of all of the above elements.

Exhibit VIII shows CLLAS net outstanding liabilities. Such net outstanding liabilities amount to \$2,760,000 including the ULAE component (i.e. case reserves of \$0 and an IBNR provision including ULAE of \$2,760,000).

Impact of Changes in Methodology and Assumptions on Reserve Estimates

The changes in assumptions implemented in my December 31, 2012 valuation resulted in a total increase in undiscounted liabilities of \$799,000 on a gross basis and \$352,000 on a net basis. There was no change in methodology from the previous year's valuation.

Expected Ultimate Loss Ratios

The ultimate loss ratio history, based on my estimates of ultimate losses and loss adjustment expenses in recent years, is as follows:

Policy ⁽¹⁾ Period	Ultimate Loss & LAE Ratio ⁽⁴⁾	
	Gross Basis	Net Basis
1987/1988	0%	0%
1988/1989	0%	0%
1989/1990	0%	0%
1990/1991	85%	153%
1991/1992	172%	428%
1992/1993	7%	0%
1993/1994	679%	1510%
1994/1995	181%	142%
1995/1996	64%	97%
1996/1997	0%	0%
1997/1998	0%	0%
1998/1999	187%	76%
1999/2000	70%	65%
2000/2001	0%	0%
2001/2002	120%	56%
2002/2003 ⁽²⁾	39%	74%
2003/2004 ⁽³⁾	177%	97%
2004/2005	13%	18%
2005/2006	8%	11%
2006/2007	25%	41%
2007/2008	65%	84%
2008/2009	27%	0%
2009/2010	56%	0%
2010/2011	74%	26%
2011/2012	88%	2%
2012/2013 ⁽⁵⁾	106%	14%
Total	68%	44%

(1) July 1 to June 30, except for 2011/2012 which is July 1 to December 31, 2012.

(2) Excluding reinsurance swing premium return of \$706,071

(3) Excluding reinsurance swing premium payment of \$3,148,262

(4) Excluding unallocated loss adjustment expenses

(5) Excluding loss portfolio transfer premium ceded

The details of the previous table's calculations are summarized in Exhibit IX.

Please note that the above calculations do not reflect the \$7,000,000 retro-assessment called at December 31, 1996, the \$1,600,000 retro-assessment called at June 30, 1998 and the loss portfolio transfer premium with Colchester at June 30, 2012 of \$44,700,000. If adjustments were included in the above calculation, total loss ratios of 66% and 64% would result on a gross and net basis, respectively.

PROVISION FOR ADVERSE DEVIATION - CLAIMS LIABILITIES

Introduction

The Consolidated Standards of Practice – Specific Standards for Insurance, Section 2250 of the Canadian Actuarial Standards Board (ASB) provides explicit guidance for the setting of the provision for adverse deviation associated with claims liabilities.

There are three major valuation variables in any property and casualty insurance valuation. Associated with each of these variables, the ASB has established a recommended range of low and high margins which varies with the uncertainty of the variable.

The variables involved and the range of margin for each is shown below:

Variable	Margin
1. Claims Development	Low margin: 2.5% of discounted liabilities High margin: 20.0% of discounted liabilities
2. Reinsurance Recovery	Low margin: 0.0% of discounted liabilities High margin: 15.0 % of discounted liabilities
3. Interest Rate	Low margin: 25 basis points (0.25%) High margin: 200 basis points (2.0%)

Evaluation of these margins can be found in Exhibit XI, page 1.

Valuation Variables

Claim Development Variable

The liabilities are long tailed, which require a number of years of development before a precise picture of the ultimate liabilities can be obtained. In addition since the coverage is excess of loss it is also subject to a high degree of variability. As a result of these considerations I have selected a margin for claim development of 10.0%, which is at the medium to high end of the recommended range.

The total margin for net claim development is calculated at \$265,000 and is shown in Exhibit XI, page 7.

Reinsurance Recovery Variable

Except for Walbrook, all CLLAS proportional reinsurers are believed to be in sound financial condition. All have an A.M. Best Rating of A- or better except for Unionamerica which has not been rated by rating agencies since January 2001, the time at which the company was placed into run-off. Unionamerica assumes 4.02% of layer \$7.5 million xs \$5.0 million and 1.36% of layer \$12.5 million xs \$12.5 million in policy periods 1998/1999 to 2000/2001.

Given that a material amount of ceded liabilities are also with unlicensed reinsurers, I have selected a margin of 5.0% (\$3,232,000) for the reinsurance recovery variable, as shown in Exhibit XI, page 7. This selection remains unchanged from 2011.

Interest Rate Variable

The investment portfolio is comprised of treasury bills of durations less than one month. Due to the high quality of investment holdings, we believe the risk of asset default is low. A discount rate of 0.85% was selected based on the yield of the company's investment portfolio as at December 31, 2012. The basis upon which this selection was made can be found on Exhibit X. This is a decrease of 1.00% from the discount rate used in the previous valuation. The yield reflects the market value of bonds since CLLAS has classified its bond portfolio as available-for-sale. The impact of this decrease in discount rate is an increase of \$270,000 in net discounted liabilities plus provision for adverse deviation.

I have selected a margin of 25 basis points (0.25%) on the interest rate variable which reflects the quality of the investment portfolio. The resulting net margin is \$31,000, as shown in Exhibit XI, page 7.

Summary

The total margin on the variables comprising the net provision for adverse deviation is \$3,528,000. Therefore, the final actuarial liabilities can be summarized as follows:

(1)	Discounted Outstanding Claims Liabilities at December 31, 2011	\$2,653,000
(2)	Provision for Adverse Deviation	<u>3,528,000</u>
(3)	Discounted Outstanding Claims Liabilities plus Provision for Adverse Deviation	\$6,181,000

Exhibit XIII shows a summary of the net undiscounted and discounted (including the provision for adverse deviation) claims liabilities.

SUMMARY OF CLAIMS LIABILITIES

Gross, Ceded and Net Basis

The unpaid claims and claims adjustment expenses on a gross, ceded and net basis are summarized as follows:

	Case Reserves	IBNR ^{/1}	Total Unpaid
Gross Losses	\$11,901,000	\$62,889,000	\$74,790,000
Ceded Losses	(11,901,000)	(56,708,000)	(68,609,000)
Net Losses	\$0	\$6,181,000	\$6,181,000

/1 Including ULAE and the full impact of discounting and PFAD

Subsequent Events

I am not aware of any significant event after the December 31, 2012 valuation date which would materially affect the results of my valuation.

Reconciliation with Annual Return

Reconciliation of claims liabilities reported in the Annual Return to the actuary's estimate:

			Source
(1)	Net unpaid claims reported by CLLAS	\$6,181,000	Annual Return
(2)	Actuary's estimate of recoverable	<u>68,609,000</u>	
(3)	(1) + (2)	\$74,790,000	
(4)	Actuary's estimate of gross unpaid claims	<u>74,790,000</u>	
(5)	Redundancy (deficiency) (3) - (4)	\$0	

POLICYHOLDER LIABILITIES IN CONNECTION WITH UNEARNED PREMIUM

Considerations

The liabilities in connection with unearned premium are based upon the review of the following considerations:

Rate History

Summarized below is the rate per lawyer charged by CLLAS since 1987:

Policy Period	Average Premium Rate Per Lawyer
July 1, 1987 to June 30, 1988	\$ 3,000
July 1, 1988 to June 30, 1989	2,000
July 1, 1989 to June 30, 1990	1,800
July 1, 1990 to June 30, 1991	1,800
July 1, 1991 to June 30, 1992	1,800
July 1, 1992 to June 30, 1993	1,800
July 1, 1993 to June 30, 1994	1,800
July 1, 1994 to June 30, 1995	1,950
July 1, 1995 to June 30, 1996	2,300
July 1, 1996 to June 30, 1997	3,000
July 1, 1997 to June 30, 1998	3,000
July 1, 1998 to June 30, 1999	4,350
July 1, 1999 to June 30, 2000	4,305
July 1, 2000 to June 30, 2001	4,180
July 1, 2001 to June 30, 2002	4,116
July 1, 2002 to June 30, 2003	3,881
July 1, 2003 to June 30, 2004	4,663
July 1, 2004 to June 30, 2005	5,089
July 1, 2005 to June 30, 2006	5,180
July 1, 2006 to June 30, 2007	6,812
July 1, 2007 to June 30, 2008	5,540
July 1, 2008 to June 30, 2009	4,945
July 1, 2009 to June 30, 2010	4,800
July 1, 2010 to June 30, 2011	4,299
July 1, 2011 to June 30, 2012	3,497
July 1, 2012 to June 30, 2013	3,305

Also, as of December 31, 1996, CLLAS has called a retro-assessment of \$7,000,000 payable by its subscribers in ten instalments of \$700,000 over the following five years starting on July 1, 1997. The premium rate for 1997/1998 through 2001/2002 includes a provision for this retro-assessment. The 1998/1999 through 2001/2002 premium rate also includes a provision for the \$1,600,000 retro-assessment called on June 30, 1998 which is payable over a four year period starting on July 1, 1998.

Since 1998/1999 the premium rate is inclusive of a surplus contribution which has varied from year to year.

Frequency/Severity Trends

Coverage provided by CLLAS is expected to give rise to a combination of low frequency/high severity claims. Given the small volume of claims experience to date, frequency/severity trends are subject to high degree of volatility.

External Influences

I am not aware of any legal or regulatory changes or precedents set in case law expected to have a material impact on the future cost of claims.

Reinsurance Arrangements

The types of reinsurance arrangements, their conditions and retention levels applicable to the unexpired portion of the policies in force are similar to those currently in force.

Premium Collection

I am not aware of any premium collectability problems. This was confirmed by CLLAS management.

Seasonality of Losses

I am not aware of any variations in the frequency or severity of claims caused by seasonality. Therefore, the loss exposure arising from policies currently in force is not expected to be subject to seasonal variation.

Coverage Changes

I am not aware of any coverage change which could affect the claim costs arising from the unexpired portion of the business in force.

Unearned Premiums

Unearned premiums are computed using the daily pro rata method. The gross and net unearned premiums as of December 31, 2012 are \$7,056,000 and \$1,657,000 respectively.

Summary of Liabilities in Connection with Unearned Premium

The liabilities in connection with unearned premiums are computed in Exhibit XII. Summarized below are the variables used in the calculation of the liabilities.

Expected Ultimate Loss Ratio

I have estimated the expected ultimate loss ratio based on expected losses for 2012/2013 from my 2012/2013 rating study, divided by the earned premiums shown in Exhibit IX.

Unallocated Loss Adjusting Expenses

The unallocated loss adjusting expenses as a percentage of losses is selected in Exhibit IV. A 3.75% ratio is used for liabilities in connection with unearned premium for a total of \$353,000.

Policyholder Service Costs

I have selected 5.0% of premiums as the policyholder servicing costs for a total of \$353,000. This is based on 1/3 of the ratio of selected general expenses to gross earned premium subject to a maximum of 5.0% and a minimum of 3.0%.

Investment Return on Unearned Premiums

Based upon the same reasons as applicable for claims liabilities, a 0.85% rate of return has been used to calculate expected investment return on unearned premiums. The resulting income is \$4,000.

Change in Reinsurance Costs

Because the policy and reinsurance contract dates are the same, there is no applicable change in reinsurance cost amount.

After application of all these considerations the resulting liabilities were then discounted and the Provision for Adverse Deviation was added, per the ASB standard of practice, as illustrated later in this section. The final gross liabilities in connection with unearned premium are \$10,722,000 and the final net liabilities in connection with unearned premium are \$1,509,000.

Premium Deficiency

The premium deficiency reserve as at December 31, 2012 is \$0, as shown in Exhibit XII – Page 1.

Deferred Policy Acquisition Expense

Using the net liabilities in connection with unearned premiums stated above, the maximum allowable deferred policy acquisition expense is found to be \$149,000. CLLAS' deferred expenses at December 31, 2012 are \$148,000.

PROVISION FOR ADVERSE DEVIATION - LIABILITIES IN CONNECTION WITH UNEARNED PREMIUM

Introduction

As previously stated in connection with claims liabilities the ASB standard of practice with respect to Provision for Adverse Deviations also applies to liabilities in connection with unearned premiums.

The variables involved and the range of margins are the same as shown previously in the section on provision for adverse deviation in connection with claims liabilities.

Valuation Variables

Claim Development Variable

We have selected the same margin as that chosen in the section on provision for adverse deviation for claim liabilities. The margin for net claim development has been selected at 10.0% (\$65,000). The calculation of this margin is shown in Exhibit XII, page 3.

Reinsurance Recovery Variable

We have selected a margin of 5.0% (\$433,000) for the reinsurance recovery variable. This selection is the same as that chosen in the section on provision for adverse deviation for claim liabilities. The calculation of this variable is also shown in Exhibit XII, page 3.

Interest Rate Variable

For reasons similar to those outlined in the claims liabilities section, a margin of 25 basis points (0.25%) has been selected for the interest rate variable. This has resulted in the selection of a margin of \$9,000. The calculation of this margin is also shown in Exhibit XII, page 3.

Summary

The total margin on the variables comprising the provision for adverse deviation is \$507,000. Therefore, the final actuarial liabilities can be summarized as follows:

(1) Discounted Claims Liabilities in connection with Unearned Premiums at December 31, 2012	\$652,000
(2) Provision for Adverse Deviation	<u>507,000</u>
(3) Discounted Claims Liabilities in connection with Unearned Premiums plus Provision for Adverse Deviation	\$1,159,000

Reconciliation with Annual Return

Reconciliation of policyholder liabilities reported in the Annual Return to the actuary's estimate:

		Source
(1) Net unearned premiums reported by CLLAS	\$1,657,000	Annual Return
(2) Other liabilities reported by CLLAS	0	Annual Return
(3) Deferred policy acquisition expense reported by CLLAS	<u>148,000</u>	Annual Return
(4) ((1) + (2) - (3))	\$1,509,000	
(5) Actuary's estimate of net liability in connection with unearned premium	<u>1,509,000</u>	
(6) Margin (deficiency) ((4) - (5))	\$0	

PART 4B - COMMENTARY - OTHER ACTUARIAL LIABILITIES

As at December 31, 2012, CLLAS has a premium liability of \$0 in connection with its proportional reinsurance arrangements for policy years 2002/2003 and 2003/2004. This matter is closed and no further liabilities are expected to arise.

There have been no further premium adjustment provisions from policy year 2004/2005 onwards.

PART 4C - COMMENTARY - REINSURANCE

DESCRIPTION OF REINSURANCE ARRANGEMENTS

The reinsurance arrangements are summarized as follows:

Proportional Reinsurance

CLLAS has had proportional reinsurance arrangements since inception. Reinsurance ceded is on a claims made basis. CLLAS coverage was divided into various layers and a certain proportion in each layer is ceded to different reinsurers. CLLAS is also retaining a variable proportion of each layer.

Aggregate Reinsurance

CLLAS has arranged since July 1, 1989 aggregate reinsurance with Colchester which is applicable to its retention after reflection of proportional reinsurance.

The above reinsurance arrangements are summarized in Schedule 1.

In June 1996, the following changes were made to CLLAS non-proportional reinsurance arrangements with Colchester retrospectively for the policy periods 1993/1994 to 1995/1996 and for future policy periods unless the arrangement is terminated by either CLLAS or Colchester.

- As per the initial reinsurance terms, CLLAS' non-proportional reinsurer was assuming the first \$3,000,000 of CLLAS net of proportional aggregate retention. As a result of the June 1996 amendments, CLLAS assumes the first \$250,000 of this \$3,000,000 aggregate retention.
- The initial premium paid by CLLAS for each of these policy periods is subject to an adjustment, plus or minus, if actual losses are above or below a permissible loss ratio of 70%.
- The additional premium payable is subject to a maximum of 25% of the initial (deposit) premium, while the return premium is subject to a maximum of 10% of the initial premium.
- Any premium payable which is in excess of the 25% maximum adjustment is carried forward to subsequent policy periods, unless the retrospective rating arrangement is terminated by either CLLAS or Colchester. Similarly any premium receivable by CLLAS, which is in excess of the maximum 10% adjustment, is carried forward to the subsequent policy periods.
- The first retrospective premium adjustment is made 24 months after the expiration of each policy period on the basis of the losses paid at the time of the adjustment and subsequent adjustments are made annually thereafter.

However, in June 1998 the reinsurance arrangements between CLLAS and Colchester have again been modified as follows:

- The retrospective rating arrangement applicable to policy years 1993/1994 to 1997/1998 has been terminated. As a result any premium liability arising from such arrangement as of June 30, 1998 has been eliminated.
- Also the deficit carry-forward of \$3,733,000 as of December 31, 1997 under such retrospective rating arrangement has been eliminated as of June 30, 1998.
- For the 1998/1999 policy period CLLAS will retain the first \$3,300,000 of its net of proportional aggregate retention instead of \$250,000 and Colchester will assume \$4,700,000 excess of CLLAS new \$3,300,000 aggregate retention after proportional reinsurance.
- CLLAS will also assume \$6,000,000 excess of \$8,000,000 of its aggregate retention after proportional reinsurance.
- Colchester will continue to assume \$14,000,000 excess of \$14,000,000 of CLLAS retention after proportional reinsurance.
- It was also agreed between CLLAS and Colchester that the revised 1998/1999 reinsurance arrangements would apply retroactively to fiscal year 1995/1996.

On June 30, 2003, the reinsurance arrangements between CLLAS and Colchester have been modified as follows:

- For the 2002/2003, 2003/2004 and 2004/2005 policy periods CLLAS retains the first \$5,500,000 of its net proportional aggregate losses. Colchester assumes \$7,500,000 in excess of CLLAS' \$5,500,000 aggregate retention after proportional reinsurance. CLLAS also retains \$7,000,000 of its net proportional aggregate losses in excess of the underlying \$13,000,000 net of proportional reinsurance and Colchester assumes losses in the layer \$20,000,000 excess of \$20,000,000.

On June 30, 2005, the reinsurance arrangements between CLLAS and Colchester have been modified as follows:

- For the 2005/2006 policy period CLLAS retains the first \$5,500,000 of its net proportional aggregate losses. Colchester assumes \$9,500,000 in excess of CLLAS' \$5,500,000 aggregate retention after proportional reinsurance. CLLAS also retains \$5,000,000 of its net proportional aggregate losses in excess of the underlying \$15,000,000 net of proportional reinsurance and Colchester assumes losses in the layer \$20,000,000 excess of \$20,000,000.

On June 30, 2006, the reinsurance arrangements between CLLAS and Colchester have been modified as follows:

- For the 2006/2007 through 2008/2009 policy periods CLLAS retains the first \$15,000,000 of its net proportional aggregate losses. Colchester assumes \$5,000,000 in excess of CLLAS' \$15,000,000 aggregate retention after proportional reinsurance. Colchester also assumes losses in the layer \$20,000,000 excess of \$20,000,000.

On June 30, 2008, the reinsurance arrangements between CLLAS and Colchester have been modified as follows:

- Starting in policy period 2008/2009, CLLAS' retention of \$250,000 to which claims would "drop down" and attach to in certain instances has been reduced to \$25,000. However, Colchester does not assume the additional exposure between \$25,000 and \$250,000.

On June 30, 2009, the reinsurance arrangements between CLLAS and Colchester have been modified as follows:

- For 2009/2010 onwards, CLLAS retains the first \$15,000,000 of its net proportional aggregate losses. Colchester assumes \$10,000,000 in excess of CLLAS' \$15,000,000 aggregate retention after proportional reinsurance. Colchester also assumes losses in the layer \$15,000,000 excess of \$25,000,000.

On June 30, 2011, the reinsurance arrangements between CLLAS and Colchester have been modified as follows:

- For 2011/2012 onwards, the per claim retention for CLLAS subject to the aggregate limit includes 100% of the layer \$975,000 excess of \$25,000 and 25% of the layer \$49,000,000 excess of \$1,000,000. The per claim retention for Colchester subject to the aggregate limit includes 25% of the layer \$4,000,000 excess of \$1,000,000. The aggregate coverage provides reinsurance of \$22,500,000 in excess of a \$17,500,000 limit on the combined basis. CLLAS' recoveries from Colchester will be for its share of the combined losses in the layer.

On June 30, 2012, the reinsurance arrangements between CLLAS and Colchester have been modified as follows:

- For 2012/2013 onwards, the per claim retention for CLLAS subject to the aggregate limit includes 100% of the layer \$975,000 excess of \$25,000. Colchester provides an aggregate reinsurance coverage of \$10,000,000 in excess of a \$5,000,000 limit.

Loss Portfolio Transfer

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

RECOVERABLE AMOUNTS FROM REINSURERS

The amounts assumed to be recoverable from reinsurers in the calculation of the net policyholder liabilities are as follows:

Claim Liabilities	\$68,609,000
Unearned Premium	<u>\$9,213,000</u>
Total	<u>\$77,822,000</u>

UNUSUAL PROBLEMS OR DELAYS

I have discussed reinsurance matters with the management and the external auditor of CLLAS regarding whether there are unusual problems and/or delays expected to be encountered in the collection of amounts from the reinsurers. I have specifically discussed whether any of the following situations existed with the management and the external auditor with respect to proportional reinsurers.

- A reinsurance contract or cover note is not signed.
- A dispute has arisen with a reinsurer.
- A reinsurer that has a history of not settling accounts properly.
- A reinsurer's experience under a treaty is so bad or other circumstance exists that cause there to be a high probability that the reinsurer will deny liability.
- A reinsurer that is known to have been the subject of regulatory restrictions in its home jurisdiction.
- Insolvent reinsurers.

TRC, a long time reinsurer of CLLAS, appears to be raising the number of claims issue on claim files as a matter of course. This is being addressed by management on a claim-by-claim basis.

ACE, the lead reinsurer on the first two reinsurance layers prior to July 1, 2006 has signalled that it might become difficult on other files as it will be requiring consent prior to claim settlement, which is contrary to the reinsurance contract. This is being addressed by management on a claim-by-claim basis.

As stated earlier in this report, all CLLAS proportional reinsurers are believed to be in sound financial condition. All have an A.M. Best Rating of A- or better except for Unionamerica which has not been rated by rating agencies since January 2001, time at which the company was placed into run-off. Unionamerica assumes 4.02% of layer \$7.5 million xs \$5.0 million and 1.36% of layer \$12.5 million xs \$12.5 million in policy periods 1998/1999 to 2000/2001.

I am not aware of the existence of any of the above situations or unusual problems or delays which could affect the collection of amounts recoverable from other proportional reinsurers.

Based on my review of the reinsurance agreements in place for the business underwritten by CLLAS, and my discussions with management, to the best of my knowledge, there are no material financial reinsurance agreements.

COLCHESTER REINSURANCE LIMITED

Colchester is an off-shore captive reinsurer domiciled in Barbados. The shareholders of Colchester are twelve Toronto-based legal firms or their related service corporations. Those twelve shareholders are unrelated to each other. However, each of Colchester's shareholders is, or is related to, one of CLLAS' twelve subscribers.

Since July 1, 1989 Colchester has provided aggregate reinsurance to CLLAS. The terms of the current aggregate reinsurance arrangements provided to CLLAS are described in Schedule I. As far as I am aware, Colchester does not provide reinsurance to any other entity than CLLAS.

PART 5 - DATABASE AND EXHIBITS

This section contains the database summary and exhibits used in the current valuation.

RECONCILIATION

A reconciliation of the claims data used in this valuation with CLLAS' records was performed. I am satisfied that no material data was omitted. The details of my reconciliation are as follows:

		Gross Paid at 12/31/2012	Gross Case Reserves at 12/31/2012
(1)	Reported in CLLAS' financial records	\$169,065,000	\$11,900,000
(2)	Reported in claim bordereaux	169,065,000	11,900,000
(3)	Difference	\$0	\$0

LIST OF SCHEDULES

Schedule 1 CLLAS Reinsurance Arrangements

LIST OF EXHIBITS

Exhibit I	Page 1	Cumulative Paid Losses and ALAE - Gross Basis
Exhibit I	Page 2	Case Reserves - Gross Basis
Exhibit I	Page 3	Incurred Losses - Gross Basis
Exhibit I	Page 4	Cumulative Number of Claims Reported - Gross Basis
Exhibit I	Page 5	Number of Claims Open - Gross Basis
Exhibit I	Page 6	Cumulative Paid Losses and ALAE - Net Basis
Exhibit I	Page 7	Case Reserves - Net Basis
Exhibit I	Page 8	Incurred Losses - Net Basis
Exhibit I	Page 9	Cumulative Number of Claims Reported - Net Basis
Exhibit I	Page 10	Number of Claims Open - Net Basis
Exhibit II		IBNR - Reflecting Proportional Reinsurance
Exhibit III		Indicated Loss Development Factors for Losses in Excess of Various per Occurrence Retentions
Exhibit IV		Determination of the Provision for Unallocated Loss Adjustment Expenses
Exhibit V		Gross and Net of Proportional Experience
Exhibit VI		Colchester Proportional Reinsurance
Exhibit VII		Aggregate and Net of Aggregate Experience
Exhibit VIII		Net Experience
Exhibit IX		Gross and Net Loss and Loss Adjustment Expense Ratio
Exhibit X		Investment Portfolio Valuation & Selection of Discount Rate
Exhibit XI		Provision for Adverse Deviation – Claims Liabilities
Exhibit XII	Page 1	Premium Liabilities
Exhibit XII	Page 2	Provision for Adverse Deviation – Gross Liabilities in Connection with Unearned Premium
Exhibit XII	Page 3	Provision for Adverse Deviation – Net Liabilities in Connection with Unearned Premium
Exhibit XIII		Summary of Net Outstanding Liabilities and Provision for Adverse Deviation by Year
Exhibit XIV		Comparison of Net Actual Experience with Net Expected Experience from the December 31, 2002 through December 31, 2011 Valuations
Exhibit XV		Unpaid Claims and Loss Ratio Analysis Exhibit

PART 6 - DATA RELIABILITY AND CONSISTENCY

DATA

I have relied on the following data provided by CLLAS as at December 31, 2012:

- Individual claims transaction data.
- Reinsurance ceded to all the reinsurers.
- Written premiums.
- Number of lawyers insured.
- Draft financial statements.

RELIANCE AND VERIFICATION

I have relied on those data in the preparation of this report. I have not audited such data except to observe its consistency with prior years and to perform those checks necessary to satisfy myself that the information provides a reliable and sufficient basis for estimating the ultimate policyholder liabilities.

I have performed a reconciliation of the claims and premium data used in this valuation with the CLLAS' records and am satisfied that no material data was omitted. The details of my reconciliation can be found in Part 5 of this report.

I have relied on the external auditor of CLLAS, Deloitte & Touche, to verify the accuracy of CLLAS' records. I have received assurance from the external auditor that CLLAS' data is complete.

Policyholder liabilities are estimates. Future emergence of loss and loss adjustment expenses may differ from our estimates. In estimating these liabilities, I have used procedures and assumptions that I believe are reasonable and appropriate, given the data available.

SCHEDULE 1—CLLAS REINSURANCE ARRANGEMENTS

Proportional Basis

<u>Fiscal Period</u>	<u>Layer (in million \$)</u>	<u>Retained Portion</u>	<u>Portion Reinsured with:</u>	
			<u>Registered Companies</u>	<u>Unregistered Companies</u>
7/1987 - 6/1988	\$4.4 xs \$0.6	50.00%	0.00%	50.00%
	\$5.0 xs \$5.0	8.00%	78.16%	13.84%
	\$15.0 xs \$10.0	16.00%	53.50%	30.50%
7/1988 - 6/1989	\$4.0 xs \$1.0	50.00%	0.00%	50.00%
	\$5.0 xs \$5.0	8.00%	74.90%	17.10%
	\$15.0 xs \$10.0	17.33%	54.38%	28.29%
7/1989 - 3/1990	\$4.0 xs \$1.0	50.00%	0.00%	50.00%
	\$5.0 xs \$5.0	8.00%	75.87%	16.13%
	\$15.0 xs \$10.0	17.33%	62.51%	20.16%
4/1990 - 6/1990	\$4.0 xs \$1.0	50.00%	27.50%	22.50%
	\$5.0 xs \$5.0	8.00%	75.87%	16.13%
	\$15.0 xs \$10.0	17.33%	68.13%	14.54%
7/1990 - 6/1991	\$4.0 xs \$1.0	50.00%	50.00%	0.00%
	\$5.0 xs \$5.0	8.00%	81.10%	10.90%
	\$15.0 xs \$10.0	17.33%	74.49%	8.18%
	\$25.0 xs \$50.0	0.00%	79.55%	20.45%
7/1991 - 6/1992	\$4.0 xs \$1.0	50.00%	50.00%	0.00%
	\$7.5 xs \$5.0	20.00%	71.50%	8.50%
	\$12.5 xs \$12.5	18.00%	72.52%	9.48%
	\$10.0 xs \$25.0	12.50%	87.50%	0.00%
	\$25.0 xs \$50.0	0.00%	79.75%	20.25%
7/1992 - 6/1993	\$4.0 xs \$1.0	50.00%	50.00%	0.00%
	\$7.5 xs \$5.0	20.00%	71.60%	8.40%
	\$12.5 xs \$12.5	18.00%	75.34%	6.66%
	\$10.0 xs \$25.0	12.50%	87.50%	0.00%
	\$25.0 xs \$50.0	0.00%	89.81%	10.19%

Proportional Basis *cont'd*

<u>Fiscal Period</u>	<u>Layer (in million \$)</u>	<u>Retained Portion</u>	<u>Portion Reinsured with:</u>	
			<u>Registered Companies</u>	<u>Unregistered Companies</u>
7/1993 - 6/1994	\$4.0 xs \$1.0	50.00%	50.00%	0.00%
	\$7.5 xs \$5.0	20.00%	73.62%	6.38%
	\$12.5 xs \$12.5	18.00%	75.44%	6.56%
	\$10.0 xs \$25.0	12.50%	87.50%	0.00%
	\$25.0 xs \$50.0	0.00%	86.41%	13.59%
7/1994 - 6/1995	\$4.0 xs \$1.0	50.00%	44.58%	5.42%
	\$7.5 xs \$5.0	20.00%	74.93%	5.07%
	\$12.5 xs \$12.5	18.00%	76.30%	5.70%
	\$10.0 xs \$25.0	12.50%	87.50%	0.00%
	\$25.0 xs \$50.0	0.00%	85.48%	14.52%
7/1995 - 6/1996	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4.0 xs \$1.0	50.00%	42.35%	7.65%
	\$7.5 xs \$5.0	20.00%	75.21%	4.79%
	\$12.5 xs \$12.5	18.00%	77.41%	4.59%
	\$10.0 xs \$25.0	12.50%	81.80%	5.70%
	\$25.0 xs \$50.0	0.00%	88.12%	11.88%
7/1996 - 6/1997	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4.0 xs \$1.0	50.00%	42.94%	7.06%
	\$7.5 xs \$5.0	20.00%	75.22%	4.78%
	\$12.5 xs \$12.5	18.00%	77.97%	4.03%
	\$10.0 xs \$25.0	12.50%	81.80%	5.70%
	\$25.0 xs \$50.0	0.00%	87.74%	12.26%
7/1997 - 6/1998	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4.0 xs \$1.0	50.00%	42.94%	7.06%
	\$7.5 xs \$5.0	20.00%	74.34%	5.66%
	\$12.5 xs \$12.5	18.00%	77.97%	4.03%
	\$10.0 xs \$25.0	12.50%	79.03%	8.47%
	\$25.0 xs \$50.0	0.00%	87.17%	12.83%
	\$15.0 xs \$120.0	0.00%	89.02%	10.98%

Proportional Basis *cont'd*

<u>Fiscal Period</u>	<u>Layer (in million \$)</u>	<u>Retained Portion</u>	<u>Portion Reinsured with:</u>	
			<u>Registered Companies</u>	<u>Unregistered Companies</u>
7/1998 - 6/1999	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4 xs \$1.0	50.00%	42.63%	7.37%
	\$7.5 xs \$5.0	20.00%	74.04%	5.96%
	\$12.5 xs \$12.5	18.00%	77.93%	4.07%
	\$10 xs \$25	12.50%	79.03%	8.47%
	\$30 xs \$50	0.00%	87.17%	12.83%
	\$20 xs \$130	0.00%	89.02%	10.98%
7/1999 - 6/2000	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4 xs \$1.0	50.00%	46.80%	3.20%
	\$7.5 xs \$5.0	20.00%	75.98%	4.02%
	\$12.5 xs \$12.5	18.00%	77.61%	4.39%
	\$10 xs \$25	12.50%	79.12%	8.38%
	\$30 xs \$50	0.00%	86.00%	14.00%
	\$20 xs \$130	0.00%	88.16%	11.84%
7/2000 - 6/2001	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4 xs \$1.0	50.00%	46.80%	3.20%
	\$7.5 xs \$5.0	20.00%	75.98%	4.02%
	\$12.5 xs \$12.5	18.00%	77.61%	4.39%
	\$10 xs \$25	12.50%	79.12%	8.38%
	\$30 xs \$50	0.00%	86.00%	14.00%
	\$20 xs \$140	0.00%	88.16%	11.84%
7/2001 - 6/2002	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4 xs \$1.0	50.00%	46.80%	3.20%
	\$7.5 xs \$5.0	20.00%	80.00%	0.00%
	\$12.5 xs \$12.5	18.00%	78.97%	3.03%
	\$10 xs \$25	12.50%	79.12%	8.38%
	\$30 xs \$50	0.00%	86.00%	14.00%
	\$20 xs \$140	0.00%	88.16%	11.84%
7/2002 - 6/2003	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4 xs \$1.0	100.00%	0.00%	0.00%
	\$7.5 xs \$5.0	20.00%	80.00%	0.00%
	\$12.5 xs \$12.5	18.00%	82.00%	0.00%
	\$10 xs \$25	12.50%	63.42%	24.08%
	\$30 xs \$50	0.00%	76.46%	23.54%
	\$20 xs \$140	0.00%	18.23%	81.77%

Proportional Basis *cont'd*

<u>Fiscal Period</u>	<u>Layer (in million \$)</u>	<u>Retained Portion</u>	<u>Portion Reinsured with:</u>	
			<u>Registered Companies</u>	<u>Unregistered Companies</u>
7/2003 - 6/2004	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4 xs \$1.0	100.00%	0.00%	0.00%
	\$7.5 xs \$5.0	20.00%	80.00%	0.00%
	\$12.5 xs \$12.5	18.00%	82.00%	0.00%
	\$10 xs \$25	12.50%	57.50%	30.00%
	\$30 xs \$50	0.00%	73.85%	26.15%
	\$20 xs \$140	0.00%	9.66%	90.34%
7/2004 - 6/2005	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4 xs \$1.0	100.00%	0.00%	0.00%
	\$7.5 xs \$5.0	20.00%	75.00%	5.00%
	\$12.5 xs \$12.5	18.00%	82.00%	0.00%
	\$10 xs \$25	12.50%	63.05%	24.45%
	\$30 xs \$50	0.00%	74.86%	25.14%
	\$20 xs \$140	0.00%	9.66%	90.34%
7/2005 - 6/2006	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4 xs \$1.0	100.00%	0.00%	0.00%
	\$7.5 xs \$5.0	20.00%	75.00%	5.00%
	\$12.5 xs \$12.5	18.00%	80.00%	2.00%
	\$10 xs \$25	12.50%	87.50%	0.00%
	\$30 xs \$50	0.00%	100.00%	0.00%
	\$20 xs \$140	0.00%	36.00%	64.00%
7/2006 - 6/2007	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4 xs \$1.0	100.00%	0.00%	0.00%
	\$7.5 xs \$5.0	20.00%	75.00%	5.00%
	\$12.5 xs \$12.5	18.00%	77.00%	5.00%
	\$10 xs \$25	12.50%	87.50%	0.00%
	\$30 xs \$50	0.00%	100.00%	0.00%
	\$20 xs \$140	0.00%	36.00%	64.00%
7/2007 - 6/2008	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4 xs \$1.0	100.00%	0.00%	0.00%
	\$7.5 xs \$5.0	30.00%	65.00%	5.00%
	\$12.5 xs \$12.5	18.00%	77.00%	5.00%
	\$10 xs \$25	12.50%	87.50%	0.00%
	\$30 xs \$50	0.00%	100.00%	0.00%
	\$20 xs \$140	0.00%	36.00%	64.00%
	\$20 xs \$160	0.00%	100.00%	0.00%

Proportional Basis *cont'd*

<u>Fiscal Period</u>	<u>Layer (in million \$)</u>	<u>Retained Portion</u>	<u>Portion Reinsured with:</u>	
			<u>Registered Companies</u>	<u>Unregistered Companies</u>
7/2008 - 6/2009	\$0.975 xs \$0.025	100.00%	0.00%	0.00%
	\$4 xs \$1.0	100.00%	0.00%	0.00%
	\$7.5 xs \$5.0	35.00%	60.00%	5.00%
	\$12.5 xs \$12.5	24.00%	71.00%	5.00%
	\$10 xs \$25	12.50%	87.50%	0.00%
	\$30 xs \$50	0.00%	100.00%	0.00%
	\$20 xs \$140	0.00%	36.00%	64.00%
	\$30 xs \$160	0.00%	100.00%	0.00%
7/2009 - 6/2010	\$0.975 xs \$0.025	100.00%	0.00%	0.00%
	\$4 xs \$1.0	100.00%	0.00%	0.00%
	\$7.5 xs \$5.0	45.00%	52.00%	3.00%
	\$12.5 xs \$12.5	28.00%	68.00%	4.00%
	\$10 xs \$25	15.00%	85.00%	0.00%
	\$30 xs \$50	0.00%	100.00%	0.00%
	\$20 xs \$140	0.00%	36.00%	64.00%
	\$30 xs \$160	0.00%	100.00%	0.00%
7/2010 - 6/2011	\$0.975 xs \$0.025	100.00%	0.00%	0.00%
	\$4 xs \$1.0	100.00%	0.00%	0.00%
	\$7.5 xs \$5.0	50.00%	47.50%	2.50%
	\$12.5 xs \$12.5	30.00%	67.50%	2.50%
	\$10 xs \$25	20.00%	80.00%	0.00%
	\$30 xs \$50	0.00%	100.00%	0.00%
	\$20 xs \$140	0.00%	36.00%	64.00%
	\$40 xs \$160	0.00%	100.00%	0.00%
7/2011 - 6/2012	\$0.975 xs \$0.025	100.00%	0.00%	0.00%
	\$49 xs \$1.0	25.00%	50.00%	25.00%
	\$30 xs min\$65	0.00%	100.00%	0.00%
	\$40/\$60 xs \$160	0.00%	76.00%	24.00%
7/2012 - 6/2013	\$0.975 xs \$0.025	100.00%	0.00%	0.00%
	\$49 xs \$1.0	0.00%	65.00%	35.00%
	\$30 xs min\$65	0.00%	100.00%	0.00%
	\$40/\$60 xs \$160	0.00%	76.00%	24.00%

Aggregate Basis Ceded to Unregistered Company

- | | |
|-----------------|---|
| 7/1989 - 6/1990 | a) Aggregate of \$750,000 of CLLAS retention after reflection of proportional reinsurance, and
b) \$4,250,000 excess \$15,000,000 of CLLAS retention after reflection of proportional reinsurance. |
| 7/1990 - 6/1991 | a) Aggregate of \$900,000 of CLLAS retention after reflection of proportional reinsurance, and
b) \$4,250,000 excess of \$15,000,000 of CLLAS retention after reflection of proportional reinsurance. |
| 7/1991 - 6/1992 | a) Aggregate of \$1,000,000 of CLLAS retention after reflection of proportional reinsurance, and
b) \$25,000,000 excess of \$12,000,000 of CLLAS retention after reflection of proportional reinsurance. |
| 7/1992 - 6/1993 | a) Aggregate of \$1,000,000 of CLLAS retention after reflection of proportional reinsurance, and
b) \$25,000,000 excess of \$12,000,000 of CLLAS retention after reflection of proportional reinsurance. |
| 7/1993 - 6/1994 | a) Aggregate of \$2,750,000 excess of \$250,000 of CLLAS retention after reflection of proportional reinsurance, and
b) \$14,000,000 excess of \$14,000,000 of CLLAS retention after reflection of proportional reinsurance. |
| 7/1994 - 6/1995 | a) Aggregate of \$2,750,000 excess of \$250,000 of CLLAS retention after reflection of proportional reinsurance, and
b) \$14,000,000 excess of \$14,000,000 of CLLAS retention after reflection of proportional reinsurance. |
| 7/1995 - 6/1996 | a) Aggregate of \$4,700,000 excess of \$3,300,000 of CLLAS retention after reflection of proportional reinsurance, and
b) \$14,000,000 excess of \$14,000,000 of CLLAS retention after reflection of proportional reinsurance. |
| 7/1996 - 6/1997 | a) Aggregate of \$4,700,000 excess of \$3,300,000 of CLLAS retention after reflection of proportional reinsurance, and
b) \$14,000,000 excess of \$14,000,000 of CLLAS retention after reflection of proportional reinsurance. |

Aggregate Basis Ceded to Unregistered Company *cont'd*

7/1998 - 6/1999	a) Aggregate of \$4,700,000 excess of \$3,300,000 of CLLAS retention after reflection of proportional reinsurance, and b) \$14,000,000 excess of \$14,000,000 of CLLAS retention after reflection of proportional reinsurance.
7/1999 - 6/2000	a) Aggregate of \$4,700,000 excess of \$3,300,000 of CLLAS retention after reflection of proportional reinsurance, and b) \$14,000,000 excess of \$14,000,000 of CLLAS retention after reflection of proportional reinsurance
7/2000 - 6/2001	a) Aggregate of \$4,700,000 excess of \$3,300,000 of CLLAS retention after reflection of proportional reinsurance, and b) \$14,000,000 excess of \$14,000,000 of CLLAS retention after reflection of proportional reinsurance
7/2001 - 6/2002	a) Aggregate of \$4,700,000 excess of \$3,300,000 of CLLAS retention after reflection of proportional reinsurance, and b) \$14,000,000 excess of \$14,000,000 of CLLAS retention after reflection of proportional reinsurance
7/2002 - 6/2003	a) Aggregate of \$7,500,000 excess of \$5,500,000 of CLLAS retention after reflection of proportional reinsurance, and b) \$20,000,000 excess of \$20,000,000 of CLLAS retention after reflection of proportional reinsurance
7/2003 - 6/2004	a) Aggregate of \$7,500,000 excess of \$5,500,000 of CLLAS retention after reflection of proportional reinsurance, and b) \$20,000,000 excess of \$20,000,000 of CLLAS retention after reflection of proportional reinsurance
7/2004 - 6/2005	a) Aggregate of \$7,500,000 excess of \$5,500,000 of CLLAS retention after reflection of proportional reinsurance, and b) \$20,000,000 excess of \$20,000,000 of CLLAS retention after reflection of proportional reinsurance
7/2005 - 6/2006	a) Aggregate of \$9,500,000 excess of \$5,500,000 of CLLAS retention after reflection of proportional reinsurance, and b) \$20,000,000 excess of \$20,000,000 of CLLAS retention after reflection of proportional reinsurance
7/2006 - 6/2007	a) Aggregate of \$5,000,000 excess of \$15,000,000 of CLLAS retention after reflection of proportional reinsurance, and b) \$20,000,000 excess of \$20,000,000 of CLLAS retention after reflection of proportional reinsurance
7/2007 - 6/2008	a) Aggregate of \$5,000,000 excess of \$15,000,000 of CLLAS retention after reflection of proportional reinsurance, and b) \$20,000,000 excess of \$20,000,000 of CLLAS retention after reflection of proportional reinsurance

Aggregate Basis Ceded to Unregistered Company *cont'd*

7/2008 – 6/2009	a) Aggregate of \$5,000,000 excess of \$15,000,000 of CLLAS retention after reflection of proportional reinsurance, and b) \$20,000,000 excess of \$20,000,000 of CLLAS retention after reflection of proportional reinsurance
7/2009 – 6/2010	a) Aggregate of \$10,000,000 excess of \$15,000,000 of CLLAS retention after reflection of proportional reinsurance, and b) \$15,000,000 excess of \$25,000,000 of CLLAS retention after reflection of proportional reinsurance
7/2010 – 6/2011	a) Aggregate of \$10,000,000 excess of \$15,000,000 of CLLAS retention after reflection of proportional reinsurance, and b) \$15,000,000 excess of \$25,000,000 of CLLAS retention after reflection of proportional reinsurance
7/2011 – 6/2012	a) Aggregate of \$22,500,000 excess of \$17,500,000 of CLLAS/Colchester retention after reflection of reinsurance
7/2012 – 6/2013	a) Aggregate of \$10,000,000 excess of \$5,000,000 of CLLAS retention after reflection of proportional reinsurance

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

CUMULATIVE PAID LOSSES AND ALAE - GROSS BASIS (in \$000's)
As at December 31, 2012

<i>Year</i>	<i>6</i>	<i>18</i>	<i>30</i>	<i>42</i>	<i>54</i>	<i>66</i>	<i>78</i>	<i>90</i>	<i>102</i>	<i>114</i>	<i>126</i>	<i>138</i>	<i>150</i>	<i>162</i>	<i>174</i>	<i>186</i>	<i>198</i>	<i>210</i>	<i>Ultimate (1)</i>
July 1, 1987 - June 30, 1988	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1988 - June 30, 1989	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1989 - June 30, 1990	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1990 - June 30, 1991	0	0	0	0	0	0	0	1,007	2,773	3,593	3,593	3,593	3,593	3,593	3,593	3,593	3,593	3,593	3,593
July 1, 1991 - June 30, 1992	0	0	0	0	0	1,244	6,061	6,036	6,036	6,036	6,036	7,417	7,417	7,417	7,417	7,417	7,417	7,417	7,417
July 1, 1992 - June 30, 1993	0	0	0	0	0	0	0	0	0	305	326	327	327	327	327	327	327	327	327
July 1, 1993 - June 30, 1994	0	0	0	15,287	15,279	15,279	15,280	15,280	15,280	15,280	16,314	16,832	17,109	30,655	30,655	30,655	30,655	30,655	30,655
July 1, 1994 - June 30, 1995	0	26	58	7,885	7,903	7,903	9,319	9,319	9,319	9,319	9,319	9,319	9,319	9,319	9,319	9,319	9,319	9,319	9,319
July 1, 1995 - June 30, 1996	0	0	1,217	1,375	1,393	1,407	3,752	3,743	3,743	3,743	3,743	3,743	3,743	3,743	3,743	3,743	3,743	3,743	3,743
July 1, 1996 - June 30, 1997	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1997 - June 30, 1998	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1998 - June 30, 1999	0	0	0	1,094	20,159	20,297	20,297	20,297	20,297	20,297	20,297	20,297	20,297	20,297	20,297	20,297			20,297
July 1, 1999 - June 30, 2000	0	0	0	0	0	421	421	7,026	7,026	8,482	8,493	8,493	8,493	8,493					8,493
July 1, 2000 - June 30, 2001	0	0	0	0	0	0	0	0	0	0	0	0	0	0					0
July 1, 2001 - June 30, 2002	0	0	0	3,046	3,144	17,180	17,553	17,554	17,554	17,554	17,554	17,554							17,696
July 1, 2002 - June 30, 2003	0	0	4	5	10	342	868	3,395	3,398	3,416	3,422								6,821
July 1, 2003 - June 30, 2004	0	0	22,503	24,279	24,447	25,735	28,084	37,302	37,503	38,933									39,662
July 1, 2004 - June 30, 2005	0	11	912	945	975	980	987	1,262	1,262										3,170
July 1, 2005 - June 30, 2006	0	3	3	683	712	712	712	712											1,888
July 1, 2006 - June 30, 2007	0	0	0	0	0	0	6,389												8,230
July 1, 2007 - June 30, 2008	0	0	2,166	2,184	13,439	14,160													17,526
July 1, 2008 - June 30, 2009	0	5	5	5	5														6,471
July 1, 2009 - June 30, 2010	0	20	20	523															13,158
July 1, 2010 - June 30, 2011	0	1,663	2,155																15,446
July 1, 2011 - June 30, 2012	10	107																	14,982
July 1, 2012 - Dec. 31, 2012	0																		7,598

(1) From Exhibit V

PAID-TO-ULTIMATE PATTERN

Year	6	18	30	42	54	66	78	90	102	114	126	138	150	162	174	186	198	210
July 1, 1987 - June 30, 1988																		
July 1, 1988 - June 30, 1989																		
July 1, 1989 - June 30, 1990																		
July 1, 1990 - June 30, 1991								28.0%	77.2%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
July 1, 1991 - June 30, 1992						16.8%	81.7%	81.4%	81.4%	81.4%	81.4%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
July 1, 1992 - June 30, 1993											93.3%	99.7%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
July 1, 1993 - June 30, 1994				49.9%	49.8%	49.8%	49.8%	49.8%	49.8%	49.8%	53.2%	54.9%	55.8%	100.0%	100.0%	100.0%	100.0%	100.0%
July 1, 1994 - June 30, 1995		0.3%	0.6%	84.6%	84.8%	84.8%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
July 1, 1995 - June 30, 1996			32.5%	36.7%	37.2%	37.6%	100.2%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
July 1, 1996 - June 30, 1997																		
July 1, 1997 - June 30, 1998																		
July 1, 1998 - June 30, 1999				5.4%	99.3%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		
July 1, 1999 - June 30, 2000						5.0%	5.0%	82.7%	82.7%	99.9%	100.0%	100.0%	100.0%	100.0%				
July 1, 2000 - June 30, 2001																		
July 1, 2001 - June 30, 2002				17.2%	17.8%	97.1%	99.2%	99.2%	99.2%	99.2%	99.2%	99.2%						
July 1, 2002 - June 30, 2003			0.1%	0.1%	0.1%	5.0%	12.7%	49.8%	49.8%	50.1%	50.2%							
July 1, 2003 - June 30, 2004			56.7%	61.2%	61.6%	64.9%	70.8%	94.0%	94.6%	98.2%								
July 1, 2004 - June 30, 2005		0.3%	28.8%	29.8%	30.7%	30.9%	31.1%	39.8%	39.8%									
July 1, 2005 - June 30, 2006		0.2%	0.2%	36.2%	37.7%	37.7%	37.7%	37.7%										
July 1, 2006 - June 30, 2007							77.6%											
July 1, 2007 - June 30, 2008			12.4%	12.5%	76.7%	80.8%												
July 1, 2008 - June 30, 2009		0.1%	0.1%	0.1%	0.1%													
July 1, 2009 - June 30, 2010		0.1%	0.1%	4.0%														
July 1, 2010 - June 30, 2011		10.8%	14.0%															
July 1, 2011 - June 30, 2012	0.1%	0.7%																
July 1, 2012 - Dec. 31, 2012																		

PAYOUT PATTERN

	6	18	30	42	54	66	78	90	102	114	126	138	150	162	174	186	198	210
Selected at 12/31/2011	2.0%	12.0%	17.0%	25.0%	40.0%	55.0%	65.0%	75.0%	79.0%	82.0%	85.0%	88.0%	91.0%	94.0%	96.0%	98.0%	100.0%	100.0%
Selected at 12/31/2012	1.0%	7.0%	17.0%	27.0%	37.0%	48.5%	60.0%	70.0%	77.0%	80.5%	83.5%	86.5%	89.5%	92.5%	95.0%	97.0%	99.0%	100.0%

[illegible]

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

INCURRED LOSSES - GROSS BASIS (in \$000's)

As at December 31, 2012

Year	6	18	30	42	54	66	78	90	102	114	126	138	150	162	174	186	198	210
July 1, 1987 - June 30, 1988	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1988 - June 30, 1989	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1989 - June 30, 1990	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1990 - June 30, 1991	0	0	0	500	600	600	200	2,232	3,423	3,593	3,593	3,593	3,593	3,593	3,593	3,593	3,593	3,593
July 1, 1991 - June 30, 1992	0	0	1,750	2,500	4,050	9,244	7,054	7,536	7,536	7,536	7,536	7,436	7,417	7,417	7,417	7,417	7,417	7,417
July 1, 1992 - June 30, 1993	0	0	0	0	0	0	0	500	500	339	339	327	327	327	327	327	327	327
July 1, 1993 - June 30, 1994	0	0	0	17,246	19,070	19,031	22,031	31,030	31,030	31,030	31,030	32,530	32,530	30,655	30,655	30,655	30,655	30,655
July 1, 1994 - June 30, 1995	0	801	2,782	8,704	9,153	10,003	9,819	9,319	9,319	9,319	9,319	9,319	9,319	9,319	9,319	9,319	9,319	9,319
July 1, 1995 - June 30, 1996	0	750	1,365	1,395	1,443	3,443	3,753	3,743	3,743	3,743	3,743	3,743	3,743	3,743	3,743	3,743	3,743	3,743
July 1, 1996 - June 30, 1997	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1997 - June 30, 1998	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1998 - June 30, 1999	0	215	4,215	18,099	21,051	20,512	20,297	20,297	20,297	20,297	20,297	20,297	20,297	20,297	20,297	20,297	20,297	20,297
July 1, 1999 - June 30, 2000	0	0	0	0	0	7,421	7,421	8,282	8,276	8,493	8,493	8,493	8,493	8,493	8,493	8,493	8,493	8,493
July 1, 2000 - June 30, 2001	0	0	0	0	0	500	500	1,000	1,000	1,000	1,000	0	0	0	0	0	0	0
July 1, 2001 - June 30, 2002	500	500	6,700	8,688	19,351	18,749	18,749	18,749	18,254	18,254	17,554	17,554	0	0	0	0	0	0
July 1, 2002 - June 30, 2003	0	100	100	100	4,600	5,898	6,094	6,521	6,521	6,521	6,521	6,521	0	0	0	0	0	0
July 1, 2003 - June 30, 2004	0	500	27,420	28,054	28,054	29,047	31,609	38,666	39,253	38,933	0	0	0	0	0	0	0	0
July 1, 2004 - June 30, 2005	1,000	1,775	1,850	1,850	1,850	1,850	1,850	2,074	2,074	0	0	0	0	0	0	0	0	0
July 1, 2005 - June 30, 2006	0	3	3	712	712	712	712	712	0	0	0	0	0	0	0	0	0	0
July 1, 2006 - June 30, 2007	250	1,550	1,800	2,550	3,550	6,750	6,967	0	0	0	0	0	0	0	0	0	0	0
July 1, 2007 - June 30, 2008	0	0	4,266	6,766	15,366	15,266	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 2008 - June 30, 2009	0	25	25	5	1,105	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 2009 - June 30, 2010	25	1,300	2,300	4,120	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 2010 - June 30, 2011	0	2,027	3,750	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 2011 - June 30, 2012	225	122	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 2012 - Dec. 31, 2012	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

REPORTED AGE-TO-AGE FACTORS

Year	6-18	18-30	30-42	42-54	54-66	66-78	78-90	90-102	102-114	114-126	126-138	138-150	150-162	162-174	174-186	186-198	198-210	To Ult
July 1, 1987 - June 30, 1988																		
July 1, 1988 - June 30, 1989																		
July 1, 1989 - June 30, 1990																		
July 1, 1990 - June 30, 1991				1.200	1.000	0.333	11.158	1.534	1.050	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 1991 - June 30, 1992			1.429	1.620	2.282	0.763	1.068	1.000	1.000	1.000	0.987	0.997	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 1992 - June 30, 1993								1.000	0.678	1.000	1.000	0.963	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 1993 - June 30, 1994				1.106	0.998	1.158	1.408	1.000	1.000	1.000	1.048	1.000	0.942	1.000	1.000	1.000	1.000	1.000
July 1, 1994 - June 30, 1995		3.473	3.129	1.052	1.093	0.982	0.949	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 1995 - June 30, 1996		1.820	1.022	1.034	2.386	1.090	0.997	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 1996 - June 30, 1997																		
July 1, 1997 - June 30, 1998																		
July 1, 1998 - June 30, 1999		19.605	4.294	1.163	0.974	0.990	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 1999 - June 30, 2000						1.000	1.116	0.999	1.026	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 2000 - June 30, 2001						1.000	2.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 2001 - June 30, 2002	1.000	13.400	1.297	2.227	0.969	1.000	1.000	0.974	1.000	0.962	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 2002 - June 30, 2003		1.000	1.000	46.000	1.282	1.033	1.070	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 2003 - June 30, 2004		54.839	1.023	1.000	1.035	1.088	1.223	1.015	0.992	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 2004 - June 30, 2005	1.775	1.042	1.000	1.000	1.000	1.000	1.121	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 2005 - June 30, 2006		1.000	251.330	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 2006 - June 30, 2007	6.200	1.161	1.417	1.392	1.901	1.032	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 2007 - June 30, 2008			1.586	2.271	0.993	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 2008 - June 30, 2009		1.000	0.202	219.163	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 2009 - June 30, 2010	52.000	1.769	1.791	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 2010 - June 30, 2011		1.849	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 2011 - June 30, 2012	0.542	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 2012 - Dec. 31, 2012	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

REPORTED AVERAGES

	6-18	18-30	30-42	42-54	54-66	66-78	78-90	90-102	102-114	114-126	126-138	138-150	150-162	162-174	174-186	186-198	198-210	To Ult
Simple Average																		
All years	12.303	8.497	20.809	20.088	1.301	0.962	1.932	1.040	0.979	0.997	1.000	1.000	0.993	1.000	1.000	1.000	1.000	1.000
Latest 5	26.271	1.445	51.265	44.965	1.186	1.031	1.083	0.998	1.004	0.992	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Medial Average																		
All years	2.992	4.612	1.726	5.089	1.233	0.998	1.182	1.001	1.002	1.000	0.998	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Latest 5	-	1.465	1.598	1.554	1.012	1.022	1.064	1.000	1.000	1.000	1.000	-	1.000	1.000	1.000	1.000	1.000	1.000
Volume Weighted Average																		
All years	4.834	6.110	1.856	1.337	1.157	1.025	1.158	1.009	0.999	0.994	1.004	1.000	0.978	1.000	1.000	1.000	1.000	1.000
Latest 5	13.897	2.476	1.686	1.900	1.083	1.067	1.131	1.001	0.999	0.987	0.979	1.000	1.000	1.000	1.000	1.000	1.000	1.000

REPORTED FACTOR SELECTIONS

	6-18	18-30	30-42	42-54	54-66	66-78	78-90	90-102	102-114	114-126	126-138	138-150	150-162	162-174	174-186	186-198	198-210	To Ult
Selected at 12/31/2011	2.046	2.453	1.366	1.347	1.280	1.071	1.000	1.000	1.014	1.020	1.007	1.008	1.000	1.000	1.000	1.000	1.000	1.000
Selected at 12/31/2012	1.993	2.439	1.481	1.351	1.267	1.071	1.000	1.000	1.014	1.020	1.007	1.008	1.000	1.000	1.000	1.000	1.000	1.000
Factor to ultimate	13.850	6.950	2.850	1.925	1.425	1.125	1.050	1.050	1.050	1.035	1.015	1.008	1.000	1.000	1.000	1.000	1.000	1.000
Selected % of Ultimate	0.072	0.144	0.351	0.519	0.702	0.889	0.952	0.952	0.952	0.966	0.985	0.993	1.000	1.000	1.000	1.000	1.000	1.000

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

CUMULATIVE NUMBER OF CLAIMS REPORTED - GROSS BASIS[illegible]

Year	6	18	30	42	54	66	78	90	102	114	126	138	150	162	174	186	198	210
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[illegible]

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

CUMULATIVE PAID LOSSES AND ALAE - NET BASIS (1) (in \$000's)
As at December 31, 2012

<i>Year</i>	<i>6</i>	<i>18</i>	<i>30</i>	<i>42</i>	<i>54</i>	<i>66</i>	<i>78</i>	<i>90</i>	<i>102</i>	<i>114</i>	<i>126</i>	<i>138</i>	<i>150</i>	<i>162</i>	<i>174</i>	<i>186</i>	<i>198</i>	<i>210</i>	<i>Ultimate (2)</i>
July 1, 1987 - June 30, 1988	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1988 - June 30, 1989	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1989 - June 30, 1990	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1990 - June 30, 1991	0	0	0	0	0	0	0	503	1,387	1,797	1,797	1,797	1,797	1,797	1,797	1,797	1,797	1,797	1,797
July 1, 1991 - June 30, 1992	0	0	0	0	0	622	2,785	2,780	2,780	2,780	2,780	3,470	3,470	3,470	3,470	3,470	3,470	3,470	3,470
July 1, 1992 - June 30, 1993	0	0	0	0	0	0	0	0	0	152	163	163	163	163	163	163	163	163	163
July 1, 1993 - June 30, 1994	0	0	0	4,182	4,180	4,180	4,191	4,191	4,191	4,191	4,708	4,967	5,105	8,388	8,388	8,388	8,388	8,388	8,388
July 1, 1994 - June 30, 1995	0	13	29	3,916	3,925	3,925	4,633	4,633	4,633	4,633	4,633	4,633	4,633	4,633	4,633	4,633	4,633	4,633	4,633
July 1, 1995 - June 30, 1996	0	0	608	688	696	703	1,876	1,871	1,871	1,871	1,871	1,871	1,871	1,871	1,871	1,871	1,871	1,871	1,871
July 1, 1996 - June 30, 1997	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1997 - June 30, 1998	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1998 - June 30, 1999	0	0	0	0	6,185	6,254	6,254	6,254	6,254	6,254	6,254	6,254	6,254	6,254	6,254	6,254			6,254
July 1, 1999 - June 30, 2000	0	0	0	0	0	210	210	2,731	2,731	3,459	3,465	3,465	3,465	3,465	3,465				3,465
July 1, 2000 - June 30, 2001	0	0	0	0	0	0	0	0	0	0	0	0	0	0					0
July 1, 2001 - June 30, 2002	0	0	0	1,523	1,572	5,532	5,602	5,602	5,602	5,602	5,602	5,602							5,645
July 1, 2002 - June 30, 2003	0	0	4	5	10	342	868	3,395	3,398	3,416	3,422								6,662
July 1, 2003 - June 30, 2004	0	0	7,481	9,033	9,064	10,352	11,009	12,342	12,503	13,933									14,279
July 1, 2004 - June 30, 2005	0	11	912	945	975	980	987	1,262	1,262										2,590
July 1, 2005 - June 30, 2006	0	3	3	683	712	712	712	712											1,259
July 1, 2006 - June 30, 2007	0	0	0	0	0	0	5,688												6,806
July 1, 2007 - June 30, 2008	0	0	2,166	2,184	8,361	8,520													10,779
July 1, 2008 - June 30, 2009	0	5	5	5	5														4,118
July 1, 2009 - June 30, 2010	0	20	20	523															9,569
July 1, 2010 - June 30, 2011	0	1,663	2,155																10,972
July 1, 2011 - June 30, 2012	10	107																	4,207
July 1, 2012 - Dec. 31, 2012	0																		231

(1) Net of proportional reinsurance

(2) From Exhibit V

PAID -TO-ULTIMATE PATTERN

Year	6	18	30	42	54	66	78	90	102	114	126	138	150	162	174	186	198	210
July 1, 1987 - June 30, 1988																		
July 1, 1988 - June 30, 1989																		
July 1, 1989 - June 30, 1990																		
July 1, 1990 - June 30, 1991								28.0%	77.2%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
July 1, 1991 - June 30, 1992						17.9%	80.3%	80.1%	80.1%	80.1%	80.1%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
July 1, 1992 - June 30, 1993																		
July 1, 1993 - June 30, 1994				49.9%	49.8%	49.8%	50.0%	50.0%	50.0%	50.0%	56.1%	59.2%	60.9%	100.0%	100.0%	100.0%	100.0%	100.0%
July 1, 1994 - June 30, 1995		0.3%	0.6%	84.5%	84.7%	84.7%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
July 1, 1995 - June 30, 1996			32.5%	36.7%	37.2%	37.6%	100.2%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
July 1, 1996 - June 30, 1997																		
July 1, 1997 - June 30, 1998																		
July 1, 1998 - June 30, 1999					98.9%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		
July 1, 1999 - June 30, 2000						6.1%	6.1%	78.8%	78.8%	99.8%	100.0%	100.0%	100.0%	100.0%				
July 1, 2000 - June 30, 2001																		
July 1, 2001 - June 30, 2002				27.0%	27.8%	98.0%	99.2%	99.2%	99.2%	99.2%	99.2%	99.2%						
July 1, 2002 - June 30, 2003			0.1%	0.1%	0.1%	5.1%	13.0%	51.0%	51.0%	51.3%	51.4%							
July 1, 2003 - June 30, 2004			52.4%	63.3%	63.5%	72.5%	77.1%	86.4%	87.6%	97.6%								
July 1, 2004 - June 30, 2005		0.4%	35.2%	36.5%	37.6%	37.8%	38.1%	48.7%	48.7%									
July 1, 2005 - June 30, 2006		0.2%	0.2%	54.2%	56.6%	56.6%	56.6%	56.6%										
July 1, 2006 - June 30, 2007							83.6%											
July 1, 2007 - June 30, 2008			20.1%	20.3%	77.6%	79.0%												
July 1, 2008 - June 30, 2009		0.1%	0.1%	0.1%	0.1%													
July 1, 2009 - June 30, 2010		0.2%	0.2%	5.5%														
July 1, 2010 - June 30, 2011		15.2%	19.6%															
July 1, 2011 - June 30, 2012	0.2%	2.5%																
July 1, 2012 - Dec. 31, 2012																		

PAYOUT PATTERN

	6	18	30	42	54	66	78	90	102	114	126	138	150	162	174	186	198	210
Selected at 12/31/2011	2.0%	12.0%	17.0%	25.0%	40.0%	55.0%	65.0%	75.0%	79.0%	82.0%	85.0%	88.0%	91.0%	94.0%	96.0%	98.0%	100.0%	100.0%
Selected at 12/31/2012	1.0%	7.0%	17.0%	27.0%	37.0%	48.5%	60.0%	70.0%	77.0%	80.5%	83.5%	86.5%	89.5%	92.5%	95.0%	97.0%	99.0%	100.0%

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

CASE RESERVES - NET BASIS (1) (in \$000's)
As at December 31, 2012

Year	6	18	30	42	54	66	78	90	102	114	126	138	150	162	174	186	198	210
July 1, 1987 - June 30, 1988	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1988 - June 30, 1989	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1989 - June 30, 1990	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1990 - June 30, 1991	0	0	0	250	300	300	100	613	325	0	0	0	0	0	0	0	0	0
July 1, 1991 - June 30, 1992	0	0	875	1,250	2,025	3,100	499	750	750	750	750	10	0	0	0	0	0	0
July 1, 1992 - June 30, 1993	0	0	0	0	0	0	0	250	250	17	7	0	0	0	0	0	0	0
July 1, 1993 - June 30, 1994	0	0	0	833	1,882	1,875	2,700	4,425	4,425	4,425	3,908	3,919	3,780	0	0	0	0	0
July 1, 1994 - June 30, 1995	0	388	1,362	409	625	1,050	250	0	0	0	0	0	0	0	0	0	0	0
July 1, 1995 - June 30, 1996	0	375	74	10	25	1,018	1	0	0	0	0	0	0	0	0	0	0	0
July 1, 1996 - June 30, 1997	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1997 - June 30, 1998	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1998 - June 30, 1999	0	108	2,108	2,233	385	108	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1999 - June 30, 2000	0	0	0	0	0	2,600	2,600	626	625	5	0	0	0	0	0	0	0	0
July 1, 2000 - June 30, 2001	0	0	0	0	0	250	250	500	500	500	500	0	0	0	0	0	0	0
July 1, 2001 - June 30, 2002	250	250	3,350	2,821	4,893	667	598	598	350	350	0	0	0	0	0	0	0	0
July 1, 2002 - June 30, 2003	0	100	96	95	4,590	5,555	5,226	3,126	3,123	3,105	3,099	0	0	0	0	0	0	0
July 1, 2003 - June 30, 2004	0	500	3,755	1,939	1,909	744	463	1,325	1,750	0	0	0	0	0	0	0	0	0
July 1, 2004 - June 30, 2005	1,000	1,764	938	905	875	870	863	812	812	0	0	0	0	0	0	0	0	0
July 1, 2005 - June 30, 2006	0	0	0	30	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 2006 - June 30, 2007	250	1,550	1,800	2,550	3,550	6,150	505	0	0	0	0	0	0	0	0	0	0	0
July 1, 2007 - June 30, 2008	0	0	2,100	4,582	1,263	1,086	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 2008 - June 30, 2009	0	20	20	0	1,100	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 2009 - June 30, 2010	25	1,280	2,280	3,597	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 2010 - June 30, 2011	0	365	1,594	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 2011 - June 30, 2012	215	15	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 2012 - Dec. 31, 2012	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

(1) Net of proportional reinsurance

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

INCURRED LOSSES - NET BASIS (1) (in \$000's)
As at December 31, 2012

Year	6	18	30	42	54	66	78	90	102	114	126	138	150	162	174	186	198	210
July 1, 1987 - June 30, 1988	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1988 - June 30, 1989	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1989 - June 30, 1990	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1990 - June 30, 1991	0	0	0	250	300	300	100	1,116	1,712	1,797	1,797	1,797	1,797	1,797	1,797	1,797	1,797	1,797
July 1, 1991 - June 30, 1992	0	0	875	1,250	2,025	3,722	3,284	3,530	3,530	3,530	3,530	3,480	3,470	3,470	3,470	3,470	3,470	3,470
July 1, 1992 - June 30, 1993	0	0	0	0	0	0	0	250	250	170	170	163	163	163	163	163	163	163
July 1, 1993 - June 30, 1994	0	0	0	5,014	6,063	6,056	6,891	8,616	8,616	8,616	8,616	8,886	8,886	8,886	8,888	8,388	8,388	8,388
July 1, 1994 - June 30, 1995	0	400	1,391	4,326	4,550	4,975	4,883	4,633	4,633	4,633	4,633	4,633	4,633	4,633	4,633	4,633	4,633	4,633
July 1, 1995 - June 30, 1996	0	375	682	698	721	1,721	1,876	1,871	1,871	1,871	1,871	1,871	1,871	1,871	1,871	1,871	1,871	1,871
July 1, 1996 - June 30, 1997	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1997 - June 30, 1998	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1998 - June 30, 1999	0	108	2,108	2,233	6,570	6,362	6,254	6,254	6,254	6,254	6,254	6,254	6,254	6,254	6,254	6,254	6,254	6,254
July 1, 1999 - June 30, 2000	0	0	0	0	0	2,810	2,810	3,358	3,356	3,465	3,465	3,465	3,465	3,465	3,465	3,465	3,465	3,465
July 1, 2000 - June 30, 2001	0	0	0	0	0	250	250	500	500	500	500	0	0	0	0	0	0	0
July 1, 2001 - June 30, 2002	250	250	3,350	4,344	6,465	6,200	6,200	6,200	5,952	5,952	5,602	5,602	5,602	5,602	5,602	5,602	5,602	5,602
July 1, 2002 - June 30, 2003	0	100	100	100	4,600	5,898	6,094	6,521	6,521	6,521	6,521	6,521	6,521	6,521	6,521	6,521	6,521	6,521
July 1, 2003 - June 30, 2004	0	500	11,236	10,973	10,973	11,097	11,471	13,666	14,253	13,933	13,933	13,933	13,933	13,933	13,933	13,933	13,933	13,933
July 1, 2004 - June 30, 2005	1,000	1,775	1,850	1,850	1,850	1,850	1,850	2,074	2,074	2,074	2,074	2,074	2,074	2,074	2,074	2,074	2,074	2,074
July 1, 2005 - June 30, 2006	0	3	3	712	712	712	712	712	712	712	712	712	712	712	712	712	712	712
July 1, 2006 - June 30, 2007	250	1,550	1,800	2,550	3,550	6,150	6,193	6,193	6,193	6,193	6,193	6,193	6,193	6,193	6,193	6,193	6,193	6,193
July 1, 2007 - June 30, 2008	0	0	4,266	6,766	9,624	9,606	9,606	9,606	9,606	9,606	9,606	9,606	9,606	9,606	9,606	9,606	9,606	9,606
July 1, 2008 - June 30, 2009	0	25	25	5	1,105	1,105	1,105	1,105	1,105	1,105	1,105	1,105	1,105	1,105	1,105	1,105	1,105	1,105
July 1, 2009 - June 30, 2010	25	1,300	2,300	4,120	4,120	4,120	4,120	4,120	4,120	4,120	4,120	4,120	4,120	4,120	4,120	4,120	4,120	4,120
July 1, 2010 - June 30, 2011	0	2,027	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750
July 1, 2011 - June 30, 2012	225	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122
July 1, 2012 - Dec. 31, 2012	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

(1) Net of proportional reinsurance

REPORTED AGE-TO-AGE FACTORS

Year	6-18	18-30	30-42	42-54	54-66	66-78	78-90	90-102	102-114	114-126	126-138	138-150	150-162	162-174	174-186	186-198	198-210	To Ult
July 1, 1987 - June 30, 1988																		
July 1, 1988 - June 30, 1989																		
July 1, 1989 - June 30, 1990																		
July 1, 1990 - June 30, 1991				1.200	1.000	0.333	11.158	1.534	1.050	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 1991 - June 30, 1992			1.429	1.620	1.838	0.882	1.075	1.000	1.000	1.000	0.986	0.997	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 1992 - June 30, 1993								1.000	0.678	1.000	0.963	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 1993 - June 30, 1994				1.209	0.999	1.138	1.250	1.000	1.000	1.000	1.031	1.000	0.944	1.000	1.000	1.000	1.000	1.000
July 1, 1994 - June 30, 1995		3.473	3.110	1.052	1.093	0.982	0.949	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 1995 - June 30, 1996		1.820	1.022	1.034	2.386	1.090	0.997	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 1996 - June 30, 1997																		
July 1, 1997 - June 30, 1998																		
July 1, 1998 - June 30, 1999		19.605	1.059	2.943	0.968	0.983	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 1999 - June 30, 2000						1.000	1.195	1.000	1.032	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 2000 - June 30, 2001						1.000	2.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 2001 - June 30, 2002	1.000	13.400	1.297	1.488	0.959	1.000	1.000	0.960	1.000	0.941	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 2002 - June 30, 2003		1.000	1.000	46.000	1.282	1.033	1.070	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 2003 - June 30, 2004		22.471	0.977	1.000	1.011	1.034	1.191	1.043	0.978	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 2004 - June 30, 2005	1.775	1.042	1.000	1.000	1.000	1.000	1.121	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 2005 - June 30, 2006		1.000	251.330	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 2006 - June 30, 2007	6.200	1.161	1.417	1.392	1.732	1.007	1.007	1.007	1.007	1.007	1.007	1.007	1.007	1.007	1.007	1.007	1.007	1.007
July 1, 2007 - June 30, 2008			1.586	1.422	0.998	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 2008 - June 30, 2009		1.000	0.202	219.163	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
July 1, 2009 - June 30, 2010	52.000	1.769	1.791	1.791	1.791	1.791	1.791	1.791	1.791	1.791	1.791	1.791	1.791	1.791	1.791	1.791	1.791	1.791
July 1, 2010 - June 30, 2011		1.849	1.849	1.849	1.849	1.849	1.849	1.849	1.849	1.849	1.849	1.849	1.849	1.849	1.849	1.849	1.849	1.849
July 1, 2011 - June 30, 2012	0.542	0.542	0.542	0.542	0.542	0.542	0.542	0.542	0.542	0.542	0.542	0.542	0.542	0.542	0.542	0.542	0.542	0.542
July 1, 2012 - Dec. 31, 2012																		

REPORTED AVERAGES

	6-18	18-30	30-42	42-54	54-66	66-78	78-90	90-102	102-114	114-126	126-138	138-150	150-162	162-174	174-186	186-198	198-210	To Ult
Simple Average																		
All years	12.303	5.799	20.555	20.109	1.251	0.963	1.924	1.041	0.978	0.995	0.998	1.000	0.993	1.000	1.000	1.000	1.000	1.000
Latest 5	26.271	1.445	51.265	44.796	1.148	1.015	1.076	1.001	1.002	0.988	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Medial Average																		
All years	2.992	4.612	1.426	5.113	1.175	1.001	1.173	1.004	1.001	1.000	0.998	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Latest 5	-	1.465	1.598	1.272	1.004	1.013	1.064	1.000	1.000	1.000	1.000	-	1.000	1.000	1.000	1.000	1.000	1.000
Volume Weighted Average																		
All years	4.877	4.010	1.507	1.439	1.167	1.013	1.126	1.016	0.996	0.992	0.992	1.000	0.984	1.000	1.000	1.000	1.000	1.000
Latest 5	13.897	2.476	1.686	1.417	1.101	1.024	1.108	1.012	0.993	0.985	0.968	1.000	1.000	1.000	1.000	1.000	1.000	1.000
REPORTED FACTOR SELECTIONS																		
	6-18	18-30	30-42	42-54	54-66	66-78	78-90	90-102	102-114	114-126	126-138	138-150	150-162	162-174	174-186	186-198	198-210	To Ult
Selected at 12/31/2011	2.046	2.453	1.366	1.347	1.280	1.071	1.000	1.000	1.014	1.020	1.007	1.008	1.000	1.000	1.000	1.000	1.000	1.000
Selected at 12/31/2012	1.993	2.439	1.481	1.351	1.267	1.071	1.000	1.000	1.014	1.020	1.007	1.008	1.000	1.000	1.000	1.000	1.000	1.000
Factor to ultimate	13.850	6.950	2.850	1.925	1.425	1.125	1.050	1.050	1.050	1.035	1.015	1.008	1.000	1.000	1.000	1.000	1.000	1.000
Selected % of Ultimate	0.072	0.144	0.351	0.519	0.702	0.889	0.952	0.952	0.952	0.966	0.985	0.993	1.000	1.000	1.000	1.000	1.000	1.000

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

CUMULATIVE NUMBER OF CLAIMS REPORTED - NET BASIS (1)
As at December 31, 2012

Year	6	18	30	42	54	66	78	90	102	114	126	138	150	162	174	186	198	210
July 1, 1987 - June 30, 1988	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1988 - June 30, 1989	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1989 - June 30, 1990	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1990 - June 30, 1991	0	0	0	1	2	2	1	1	1	1	1	1	1	1	1	1	1	1
July 1, 1991 - June 30, 1992	0	0	2	3	4	3	3	3	3	3	3	3	3	3	3	3	3	3
July 1, 1992 - June 30, 1993	0	0	0	0	0	0	0	1	1	1	1	1	1	1	1	1	1	1
July 1, 1993 - June 30, 1994	0	0	0	4	4	4	4	4	4	4	4	4	4	4	2	2	2	2
July 1, 1994 - June 30, 1995	0	2	3	5	5	5	5	4	4	4	4	4	4	4	4	4	4	4
July 1, 1995 - June 30, 1996	0	1	1	1	2	2	2	2	2	2	2	2	2	2	2	2	2	2
July 1, 1996 - June 30, 1997	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1997 - June 30, 1998	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1998 - June 30, 1999	0	1	2	3	3	3	2	2	2	2	2	2	2	2	2	2	2	2
July 1, 1999 - June 30, 2000	0	0	0	0	0	2	2	3	3	3	3	3	3	3	3	3	3	3
July 1, 2000 - June 30, 2001	0	0	0	0	0	1	1	1	1	1	1	0	0	0	0	0	0	0
July 1, 2001 - June 30, 2002	1	1	3	4	5	6	6	6	6	6	6	4	4	4	4	4	4	4
July 1, 2002 - June 30, 2003	0	1	1	1	2	2	2	3	3	3	3	3	3	3	3	3	3	3
July 1, 2003 - June 30, 2004	0	1	3	3	3	3	3	4	4	4	4	4	4	4	4	4	4	4
July 1, 2004 - June 30, 2005	1	2	2	2	2	2	2	3	3	3	3	3	3	3	3	3	3	3
July 1, 2005 - June 30, 2006	0	1	1	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
July 1, 2006 - June 30, 2007	1	1	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
July 1, 2007 - June 30, 2008	0	0	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
July 1, 2008 - June 30, 2009	0	1	1	1	3	3	3	3	3	3	3	3	3	3	3	3	3	3
July 1, 2009 - June 30, 2010	1	2	3	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
July 1, 2010 - June 30, 2011	0	2	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
July 1, 2011 - June 30, 2012	2	2	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
July 1, 2012 - Dec. 31, 2012	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

(1) Net of proportional reinsurance

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

NUMBER OF CLAIMS OPEN - NET BASIS (1)
As at December 31, 2012

Year	6	18	30	42	54	66	78	90	102	114	126	138	150	162	174	186	198	210
July 1, 1987 - June 30, 1988	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1988 - June 30, 1989	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1989 - June 30, 1990	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1990 - June 30, 1991	0	0	0	1	2	2	1	1	1	0	0	0	0	0	0	0	0	0
July 1, 1991 - June 30, 1992	0	0	2	3	4	2	1	1	1	1	1	1	0	0	0	0	0	0
July 1, 1992 - June 30, 1993	0	0	0	0	0	0	0	1	1	1	1	0	0	0	0	0	0	0
July 1, 1993 - June 30, 1994	0	0	0	4	4	4	4	3	3	3	3	3	3	0	0	0	0	0
July 1, 1994 - June 30, 1995	0	2	3	5	2	2	1	0	0	0	0	0	0	0	0	0	0	0
July 1, 1995 - June 30, 1996	0	1	1	1	1	1	1	0	0	0	0	0	0	0	0	0	0	0
July 1, 1996 - June 30, 1997	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1997 - June 30, 1998	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1998 - June 30, 1999	0	1	2	3	3	1	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 1999 - June 30, 2000	0	0	0	0	0	1	1	2	1	1	0	0	0	0	0	0	0	0
July 1, 2000 - June 30, 2001	0	0	0	0	0	1	1	1	1	1	1	0	0	0	0	0	0	0
July 1, 2001 - June 30, 2002	1	1	3	4	4	5	4	4	2	2	0	0	0	0	0	0	0	0
July 1, 2002 - June 30, 2003	0	1	1	1	2	2	2	1	1	1	1	0	0	0	0	0	0	0
July 1, 2003 - June 30, 2004	0	1	3	2	2	2	2	3	1	0	0	0	0	0	0	0	0	0
July 1, 2004 - June 30, 2005	1	2	2	2	2	2	2	2	2	2	0	0	0	0	0	0	0	0
July 1, 2005 - June 30, 2006	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 2006 - June 30, 2007	1	1	2	2	2	2	2	2	2	2	0	0	0	0	0	0	0	0
July 1, 2007 - June 30, 2008	0	0	3	3	3	3	2	0	0	0	0	0	0	0	0	0	0	0
July 1, 2008 - June 30, 2009	0	1	1	1	3	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 2009 - June 30, 2010	1	2	3	4	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 2010 - June 30, 2011	0	2	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 2011 - June 30, 2012	2	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 1, 2012 - Dec. 31, 2012	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

(1) Net of proportional reinsurance

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period: 1987-2

As at December 31, 2012

<i>LAYER</i>	<i>4.4 xs .6</i>	<i>5 xs 5</i>	<i>15 xs 10</i>	<i>Totals</i>
<u><i>Derivation of Ultimate Incurred</i></u>				
Earned Lawyer Count	716	716	716	
Expected Loss Cost per Lawyer	\$527	\$298	\$465	
Gross Expected Loss Volume	\$377,332	\$213,368	\$332,940	
IBNR Factor	0.000	0.000	0.000	
IBNR Amount	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0
Paid to Date	\$0	\$0	\$0	\$0
Total Ultimate Incurred	\$0	\$0	\$0	\$0
<u><i>Derivation of Loss Adjustment Expenses</i></u>				
IBNR LAE	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0
<u><i>Distribution of Losses between CLLAS and Proportional Reinsurers</i></u>				
Retention	0.5000	0.0800	0.1600	
Reinsured to Registered	0.0000	0.7816	0.5350	
Reinsured to Unregistered	0.5000	0.1384	0.3050	
Paid to Date Retained	\$0	\$0	\$0	\$0
Paid Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0
Case Reserves Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0
Reserves Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period: 1988-1

As at December 31, 2012

<i>LAYER</i>	<i>4.4 xs .6</i>	<i>5 xs 5</i>	<i>15 xs 10</i>	<i>Totals</i>
<u><i>Derivation of Ultimate Incurred</i></u>				
Earned Lawyer Count	763	763	763	
Expected Loss Cost per Lawyer	\$527	\$298	\$465	
Gross Expected Loss Volume	\$402,101	\$227,374	\$354,795	
IBNR Factor	0.000	0.000	0.000	
IBNR Amount	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0
Paid to Date	\$0	\$0	\$0	\$0
Total Ultimate Incurred	\$0	\$0	\$0	\$0
<u><i>Derivation of Loss Adjustment Expenses</i></u>				
IBNR LAE	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0
<u><i>Distribution of Losses between CLLAS and Proportional Reinsurers</i></u>				
Retention	0.5000	0.0800	0.1600	
Reinsured to Registered	0.0000	0.7816	0.5350	
Reinsured to Unregistered	0.5000	0.1384	0.3050	
Paid to Date Retained	\$0	\$0	\$0	\$0
Paid Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0
Case Reserves Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0
Reserves Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period: 1988-2

As at December 31, 2012

<i>LAYER</i>	<i>4 xs 1</i>	<i>5 xs 5</i>	<i>15 xs 10</i>	<i>Totals</i>
<u><i>Derivation of Ultimate Incurred</i></u>				
Earned Lawyer Count	863	863	863	
Expected Loss Cost per Lawyer	\$483	\$298	\$465	
Gross Expected Loss Volume	\$416,829	\$257,174	\$401,295	
IBNR Factor	0.000	0.000	0.000	
IBNR Amount	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0
Paid to Date	\$0	\$0	\$0	\$0
Total Ultimate Incurred	\$0	\$0	\$0	\$0
<u><i>Derivation of Loss Adjustment Expenses</i></u>				
IBNR LAE	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0
<u><i>Distribution of Losses between CLLAS and Proportional Reinsurers</i></u>				
Retention	0.5000	0.0800	0.1733	
Reinsured to Registered	0.0000	0.7490	0.5438	
Reinsured to Unregistered	0.5000	0.1710	0.2829	
Paid to Date Retained	\$0	\$0	\$0	\$0
Paid Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0
Case Reserves Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0
Reserves Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period: 1989-1

As at December 31, 2012

LAYER	4 xs 1	5 xs 5	15 xs 10	Totals
<u>Derivation of Ultimate Incurred</u>				
Earned Lawyer Count	944	944	944	
Expected Loss Cost per Lawyer	\$483	\$298	\$465	
Gross Expected Loss Volume	\$455,952	\$281,312	\$438,960	
IBNR Factor	0.000	0.000	0.000	
IBNR Amount	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0
Paid to Date	\$0	\$0	\$0	\$0
Total Ultimate Incurred	\$0	\$0	\$0	\$0
<u>Derivation of Loss Adjustment Expenses</u>				
IBNR LAE	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>				
Retention	0.5000	0.0800	0.1733	
Reinsured to Registered	0.0000	0.7490	0.5438	
Reinsured to Unregistered	0.5000	0.1710	0.2829	
Paid to Date Retained	\$0	\$0	\$0	\$0
Paid Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0
Case Reserves Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0
Reserves Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period: 1989-2

As at December 31, 2012

<i>LAYER</i>	<i>4 xs 1</i>	<i>5 xs 5</i>	<i>15 xs 10</i>	<i>Totals</i>
<u><i>Derivation of Ultimate Incurred</i></u>				
Earned Lawyer Count	1,026	1,026	1,026	
Expected Loss Cost per Lawyer	\$483	\$298	\$465	
Gross Expected Loss Volume	\$495,558	\$305,748	\$477,090	
IBNR Factor	0.000	0.000	0.000	
IBNR Amount	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0
Paid to Date	\$0	\$0	\$0	\$0
Total Ultimate Incurred	\$0	\$0	\$0	\$0
<u><i>Derivation of Loss Adjustment Expenses</i></u>				
IBNR LAE	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0
<u><i>Distribution of Losses between CLLAS and Proportional Reinsurers</i></u>				
Retention	0.5000	0.0800	0.1733	
Reinsured to Registered	0.0000	0.7587	0.6251	
Reinsured to Unregistered	0.5000	0.1613	0.2016	
Paid to Date Retained	\$0	\$0	\$0	\$0
Paid Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0
Case Reserves Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0
Reserves Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period: 1990-1

As at December 31, 2012

<i>LAYER</i>	<i>4 xs 1</i>	<i>5 xs 5</i>	<i>15 xs 10</i>	<i>Totals</i>
<u><i>Derivation of Ultimate Incurred</i></u>				
Earned Lawyer Count	1,052	1,052	1,052	
Expected Loss Cost per Lawyer	\$483	\$298	\$465	
Gross Expected Loss Volume	\$508,116	\$313,496	\$489,180	
IBNR Factor	0.000	0.000	0.000	
IBNR Amount	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0
Paid to Date	\$0	\$0	\$0	\$0
Total Ultimate Incurred	\$0	\$0	\$0	\$0
<u><i>Derivation of Loss Adjustment Expenses</i></u>				
IBNR LAE	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0
<u><i>Distribution of Losses between CLLAS and Proportional Reinsurers</i></u>				
Retention	0.5000	0.0800	0.1733	
Reinsured to Registered	0.1375	0.7587	0.6532	
Reinsured to Unregistered	0.3625	0.1613	0.1735	
Paid to Date Retained	\$0	\$0	\$0	\$0
Paid Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0
Case Reserves Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0
Reserves Ceded to				
Registered Reinsurers	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period: 1990-2

As at December 31, 2012

<i>LAYER</i>	<i>4 xs 1</i>	<i>5 xs 5</i>	<i>15 xs 10</i>	<i>25 xs 50</i>	<i>Totals</i>
<u><i>Derivation of Ultimate Incurred</i></u>					
Earned Lawyer Count	1,176	1,176	1,176	1,176	
Expected Loss Cost per Lawyer	\$483	\$298	\$465	\$200	
Gross Expected Loss Volume	\$568,008	\$350,448	\$546,840	\$235,200	
IBNR Factor	0.000	0.000	0.000	0.000	
IBNR Amount	\$0	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0	\$0
Paid to Date	\$3,593,148	\$0	\$0	\$0	\$3,593,148
Total Ultimate Incurred	\$3,593,148	\$0	\$0	\$0	\$3,593,148
<u><i>Derivation of Loss Adjustment Expenses</i></u>					
IBNR LAE	\$0	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0	\$0
<u><i>Distribution of Losses between CLLAS and Proportional Reinsurers</i></u>					
Retention	0.5000	0.0800	0.1733	0.0000	
Reinsured to Registered	0.5000	0.8110	0.7449	0.7955	
Reinsured to Unregistered	0.0000	0.1090	0.0818	0.2045	
Paid to Date Retained	\$1,796,574	\$0	\$0	\$0	\$1,796,574
Paid Ceded to					
Registered Reinsurers	\$1,796,574	\$0	\$0	\$0	\$1,796,574
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to					
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to					
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0	\$0
Reserves Ceded to					
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period: 1991-1

As at December 31, 2012

<i>LAYER</i>	<i>4 xs 1</i>	<i>5 xs 5</i>	<i>15 xs 10</i>	<i>25 xs 50</i>	<i>Totals</i>
<u><i>Derivation of Ultimate Incurred</i></u>					
Earned Lawyer Count	1,176	1,176	1,176	1,176	
Expected Loss Cost per Lawyer	\$483	\$298	\$465	\$200	
Gross Expected Loss Volume	\$568,008	\$350,448	\$546,840	\$235,200	
IBNR Factor	0.000	0.000	0.000	0.000	
IBNR Amount	\$0	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0	\$0
Paid to Date	\$0	\$0	\$0	\$0	\$0
Total Case Incurred	\$0	\$0	\$0	\$0	\$0
<u><i>Derivation of Loss Adjustment Expenses</i></u>					
IBNR LAE	\$0	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0	\$0
<u><i>Distribution of Losses between CLLAS and Proportional Reinsurers</i></u>					
Retention	0.5000	0.0800	0.1733	0.0000	
Reinsured to Registered	0.5000	0.8110	0.7449	0.7955	
Reinsured to Unregistered	0.0000	0.1090	0.0818	0.2045	
Paid to Date Retained	\$0	\$0	\$0	\$0	\$0
Paid Ceded to					
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to					
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to					
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0	\$0
Reserves Ceded to					
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period: 1991-2

As at December 31, 2012

<i>LAYER</i>	<i>4 xs 1</i>	<i>7.5 xs 5</i>	<i>12.5 xs 12.5</i>	<i>10 xs 25</i>	<i>25 xs 50</i>	<i>Totals</i>
<u><i>Derivation of Ultimate Incurred</i></u>						
Earned Lawyer Count	1,200	1,200	1,200	1,200	1,200	
Expected Loss Cost per Lawyer	\$680	\$520	\$420	\$220	\$200	
Gross Expected Loss Volume	\$816,000	\$624,000	\$504,000	\$264,000	\$240,000	
IBNR Factor	0.000	0.000	0.000	0.000	0.000	
IBNR Amount	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0	\$0	\$0
Paid to Date	\$4,000,000	\$792,618	\$0	\$0	\$0	\$4,792,618
Total Ultimate Incurred	\$4,000,000	\$792,618	\$0	\$0	\$0	\$4,792,618
<u><i>Derivation of Loss Adjustment Expenses</i></u>						
IBNR LAE	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0	\$0	\$0
<u><i>Distribution of Losses between CLLAS and Proportional Reinsurers</i></u>						
Retention	0.5000	0.2000	0.1800	0.1250	0.0000	
Reinsured to Registered	0.5000	0.7150	0.7252	0.8750	0.7975	
Reinsured to Unregistered	0.0000	0.0850	0.0948	0.0000	0.2025	
Paid to Date Retained	\$2,000,000	\$158,524	\$0	\$0	\$0	\$2,158,524
Paid Ceded to						
Registered Reinsurers	\$2,000,000	\$566,722	\$0	\$0	\$0	\$2,566,722
Unregistered Reinsurers	\$0	\$67,373	\$0	\$0	\$0	\$67,373
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0
Reserves Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period: 1992-1

As at December 31, 2012

<i>LAYER</i>	<i>4 xs 1</i>	<i>7.5 xs 5</i>	<i>12.5 xs 12.5</i>	<i>10 xs 25</i>	<i>25 xs 50</i>	<i>Totals</i>
<u><i>Derivation of Ultimate Incurred</i></u>						
Earned Lawyer Count	1,200	1,200	1,200	1,200	1,200	
Expected Loss Cost per Lawyer	\$680	\$520	\$420	\$220	\$290	
Gross Expected Loss Volume	\$816,000	\$624,000	\$504,000	\$264,000	\$348,000	
IBNR Factor	0.000	0.000	0.000	0.000	0.000	
IBNR Amount	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0	\$0	\$0
Paid to Date	\$2,623,945	\$0	\$0	\$0	\$0	\$2,623,945
Total Ultimate Incurred	\$2,623,945	\$0	\$0	\$0	\$0	\$2,623,945
<u><i>Derivation of Loss Adjustment Expenses</i></u>						
IBNR LAE	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0	\$0	\$0
<u><i>Distribution of Losses between CLLAS and Proportional Reinsurers</i></u>						
Retention	0.5000	0.2000	0.1800	0.1250	0.0000	
Reinsured to Registered	0.5000	0.7150	0.7252	0.8750	0.7975	
Reinsured to Unregistered	0.0000	0.0850	0.0948	0.0000	0.2025	
Paid to Date Retained	\$1,311,972	\$0	\$0	\$0	\$0	\$1,311,972
Paid Ceded to						
Registered Reinsurers	\$1,311,972	\$0	\$0	\$0	\$0	\$1,311,972
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0
Reserves Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period: 1992-2

As at December 31, 2012

<i>LAYER</i>	<i>4 xs 1</i>	<i>7.5 xs 5</i>	<i>12.5 xs 12.5</i>	<i>10 xs 25</i>	<i>25 xs 50</i>	<i>Totals</i>
<u><i>Derivation of Ultimate Incurred</i></u>						
Earned Lawyer Count	1,217	1,217	1,217	1,217	1,217	
Expected Loss Cost per Lawyer	\$680	\$520	\$420	\$220	\$290	
Gross Expected Loss Volume	\$827,220	\$632,580	\$510,930	\$267,630	\$352,785	
IBNR Factor	0.000	0.000	0.000	0.000	0.000	
IBNR Amount	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0	\$0	\$0
Paid to Date	\$0	\$0	\$0	\$0	\$0	\$0
Total Ultimate Incurred	\$0	\$0	\$0	\$0	\$0	\$0
<u><i>Derivation of Loss Adjustment Expenses</i></u>						
IBNR LAE	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0	\$0	\$0
<u><i>Distribution of Losses between CLLAS and Proportional Reinsurers</i></u>						
Retention	0.5000	0.2000	0.1800	0.1250	0.0000	
Reinsured to Registered	0.5000	0.7160	0.7534	0.8750	0.8981	
Reinsured to Unregistered	0.0000	0.0840	0.0666	0.0000	0.1019	
Paid to Date Retained	\$0	\$0	\$0	\$0	\$0	\$0
Paid Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0
Reserves Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period: 1993-1

As at December 31, 2012

<i>LAYER</i>	<i>4 xs 1</i>	<i>7.5 xs 5</i>	<i>12.5 xs 12.5</i>	<i>10 xs 25</i>	<i>25 xs 50</i>	<i>Totals</i>
<u><i>Derivation of Ultimate Incurred</i></u>						
Earned Lawyer Count	1,217	1,217	1,217	1,217	1,217	
Expected Loss Cost per Lawyer	\$680	\$520	\$420	\$220	\$290	
Gross Expected Loss Volume	\$827,220	\$632,580	\$510,930	\$267,630	\$352,785	
IBNR Factor	0.000	0.000	0.000	0.000	0.000	
IBNR Amount	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0	\$0	\$0
Paid to Date	\$326,599	\$0	\$0	\$0	\$0	\$326,599
Total Ultimate Incurred	\$326,599	\$0	\$0	\$0	\$0	\$326,599
<u><i>Derivation of Loss Adjustment Expenses</i></u>						
IBNR LAE	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0	\$0	\$0
<u><i>Distribution of Losses between CLLAS and Proportional Reinsurers</i></u>						
Retention	0.5000	0.2000	0.1800	0.1250	0.0000	
Reinsured to Registered	0.5000	0.7160	0.7534	0.8750	0.8981	
Reinsured to Unregistered	0.0000	0.0840	0.0666	0.0000	0.1019	
Paid to Date Retained	\$163,299	\$0	\$0	\$0	\$0	\$163,299
Paid Ceded to						
Registered Reinsurers	\$163,299	\$0	\$0	\$0	\$0	\$163,299
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0
Reserves Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period: 1993-2

As at December 31, 2012

<i>LAYER</i>	<i>4 xs 1</i>	<i>7.5 xs 5</i>	<i>12.5 xs 12.5</i>	<i>10 xs 25</i>	<i>25 xs 50</i>	<i>Totals</i>
<u><i>Derivation of Ultimate Incurred</i></u>						
Earned Lawyer Count	1,254	1,254	1,254	1,254	1,254	
Expected Loss Cost per Lawyer	\$680	\$520	\$420	\$220	\$290	
Gross Expected Loss Volume	\$852,380	\$651,820	\$526,470	\$275,770	\$363,515	
IBNR Factor	0.000	0.000	0.000	0.000	0.000	
IBNR Amount	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0	\$0	\$0
Paid to Date	\$8,000,000	\$15,000,000	\$7,654,825	\$0	\$0	\$30,654,825
Total Ultimate Incurred	\$8,000,000	\$15,000,000	\$7,654,825	\$0	\$0	\$30,654,825
<u><i>Derivation of Loss Adjustment Expenses</i></u>						
IBNR LAE	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0	\$0	\$0
<u><i>Distribution of Losses between CLLAS and Proportional Reinsurers</i></u>						
Retention	0.5000	0.2000	0.1800	0.1250	0.0000	
Reinsured to Registered	0.5000	0.7362	0.7544	0.8750	0.8641	
Reinsured to Unregistered	0.0000	0.0638	0.0656	0.0000	0.1359	
Paid to Date Retained	\$4,000,000	\$3,000,000	\$1,377,869	\$0	\$0	\$8,377,869
Paid Ceded to						
Registered Reinsurers	\$4,000,000	\$11,043,000	\$5,774,800	\$0	\$0	\$20,817,800
Unregistered Reinsurers	\$0	\$957,000	\$502,157	\$0	\$0	\$1,459,157
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0
Reserves Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period: 1994-1

As at December 31, 2012

<i>LAYER</i>	<i>4 xs 1</i>	<i>7.5 xs 5</i>	<i>12.5 xs 12.5</i>	<i>10 xs 25</i>	<i>25 xs 50</i>	<i>Totals</i>
<u><i>Derivation of Ultimate Incurred</i></u>						
Earned Lawyer Count	1,254	1,254	1,254	1,254	1,254	
Expected Loss Cost per Lawyer	\$680	\$520	\$420	\$220	\$290	
Gross Expected Loss Volume	\$852,380	\$651,820	\$526,470	\$275,770	\$363,515	
IBNR Factor	0.000	0.000	0.000	0.000	0.000	
IBNR Amount	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0	\$0	\$0
Paid to Date	\$0	\$0	\$0	\$0	\$0	\$0
Total Ultimate Incurred	\$0	\$0	\$0	\$0	\$0	\$0
<u><i>Derivation of Loss Adjustment Expenses</i></u>						
IBNR LAE	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0	\$0	\$0
<u><i>Distribution of Losses between CLLAS and Proportional Reinsurers</i></u>						
Retention	0.5000	0.2000	0.1800	0.1250	0.0000	
Reinsured to Registered	0.5000	0.7362	0.7544	0.8750	0.8641	
Reinsured to Unregistered	0.0000	0.0638	0.0656	0.0000	0.1359	
Paid to Date Retained	\$0	\$0	\$0	\$0	\$0	\$0
Paid Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0
Reserves Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period: 1994-2

As at December 31, 2012

<i>LAYER</i>	<i>4 xs 1</i>	<i>7.5 xs 5</i>	<i>12.5 xs 12.5</i>	<i>10 xs 25</i>	<i>25 xs 50</i>	<i>Totals</i>
<u><i>Derivation of Ultimate Incurred</i></u>						
Earned Lawyer Count	1,257	1,257	1,257	1,257	1,257	
Expected Loss Cost per Lawyer	\$680	\$520	\$420	\$220	\$290	
Gross Expected Loss Volume	\$854,760	\$653,640	\$527,940	\$276,540	\$364,530	
IBNR Factor	0.000	0.000	0.000	0.000	0.000	
IBNR Amount	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0	\$0	\$0
Paid to Date	\$4,856,364	\$0	\$0	\$0	\$0	\$4,856,364
Total Ultimate Incurred	\$4,856,364	\$0	\$0	\$0	\$0	\$4,856,364
<u><i>Derivation of Loss Adjustment Expenses</i></u>						
IBNR LAE	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0	\$0	\$0
<u><i>Distribution of Losses between CLLAS and Proportional Reinsurers</i></u>						
Retention	0.5000	0.2000	0.1800	0.1250	0.0000	
Reinsured to Registered	0.4458	0.7493	0.7630	0.8750	0.8548	
Reinsured to Unregistered	0.0542	0.0507	0.0570	0.0000	0.1452	
Paid to Date Retained	\$2,428,182	\$0	\$0	\$0	\$0	\$2,428,182
Paid Ceded to						
Registered Reinsurers	\$2,164,967	\$0	\$0	\$0	\$0	\$2,164,967
Unregistered Reinsurers	\$263,215	\$0	\$0	\$0	\$0	\$263,215
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0
Reserves Ceded to						
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period: 1995-1

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	25 xs 50	Totals
<u>Derivation of Ultimate Incurred</u>							
Earned Lawyer Count	1,257	1,257	1,257	1,257	1,257	1,257	
Expected Loss Cost per Lawyer	\$10	\$990	\$605	\$495	\$255	\$335	
Gross Expected Loss Volume	\$12,570	\$1,244,430	\$760,485	\$622,215	\$320,535	\$421,095	
IBNR Factor	0.000	0.000	0.000	0.000	0.000	0.000	
IBNR Amount	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid to Date	\$0	\$4,374,911	\$87,714	\$0	\$0	\$0	\$4,462,625
Total Ultimate Incurred	\$0	\$4,374,911	\$87,714	\$0	\$0	\$0	\$4,462,625
<u>Derivation of Loss Adjustment Expenses</u>							
IBNR LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>							
Retention	1.0000	0.5000	0.2000	0.1800	0.1250	0.0000	
Reinsured to Registered	0.0000	0.4458	0.7493	0.7630	0.8750	0.8548	
Reinsured to Unregistered	0.0000	0.0542	0.0507	0.0570	0.0000	0.1452	
Paid to Date Retained	\$0	\$2,187,455	\$17,543	\$0	\$0	\$0	\$2,204,998
Paid Ceded to							
Registered Reinsurers	\$0	\$1,950,335	\$65,724	\$0	\$0	\$0	\$2,016,059
Unregistered Reinsurers	\$0	\$237,120	\$4,447	\$0	\$0	\$0	\$241,567
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to							
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to							
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reserves Ceded to							
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period: 1995-2

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	25 xs 50	Totals
<u>Derivation of Ultimate Incurred</u>							
Earned Lawyer Count	1,263	1,263	1,263	1,263	1,263	1,263	
Expected Loss Cost per Lawyer	\$10	\$990	\$605	\$495	\$255	\$335	
Gross Expected Loss Volume	\$12,625	\$1,249,875	\$763,813	\$624,938	\$321,938	\$422,938	
IBNR Factor	0.000	0.000	0.000	0.000	0.000	0.000	
IBNR Amount	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid to Date	\$0	\$3,742,644	\$0	\$0	\$0	\$0	\$3,742,644
Total Ultimate Incurred	\$0	\$3,742,644	\$0	\$0	\$0	\$0	\$3,742,644
<u>Derivation of Loss Adjustment Expenses</u>							
IBNR LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>							
Retention	1.0000	0.5000	0.2000	0.1800	0.1250	0.0000	
Reinsured to Registered	0.0000	0.4214	0.7521	0.7741	0.8180	0.8812	
Reinsured to Unregistered	0.0000	0.0786	0.0479	0.0459	0.0570	0.1188	
Paid to Date Retained	\$0	\$1,871,322	\$0	\$0	\$0	\$0	\$1,871,322
Paid Ceded to							
Registered Reinsurers	\$0	\$1,577,150	\$0	\$0	\$0	\$0	\$1,577,150
Unregistered Reinsurers	\$0	\$294,172	\$0	\$0	\$0	\$0	\$294,172
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to							
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to							
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reserves Ceded to							
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 1996-1

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	25 xs 50	Totals
<u>Derivation of Ultimate Incurred</u>							
Earned Lawyer Count	1,263	1,263	1,263	1,263	1,263	1,263	
Expected Loss Cost per Lawyer	\$10	\$990	\$605	\$495	\$255	\$335	
Gross Expected Loss Volume	\$12,625	\$1,249,875	\$763,813	\$624,938	\$321,938	\$422,938	
IBNR Factor	0.000	0.000	0.000	0.000	0.000	0.000	
IBNR Amount	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid to Date	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Ultimate Incurred	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Derivation of Loss Adjustment Expenses</u>							
IBNR LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>							
Retention	1.0000	0.5000	0.2000	0.1800	0.1250	0.0000	
Reinsured to Registered	0.0000	0.4214	0.7521	0.7741	0.8180	0.8812	
Reinsured to Unregistered	0.0000	0.0786	0.0479	0.0459	0.0570	0.1188	
Paid to Date Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid Ceded to							
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to							
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to							
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reserves Ceded to							
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 1996-2

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	25 xs 50	Totals
<u>Derivation of Ultimate Incurred</u>							
Earned Lawyer Count	1,297	1,297	1,297	1,297	1,297	1,297	
Expected Loss Cost per Lawyer	\$10	\$1,100	\$680	\$560	\$290	\$290	
Gross Expected Loss Volume	\$12,970	\$1,426,700	\$881,960	\$726,320	\$376,130	\$376,130	
IBNR Factor	0.000	0.000	0.000	0.000	0.000	0.000	
IBNR Amount	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid to Date	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Ultimate Incurred	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Derivation of Loss Adjustment Expenses</u>							
IBNR LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>							
Retention	1.0000	0.5000	0.2000	0.1800	0.1250	0.0000	
Reinsured to Registered	0.0000	0.4294	0.7522	0.7797	0.8180	0.8774	
Reinsured to Unregistered	0.0000	0.0706	0.0478	0.0403	0.0570	0.1226	
Paid to Date Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid Ceded to							
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to							
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to							
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reserves Ceded to							
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 1997-1

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	25 xs 50	Totals
<u>Derivation of Ultimate Incurred</u>							
Earned Lawyer Count	1,297	1,297	1,297	1,297	1,297	1,297	
Expected Loss Cost per Lawyer	\$10	\$1,100	\$680	\$560	\$290	\$290	
Gross Expected Loss Volume	\$12,970	\$1,426,700	\$881,960	\$726,320	\$376,130	\$376,130	
IBNR Factor	0.000	0.000	0.000	0.000	0.000	0.000	
IBNR Amount	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid to Date	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Ultimate Incurred	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Derivation of Loss Adjustment Expenses</u>							
IBNR LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>							
Retention	1.0000	0.5000	0.2000	0.1800	0.1250	0.0000	
Reinsured to Registered	0.0000	0.4294	0.7522	0.7797	0.8180	0.8774	
Reinsured to Unregistered	0.0000	0.0706	0.0478	0.0403	0.0570	0.1226	
Paid to Date Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid Ceded to							
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to							
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to							
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reserves Ceded to							
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 1997-2

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	25 xs 50	15 xs 120	Totals
<u>Derivation of Ultimate Incurred</u>								
Earned Lawyer Count	1,320	1,320	1,320	1,320	1,320	1,320	1,006	
Expected Loss Cost per Lawyer	\$10	\$1,100	\$680	\$560	\$290	\$290	\$125	
Gross Expected Loss Volume	\$13,200	\$1,452,000	\$897,600	\$739,200	\$382,800	\$382,800	\$125,750	
IBNR Factor	0.000	0.000	0.000	0.000	0.000	0.000	0	
IBNR Amount	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid to Date	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Ultimate Incurred	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Derivation of Loss Adjustment Expenses</u>								
IBNR LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>								
Retention	1.0000	0.5000	0.2000	0.1800	0.1250	0.0000	0.0000	
Reinsured to Registered	0.0000	0.4294	0.7434	0.7797	0.7903	0.8717	0.8902	
Reinsured to Unregistered	0.0000	0.0706	0.0566	0.0403	0.0847	0.1283	0.1098	
Paid to Date Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 1998-1

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	25 xs 50	15 xs 120	Totals
<u>Derivation of Ultimate Incurred</u>								
Earned Lawyer Count	1,320	1,320	1,320	1,320	1,320	1,320	1,006	
Expected Loss Cost per Lawyer	\$10	\$1,100	\$680	\$560	\$290	\$290	\$125	
Gross Expected Loss Volume	\$13,200	\$1,452,000	\$897,600	\$739,200	\$382,800	\$382,800	\$125,750	
IBNR Factor	0.000	0.000	0.000	0.000	0.000	0.000	0	
IBNR Amount	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid to Date	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Ultimate Incurred	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Derivation of Loss Adjustment Expenses</u>								
IBNR LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>								
Retention	1.0000	0.5000	0.2000	0.1800	0.1250	0.0000	0.0000	
Reinsured to Registered	0.0000	0.4294	0.7434	0.7797	0.7903	0.8717	0.8902	
Reinsured to Unregistered	0.0000	0.0706	0.0566	0.0403	0.0847	0.1283	0.1098	
Paid to Date Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 1998-2

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 130	Totals
<u>Derivation of Ultimate Incurred</u>								
Earned Lawyer Count	1,400	1,400	1,400	1,400	1,400	1,400	1,071	
Expected Loss Cost per Lawyer	\$10	\$1,140	\$750	\$635	\$335	\$285	\$185	
Gross Expected Loss Volume	\$14,000	\$1,596,000	\$1,050,000	\$889,000	\$469,000	\$399,000	\$198,043	
IBNR Factor	0.000	0.000	0.000	0.000	0.000	0.000	0	
IBNR Amount	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid to Date	\$0	\$7,658,266	\$7,500,000	\$5,138,403	\$0	\$0	\$0	\$20,296,669
Total Ultimate Incurred	\$0	\$7,658,266	\$7,500,000	\$5,138,403	\$0	\$0	\$0	\$20,296,669
<u>Derivation of Loss Adjustment Expenses</u>								
IBNR LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>								
Retention	1.0000	0.5000	0.2000	0.1800	0.1250	0.0000	0.0000	
Reinsured to Registered	0.0000	0.4263	0.7404	0.7793	0.7903	0.8717	0.8902	
Reinsured to Unregistered	0.0000	0.0737	0.0596	0.0407	0.0847	0.1283	0.1098	
Paid to Date Retained	\$0	\$3,829,133	\$1,500,000	\$924,913	\$0	\$0	\$0	\$6,254,045
Paid Ceded to								
Registered Reinsurers	\$0	\$3,264,719	\$5,553,000	\$4,004,358	\$0	\$0	\$0	\$12,822,076
Unregistered Reinsurers	\$0	\$564,414	\$447,000	\$209,133	\$0	\$0	\$0	\$1,220,547
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 1999-1

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 130	Totals
<u>Derivation of Ultimate Incurred</u>								
Earned Lawyer Count	1,438	1,438	1,438	1,438	1,438	1,438	1,109	
Expected Loss Cost per Lawyer	\$10	\$1,140	\$750	\$635	\$335	\$285	\$185	
Gross Expected Loss Volume	\$14,380	\$1,639,320	\$1,078,500	\$913,130	\$481,730	\$409,830	\$205,073	
IBNR Factor	0.000	0.000	0.000	0.000	0.000	0.000	0	
IBNR Amount	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid to Date	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Ultimate Incurred	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Derivation of Loss Adjustment Expenses</u>								
IBNR LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>								
Retention	1.0000	0.5000	0.2000	0.1800	0.1250	0.0000	0.0000	
Reinsured to Registered	0.0000	0.4263	0.7404	0.7793	0.7903	0.8717	0.8902	
Reinsured to Unregistered	0.0000	0.0737	0.0596	0.0407	0.0847	0.1283	0.1098	
Paid to Date Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 1999-2

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 130	Totals
<u>Derivation of Ultimate Incurred</u>								
Earned Lawyer Count	1,497	1,497	1,497	1,497	1,497	1,514	1,177	
Expected Loss Cost per Lawyer	\$10	\$1,112	\$769	\$665	\$353	\$300	\$205	
Gross Expected Loss Volume	\$14,965	\$1,664,108	\$1,150,809	\$995,173	\$528,265	\$454,275	\$241,234	
IBNR Factor	0.000	0.000	0.000	0.000	0.000	0.000	0	
IBNR Amount	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid to Date	\$0	\$5,466,191	\$2,605,779	\$0	\$0	\$0	\$0	\$8,071,971
Total Ultimate Incurred	\$0	\$5,466,191	\$2,605,779	\$0	\$0	\$0	\$0	\$8,071,971
<u>Derivation of Loss Adjustment Expenses</u>								
IBNR LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>								
Retention	1.0000	0.5000	0.2000	0.1800	0.1250	0.0000	0.0000	
Reinsured to Registered	0.0000	0.4680	0.7598	0.7761	0.7912	0.8600	0.8816	
Reinsured to Unregistered	0.0000	0.0320	0.0402	0.0439	0.0838	0.1400	0.1184	
Paid to Date Retained	\$0	\$2,733,096	\$521,156	\$0	\$0	\$0	\$0	\$3,254,252
Paid Ceded to								
Registered Reinsurers	\$0	\$2,558,178	\$1,979,871	\$0	\$0	\$0	\$0	\$4,538,049
Unregistered Reinsurers	\$0	\$174,918	\$104,752	\$0	\$0	\$0	\$0	\$279,670
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2000-1

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 130	Totals
<u>Derivation of Ultimate Incurred</u>								
Earned Lawyer Count	1,732	1,732	1,732	1,732	1,732	1,768	1,322	
Expected Loss Cost per Lawyer	\$10	\$1,112	\$769	\$665	\$353	\$300	\$205	
Gross Expected Loss Volume	\$17,324	\$1,926,447	\$1,332,228	\$1,152,057	\$611,543	\$530,375	\$271,095	
IBNR Factor	0.000	0.000	0.000	0.000	0.000	0.000	0	
IBNR Amount	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid to Date	\$0	\$420,614	\$0	\$0	\$0	\$0	\$0	\$420,614
Total Ultimate Incurred	\$0	\$420,614	\$0	\$0	\$0	\$0	\$0	\$420,614
<u>Derivation of Loss Adjustment Expenses</u>								
IBNR LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>								
Retention	1.0000	0.5000	0.2000	0.1800	0.1250	0.0000	0.0000	
Reinsured to Registered	0.0000	0.4680	0.7598	0.7761	0.7912	0.8600	0.8816	
Reinsured to Unregistered	0.0000	0.0320	0.0402	0.0439	0.0838	0.1400	0.1184	
Paid to Date Retained	\$0	\$210,307	\$0	\$0	\$0	\$0	\$0	\$210,307
Paid Ceded to								
Registered Reinsurers	\$0	\$196,847	\$0	\$0	\$0	\$0	\$0	\$196,847
Unregistered Reinsurers	\$0	\$13,460	\$0	\$0	\$0	\$0	\$0	\$13,460
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2000-2

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 140	Totals
<u>Derivation of Ultimate Incurred</u>								
Earned Lawyer Count	1,918	1,918	1,918	1,918	1,918	1,945	1,462	
Expected Loss Cost per Lawyer	\$70	\$1,463	\$1,167	\$948	\$436	\$82	\$43	
Gross Expected Loss Volume	\$134,248	\$2,805,790	\$2,238,112	\$1,818,106	\$836,175	\$159,517	\$62,859	
IBNR Factor	0	0.000	0.000	0.000	0.000	0.000	0	
IBNR Amount	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid to Date	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Ultimate Incurred	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Derivation of Loss Adjustment Expenses</u>								
IBNR LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>								
Retention	1.0000	0.5000	0.2000	0.1800	0.1250	0.0000	0.0000	
Reinsured to Registered	0.0000	0.4680	0.7598	0.7761	0.7912	0.8600	0.8816	
Reinsured to Unregistered	0.0000	0.0320	0.0402	0.0439	0.0838	0.1400	0.1184	
Paid to Date Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2001-1

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 140	Totals
<u>Derivation of Ultimate Incurred</u>								
Earned Lawyer Count	2,090	2,090	2,090	2,090	2,090	2,096	1,561	
Expected Loss Cost per Lawyer	\$70	\$1,463	\$1,167	\$948	\$436	\$82	\$43	
Gross Expected Loss Volume	\$146,300	\$3,057,670	\$2,439,030	\$1,981,320	\$911,240	\$171,858	\$67,116	
IBNR Factor	0	0.000	0.000	0.000	0.000	0.000	0	
IBNR Amount	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid to Date	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Ultimate Incurred	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Derivation of Loss Adjustment Expenses</u>								
IBNR LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>								
Retention	1.0000	0.5000	0.2000	0.1800	0.1250	0.0000	0.0000	
Reinsured to Registered	0.0000	0.4680	0.7598	0.7761	0.7912	0.8600	0.8816	
Reinsured to Unregistered	0.0000	0.0320	0.0402	0.0439	0.0838	0.1400	0.1184	
Paid to Date Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2001-2

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 140	Totals
<u>Derivation of Ultimate Incurred</u>								
Earned Lawyer Count	2,067	2,067	2,067	2,067	2,067	2,096	1,568	
Expected Loss Cost per Lawyer	\$70	\$1,463	\$1,167	\$948	\$436	\$82	\$43	
Gross Expected Loss Volume	\$144,690	\$3,024,021	\$2,412,189	\$1,959,516	\$901,212	\$171,831	\$67,424	
IBNR Factor	0.008	0.008	0.008	0.008	0.008	0.008	0.008	
IBNR Amount	\$1,158	\$24,192	\$19,298	\$15,676	\$7,210	\$1,375	\$539	\$69,447
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$1,158	\$24,192	\$19,298	\$15,676	\$7,210	\$1,375	\$539	\$69,447
Paid to Date	\$0	\$7,154,054	\$7,500,000	\$2,890,929	\$0	\$0	\$0	\$17,544,983
Total Ultimate Incurred	\$1,158	\$7,178,246	\$7,519,298	\$2,906,605	\$7,210	\$1,375	\$539	\$17,614,430
<u>Derivation of Loss Adjustment Expenses</u>								
IBNR LAE	\$43	\$907	\$724	\$588	\$270	\$52	\$20	\$2,604
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$43	\$907	\$724	\$588	\$270	\$52	\$20	\$2,604
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>								
Retention	1.0000	0.5000	0.2000	0.1800	0.1250	0.0000	0.0000	
Reinsured to Registered	0.0000	0.4680	0.8000	0.7897	0.7912	0.8600	0.8816	
Reinsured to Unregistered	0.0000	0.0320	0.0000	0.0303	0.0838	0.1400	0.1184	
Paid to Date Retained	\$0	\$3,577,027	\$1,500,000	\$520,367	\$0	\$0	\$0	\$5,597,394
Paid Ceded to								
Registered Reinsurers	\$0	\$3,348,097	\$6,000,000	\$2,282,966	\$0	\$0	\$0	\$11,631,064
Unregistered Reinsurers	\$0	\$228,930	\$0	\$87,595	\$0	\$0	\$0	\$316,525
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$1,158	\$12,096	\$3,860	\$2,822	\$901	\$0	\$0	\$20,836
IBNR Reserves Ceded to								
Registered Reinsurers	\$0	\$11,322	\$15,438	\$12,379	\$5,704	\$1,182	\$476	\$46,501
Unregistered Reinsurers	\$0	\$774	\$0	\$475	\$604	\$192	\$64	\$2,110
Total Reserves Retained	\$1,158	\$12,096	\$3,860	\$2,822	\$901	\$0	\$0	\$20,836
Reserves Ceded to								
Registered Reinsurers	\$0	\$11,322	\$15,438	\$12,379	\$5,704	\$1,182	\$476	\$46,501
Unregistered Reinsurers	\$0	\$774	\$0	\$475	\$604	\$192	\$64	\$2,110

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2002-1

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 140	Totals
<u>Derivation of Ultimate Incurred</u>								
Earned Lawyer Count	2,175	2,175	2,175	2,175	2,175	2,175	1,663	
Expected Loss Cost per Lawyer	\$70	\$1,463	\$1,167	\$948	\$436	\$82	\$43	
Gross Expected Loss Volume	\$152,215	\$3,181,294	\$2,537,642	\$2,061,426	\$948,082	\$178,309	\$71,509	
IBNR Factor	0.008	0.008	0.008	0.008	0.008	0.008	0.008	
IBNR Amount	\$1,218	\$25,450	\$20,301	\$16,491	\$7,585	\$1,426	\$572	\$73,044
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$1,218	\$25,450	\$20,301	\$16,491	\$7,585	\$1,426	\$572	\$73,044
Paid to Date	\$0	\$8,773	\$0	\$0	\$0	\$0	\$0	\$8,773
Total Ultimate Incurred	\$1,218	\$34,224	\$20,301	\$16,491	\$7,585	\$1,426	\$572	\$81,817
<u>Derivation of Loss Adjustment Expenses</u>								
IBNR LAE	\$46	\$954	\$761	\$618	\$284	\$53	\$21	\$2,739
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$46	\$954	\$761	\$618	\$284	\$53	\$21	\$2,739
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>								
Retention	1.0000	0.5000	0.2000	0.1800	0.1250	0.0000	0.0000	
Reinsured to Registered	0.0000	0.4680	0.8000	0.7897	0.7912	0.8600	0.8816	
Reinsured to Unregistered	0.0000	0.0320	0.0000	0.0303	0.0838	0.1400	0.1184	
Paid to Date Retained	\$0	\$4,387	\$0	\$0	\$0	\$0	\$0	\$4,387
Paid Ceded to								
Registered Reinsurers	\$0	\$4,106	\$0	\$0	\$0	\$0	\$0	\$4,106
Unregistered Reinsurers	\$0	\$281	\$0	\$0	\$0	\$0	\$0	\$281
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$1,218	\$12,725	\$4,060	\$2,968	\$948	\$0	\$0	\$21,920
IBNR Reserves Ceded to								
Registered Reinsurers	\$0	\$11,911	\$16,241	\$13,023	\$6,001	\$1,227	\$504	\$48,907
Unregistered Reinsurers	\$0	\$814	\$0	\$500	\$636	\$200	\$68	\$2,217
Total Reserves Retained	\$1,218	\$12,725	\$4,060	\$2,968	\$948	\$0	\$0	\$21,920
Reserves Ceded to								
Registered Reinsurers	\$0	\$11,911	\$16,241	\$13,023	\$6,001	\$1,227	\$504	\$48,907
Unregistered Reinsurers	\$0	\$814	\$0	\$500	\$636	\$200	\$68	\$2,217

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2002-2

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 140	Totals
<u>Derivation of Ultimate Incurred</u>								
Earned Lawyer Count	2,175	2,175	2,175	2,175	2,175	2,175	1,971	
Expected Loss Cost per Lawyer	\$73	\$1,524	\$1,224	\$1,002	\$464	\$92	\$49	
Gross Expected Loss Volume	\$158,739	\$3,313,938	\$2,661,588	\$2,178,849	\$1,008,968	\$200,054	\$96,555	
IBNR Factor	0.015	0.015	0.015	0.015	0.015	0.015	0.015	
IBNR Amount	\$2,381	\$49,709	\$39,924	\$32,683	\$15,135	\$3,001	\$1,448	\$144,280
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$2,381	\$49,709	\$39,924	\$32,683	\$15,135	\$3,001	\$1,448	\$144,280
Paid to Date	\$0	\$271,947	\$0	\$0	\$0	\$0	\$0	\$271,947
Total Ultimate Incurred	\$2,381	\$321,656	\$39,924	\$32,683	\$15,135	\$3,001	\$1,448	\$416,227
<u>Derivation of Loss Adjustment Expenses</u>								
IBNR LAE	\$89	\$1,864	\$1,497	\$1,226	\$568	\$113	\$54	\$5,411
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$89	\$1,864	\$1,497	\$1,226	\$568	\$113	\$54	\$5,411
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>								
Retention	1.0000	1.0000	0.2000	0.1800	0.1250	0.0000	0.0000	
Reinsured to Registered	0.0000	0.0000	0.8000	0.8200	0.6342	0.7646	0.1823	
Reinsured to Unregistered	0.0000	0.0000	0.0000	0.0000	0.2408	0.2354	0.8177	
Paid to Date Retained	\$0	\$271,947	\$0	\$0	\$0	\$0	\$0	\$271,947
Paid Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$2,381	\$49,709	\$7,985	\$5,883	\$1,892	\$0	\$0	\$67,850
IBNR Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$31,939	\$26,800	\$9,598	\$2,294	\$264	\$70,896
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$3,644	\$706	\$1,184	\$5,535
Total Reserves Retained	\$2,381	\$49,709	\$7,985	\$5,883	\$1,892	\$0	\$0	\$67,850
Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$31,939	\$26,800	\$9,598	\$2,294	\$264	\$70,896
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$3,644	\$706	\$1,184	\$5,535

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2003-1

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 140	Totals
<u>Derivation of Ultimate Incurred</u>								
Earned Lawyer Count	2,349	2,349	2,349	2,349	2,349	2,349	2,040	
Expected Loss Cost per Lawyer	\$73	\$1,524	\$1,224	\$1,002	\$464	\$92	\$49	
Gross Expected Loss Volume	\$171,450	\$3,579,305	\$2,874,717	\$2,353,322	\$1,089,762	\$216,074	\$99,948	
IBNR Factor	0.015	0.015	0.015	0.015	0.015	0.015	0.015	
IBNR Amount	\$2,572	\$53,690	\$43,121	\$35,300	\$16,346	\$3,241	\$1,499	\$155,769
Case Reserves	\$0	\$3,098,657	\$0	\$0	\$0	\$0	\$0	\$3,098,657
Total Reserves (Ind. & Leg.)	\$2,572	\$3,152,347	\$43,121	\$35,300	\$16,346	\$3,241	\$1,499	\$3,254,426
Paid to Date	\$0	\$3,150,541	\$0	\$0	\$0	\$0	\$0	\$3,150,541
Total Ultimate Incurred	\$2,572	\$6,302,888	\$43,121	\$35,300	\$16,346	\$3,241	\$1,499	\$6,404,967
<u>Derivation of Loss Adjustment Expenses</u>								
IBNR LAE	\$96	\$2,013	\$1,617	\$1,324	\$613	\$122	\$56	\$5,841
Case Reserves LAE	\$0	\$116,200	\$0	\$0	\$0	\$0	\$0	\$116,200
Total LAE(3.75%)	\$96	\$118,213	\$1,617	\$1,324	\$613	\$122	\$56	\$122,041
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>								
Retention	1.0000	1.0000	0.2000	0.1800	0.1250	0.0000	0.0000	
Reinsured to Registered	0.0000	0.0000	0.8000	0.8200	0.6342	0.7646	0.1823	
Reinsured to Unregistered	0.0000	0.0000	0.0000	0.0000	0.2408	0.2354	0.8177	
Paid to Date Retained	\$0	\$3,150,541	\$0	\$0	\$0	\$0	\$0	\$3,150,541
Paid Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$3,098,657	\$0	\$0	\$0	\$0	\$0	\$3,098,657
Case Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$2,572	\$53,690	\$8,624	\$6,354	\$2,043	\$0	\$0	\$73,283
IBNR Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$34,497	\$28,946	\$10,367	\$2,478	\$273	\$76,561
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$3,936	\$763	\$1,226	\$5,925
Total Reserves Retained	\$2,572	\$3,152,347	\$8,624	\$6,354	\$2,043	\$0	\$0	\$3,171,940
Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$34,497	\$28,946	\$10,367	\$2,478	\$273	\$76,561
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$3,936	\$763	\$1,226	\$5,925

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2003-2

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 140	Totals
<u>Derivation of Ultimate Incurred</u>								
Earned Lawyer Count	2,349	2,349	2,349	2,349	2,349	2,349	2,040	
Expected Loss Cost per Lawyer	\$76	\$1,592	\$1,218	\$1,025	\$483	\$103	\$57	
Gross Expected Loss Volume	\$178,496	\$3,739,011	\$2,861,780	\$2,407,226	\$1,134,252	\$241,908	\$116,266	
IBNR Factor	0.034	0.034	0.034	0.034	0.034	0.034	0.034	
IBNR Amount	\$6,069	\$127,126	\$97,301	\$81,846	\$38,565	\$8,225	\$3,953	\$363,084
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$6,069	\$127,126	\$97,301	\$81,846	\$38,565	\$8,225	\$3,953	\$363,084
Paid to Date	\$0	\$1,637,555	\$0	\$0	\$0	\$0	\$0	\$1,637,555
Total Ultimate Incurred	\$6,069	\$1,764,682	\$97,301	\$81,846	\$38,565	\$8,225	\$3,953	\$2,000,639
<u>Derivation of Loss Adjustment Expenses</u>								
IBNR LAE	\$228	\$4,767	\$3,649	\$3,069	\$1,446	\$308	\$148	\$13,616
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$228	\$4,767	\$3,649	\$3,069	\$1,446	\$308	\$148	\$13,616
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>								
Retention	1.0000	1.0000	0.2000	0.1800	0.1250	0.0000	0.0000	
Reinsured to Registered	0.0000	0.0000	0.8000	0.8200	0.5750	0.7385	0.0966	
Reinsured to Unregistered	0.0000	0.0000	0.0000	0.0000	0.3000	0.2615	0.9034	
Paid to Date Retained	\$0	\$1,637,555	\$0	\$0	\$0	\$0	\$0	\$1,637,555
Paid Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$6,069	\$127,126	\$19,460	\$14,732	\$4,821	\$0	\$0	\$172,208
IBNR Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$77,840	\$67,113	\$22,175	\$6,074	\$382	\$173,584
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$11,569	\$2,151	\$3,571	\$17,291
Total Reserves Retained	\$6,069	\$127,126	\$19,460	\$14,732	\$4,821	\$0	\$0	\$172,208
Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$77,840	\$67,113	\$22,175	\$6,074	\$382	\$173,584
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$11,569	\$2,151	\$3,571	\$17,291

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2004-1

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 140	Totals
<u>Derivation of Ultimate Incurred</u>								
Earned Lawyer Count	2,371	2,371	2,371	2,371	2,371	2,371	2,059	
Expected Loss Cost per Lawyer	\$76	\$1,592	\$1,215	\$1,023	\$482	\$103	\$57	
Gross Expected Loss Volume	\$180,168	\$3,774,035	\$2,879,622	\$2,424,815	\$1,143,109	\$244,174	\$117,370	
IBNR Factor	0.034	0.034	0.034	0.034	0.034	0.034	0.034	
IBNR Amount	\$6,126	\$128,317	\$97,907	\$82,444	\$38,866	\$8,302	\$3,991	\$365,952
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$6,126	\$128,317	\$97,907	\$82,444	\$38,866	\$8,302	\$3,991	\$365,952
Paid to Date	\$0	\$7,295,780	\$7,500,000	\$12,500,000	\$10,000,000	\$0	\$0	\$37,295,780
Total Ultimate Incurred	\$6,126	\$7,424,097	\$7,597,907	\$12,582,444	\$10,038,866	\$8,302	\$3,991	\$37,661,732
<u>Derivation of Loss Adjustment Expenses</u>								
IBNR LAE	\$230	\$4,812	\$3,672	\$3,092	\$1,457	\$311	\$150	\$13,723
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$230	\$4,812	\$3,672	\$3,092	\$1,457	\$311	\$150	\$13,723
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>								
Retention	1.0000	1.0000	0.2000	0.1800	0.1250	0.0000	0.0000	
Reinsured to Registered	0.0000	0.0000	0.8000	0.8200	0.5750	0.7385	0.0966	
Reinsured to Unregistered	0.0000	0.0000	0.0000	0.0000	0.3000	0.2615	0.9034	
Paid to Date Retained	\$0	\$7,295,780	\$1,500,000	\$2,250,000	\$1,250,000	\$0	\$0	\$12,295,780
Paid Ceded to								
Registered Reinsurers	\$0	\$0	\$6,000,000	\$10,250,000	\$5,750,000	\$0	\$0	\$22,000,000
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$3,000,000	\$0	\$0	\$3,000,000
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$6,126	\$128,317	\$19,581	\$14,840	\$4,858	\$0	\$0	\$173,722
IBNR Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$78,326	\$67,604	\$22,348	\$6,131	\$385	\$174,794
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$11,660	\$2,171	\$3,605	\$17,436
Total Reserves Retained	\$6,126	\$128,317	\$19,581	\$14,840	\$4,858	\$0	\$0	\$173,722
Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$78,326	\$67,604	\$22,348	\$6,131	\$385	\$174,794
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$11,660	\$2,171	\$3,605	\$17,436

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2004-2

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 140	Totals
<u>Derivation of Ultimate Incurred</u>								
Earned Lawyer Count	2,371	2,371	2,371	2,371	2,371	2,371	2,059	
Expected Loss Cost per Lawyer	\$79	\$1,668	\$1,284	\$1,092	\$520	\$118	\$66	
Gross Expected Loss Volume	\$187,279	\$3,954,203	\$3,043,825	\$2,588,971	\$1,232,842	\$279,734	\$135,902	
IBNR Factor	0.048	0.048	0.048	0.048	0.048	0.048	0.048	
IBNR Amount	\$8,989	\$189,802	\$146,104	\$124,271	\$59,176	\$13,427	\$6,523	\$548,292
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$8,989	\$189,802	\$146,104	\$124,271	\$59,176	\$13,427	\$6,523	\$548,292
Paid to Date	\$0	\$1,223,995	\$0	\$0	\$0	\$0	\$0	\$1,223,995
Total Ultimate Incurred	\$8,989	\$1,413,797	\$146,104	\$124,271	\$59,176	\$13,427	\$6,523	\$1,772,288
<u>Derivation of Loss Adjustment Expenses</u>								
IBNR LAE	\$337	\$7,118	\$5,479	\$4,660	\$2,219	\$504	\$245	\$20,561
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$337	\$7,118	\$5,479	\$4,660	\$2,219	\$504	\$245	\$20,561
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>								
Retention	1.0000	1.0000	0.2000	0.1800	0.1250	0.0000	0.0000	
Reinsured to Registered	0.0000	0.0000	0.7500	0.8200	0.6305	0.7486	0.0966	
Reinsured to Unregistered	0.0000	0.0000	0.0500	0.0000	0.2445	0.2514	0.9034	
Paid to Date Retained	\$0	\$1,223,995	\$0	\$0	\$0	\$0	\$0	\$1,223,995
Paid Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$8,989	\$189,802	\$29,221	\$22,369	\$7,397	\$0	\$0	\$257,778
IBNR Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$109,578	\$101,902	\$37,311	\$10,052	\$630	\$259,472
Unregistered Reinsurers	\$0	\$0	\$7,305	\$0	\$14,469	\$3,376	\$5,893	\$31,043
Total Reserves Retained	\$8,989	\$189,802	\$29,221	\$22,369	\$7,397	\$0	\$0	\$257,778
Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$109,578	\$101,902	\$37,311	\$10,052	\$630	\$259,472
Unregistered Reinsurers	\$0	\$0	\$7,305	\$0	\$14,469	\$3,376	\$5,893	\$31,043

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2005-1

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 140	Totals
<u>Derivation of Ultimate Incurred</u>								
Earned Lawyer Count	2,373	2,373	2,373	2,373	2,373	2,373	2,049	
Expected Loss Cost per Lawyer	\$79	\$1,668	\$1,280	\$1,090	\$519	\$118	\$66	
Gross Expected Loss Volume	\$187,428	\$3,957,330	\$3,036,359	\$2,585,526	\$1,231,847	\$279,955	\$135,201	
IBNR Factor	0.048	0.048	0.048	0.048	0.048	0.048	0.048	
IBNR Amount	\$8,997	\$189,952	\$145,745	\$124,105	\$59,129	\$13,438	\$6,490	\$547,855
Case Reserves	\$711,662	\$100,000	\$0	\$0	\$0	\$0	\$0	\$811,662
Total Reserves (Ind. & Leg.)	\$720,659	\$289,952	\$145,745	\$124,105	\$59,129	\$13,438	\$6,490	\$1,359,517
Paid to Date	\$38,338	\$0	\$0	\$0	\$0	\$0	\$0	\$38,338
Total Ultimate Incurred	\$758,997	\$289,952	\$145,745	\$124,105	\$59,129	\$13,438	\$6,490	\$1,397,855
<u>Derivation of Loss Adjustment Expenses</u>								
IBNR LAE	\$337	\$7,123	\$5,465	\$4,654	\$2,217	\$504	\$243	\$20,545
Case Reserves LAE	\$26,687	\$3,750	\$0	\$0	\$0	\$0	\$0	\$30,437
Total LAE(3.75%)	\$27,025	\$10,873	\$5,465	\$4,654	\$2,217	\$504	\$243	\$50,982
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>								
Retention	1.0000	1.0000	0.2000	0.1800	0.1250	0.0000	0.0000	
Reinsured to Registered	0.0000	0.0000	0.7500	0.8200	0.6305	0.7486	0.0966	
Reinsured to Unregistered	0.0000	0.0000	0.0500	0.0000	0.2445	0.2514	0.9034	
Paid to Date Retained	\$38,338	\$0	\$0	\$0	\$0	\$0	\$0	\$38,338
Paid Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$711,662	\$100,000	\$0	\$0	\$0	\$0	\$0	\$811,662
Case Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$8,997	\$189,952	\$29,149	\$22,339	\$7,391	\$0	\$0	\$257,827
IBNR Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$109,309	\$101,766	\$37,281	\$10,060	\$627	\$259,042
Unregistered Reinsurers	\$0	\$0	\$7,287	\$0	\$14,457	\$3,378	\$5,863	\$30,985
Total Reserves Retained	\$720,659	\$289,952	\$29,149	\$22,339	\$7,391	\$0	\$0	\$1,069,490
Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$109,309	\$101,766	\$37,281	\$10,060	\$627	\$259,042
Unregistered Reinsurers	\$0	\$0	\$7,287	\$0	\$14,457	\$3,378	\$5,863	\$30,985

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2005-2

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 140	Totals
<u>Derivation of Ultimate Incurred</u>								
Earned Lawyer Count	2,373	2,373	2,373	2,373	2,373	2,373	2,049	
Expected Loss Cost per Lawyer	\$83	\$1,752	\$1,359	\$1,171	\$565	\$139	\$79	
Gross Expected Loss Volume	\$196,918	\$4,156,620	\$3,223,221	\$2,778,400	\$1,339,985	\$329,778	\$161,832	
IBNR Factor	0.048	0.048	0.048	0.048	0.048	0.048	0.048	
IBNR Amount	\$9,452	\$199,518	\$154,715	\$133,363	\$64,319	\$15,829	\$7,768	\$584,964
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$9,452	\$199,518	\$154,715	\$133,363	\$64,319	\$15,829	\$7,768	\$584,964
Paid to Date	\$0	\$709,280	\$0	\$0	\$0	\$0	\$0	\$709,280
Total Ultimate Incurred	\$9,452	\$908,798	\$154,715	\$133,363	\$64,319	\$15,829	\$7,768	\$1,294,245
<u>Derivation of Loss Adjustment Expenses</u>								
IBNR LAE	\$354	\$7,482	\$5,802	\$5,001	\$2,412	\$594	\$291	\$21,936
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$354	\$7,482	\$5,802	\$5,001	\$2,412	\$594	\$291	\$21,936
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>								
Retention	1.0000	1.0000	0.2000	0.1800	0.1250	0.0000	0.0000	
Reinsured to Registered	0.0000	0.0000	0.7500	0.8000	0.8750	1.0000	0.3600	
Reinsured to Unregistered	0.0000	0.0000	0.0500	0.0200	0.0000	0.0000	0.6400	
Paid to Date Retained	\$0	\$709,280	\$0	\$0	\$0	\$0	\$0	\$709,280
Paid Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$9,452	\$199,518	\$30,943	\$24,005	\$8,040	\$0	\$0	\$271,958
IBNR Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$116,036	\$106,691	\$56,279	\$15,829	\$2,796	\$297,632
Unregistered Reinsurers	\$0	\$0	\$7,736	\$2,667	\$0	\$0	\$4,971	\$15,374
Total Reserves Retained	\$9,452	\$199,518	\$30,943	\$24,005	\$8,040	\$0	\$0	\$271,958
Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$116,036	\$106,691	\$56,279	\$15,829	\$2,796	\$297,632
Unregistered Reinsurers	\$0	\$0	\$7,736	\$2,667	\$0	\$0	\$4,971	\$15,374

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2006-1

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 140	Totals
<u>Derivation of Ultimate Incurred</u>								
Earned Lawyer Count	2,397	2,397	2,397	2,397	2,397	2,397	2,076	
Expected Loss Cost per Lawyer	\$83	\$1,752	\$1,357	\$1,170	\$564	\$139	\$79	
Gross Expected Loss Volume	\$198,972	\$4,199,982	\$3,251,953	\$2,804,645	\$1,352,973	\$333,218	\$164,004	
IBNR Factor	0.048	0.048	0.048	0.048	0.048	0.048	0.048	
IBNR Amount	\$9,551	\$201,599	\$156,094	\$134,623	\$64,943	\$15,994	\$7,872	\$590,676
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$9,551	\$201,599	\$156,094	\$134,623	\$64,943	\$15,994	\$7,872	\$590,676
Paid to Date	\$0	\$2,833	\$0	\$0	\$0	\$0	\$0	\$2,833
Total Ultimate Incurred	\$9,551	\$204,433	\$156,094	\$134,623	\$64,943	\$15,994	\$7,872	\$593,509
<u>Derivation of Loss Adjustment Expenses</u>								
IBNR LAE	\$358	\$7,560	\$5,854	\$5,048	\$2,435	\$600	\$295	\$22,150
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$358	\$7,560	\$5,854	\$5,048	\$2,435	\$600	\$295	\$22,150
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>								
Retention	1.0000	1.0000	0.2000	0.1800	0.1250	0.0000	0.0000	
Reinsured to Registered	0.0000	0.0000	0.7500	0.8000	0.8750	1.0000	0.3600	
Reinsured to Unregistered	0.0000	0.0000	0.0500	0.0200	0.0000	0.0000	0.6400	
Paid to Date Retained	\$0	\$2,833	\$0	\$0	\$0	\$0	\$0	\$2,833
Paid Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$9,551	\$201,599	\$31,219	\$24,232	\$8,118	\$0	\$0	\$274,718
IBNR Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$117,070	\$107,698	\$56,825	\$15,994	\$2,834	\$300,422
Unregistered Reinsurers	\$0	\$0	\$7,805	\$2,692	\$0	\$0	\$5,038	\$15,535
Total Reserves Retained	\$9,551	\$201,599	\$31,219	\$24,232	\$8,118	\$0	\$0	\$274,718
Reserves Ceded to								
Registered Reinsurers	\$0	\$0	\$117,070	\$107,698	\$56,825	\$15,994	\$2,834	\$300,422
Unregistered Reinsurers	\$0	\$0	\$7,805	\$2,692	\$0	\$0	\$5,038	\$15,535

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2006-2

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 140	20 xs 160	Totals
<u>Derivation of Ultimate Incurred</u>									
Earned Lawyer Count	2,397	2,397	2,397	2,397	2,397	2,397	2,076	877	
Expected Loss Cost per Lawyer	\$185	\$1,885	\$1,532	\$1,302	\$540	\$42	\$24	\$18	
Gross Expected Loss Volume	\$443,245	\$4,519,084	\$3,673,441	\$3,121,345	\$1,295,199	\$100,685	\$49,824	\$15,791	
IBNR Factor	0.048	0.048	0.048	0.048	0.048	0.048	0.048	0.048	
IBNR Amount	\$21,276	\$216,916	\$176,325	\$149,825	\$62,170	\$4,833	\$2,392	\$758	\$634,493
Case Reserves	\$0	\$487,215	\$90,347	\$0	\$0	\$0	\$0	\$0	\$577,562
Total Reserves (Ind. & Leg.)	\$21,276	\$704,131	\$266,672	\$149,825	\$62,170	\$4,833	\$2,392	\$758	\$1,212,055
Paid to Date	\$0	\$5,512,785	\$876,370	\$0	\$0	\$0	\$0	\$0	\$6,389,155
Total Ultimate Incurred	\$21,276	\$6,216,916	\$1,143,042	\$149,825	\$62,170	\$4,833	\$2,392	\$758	\$7,601,210
<u>Derivation of Loss Adjustment Expenses</u>									
IBNR LAE	\$798	\$8,134	\$6,612	\$5,618	\$2,331	\$181	\$90	\$28	\$23,794
Case Reserves LAE	\$0	\$18,271	\$3,388	\$0	\$0	\$0	\$0	\$0	\$21,659
Total LAE(3.75%)	\$798	\$26,405	\$10,000	\$5,618	\$2,331	\$181	\$90	\$28	\$45,452
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>									
Retention	1.0000	1.0000	0.2000	0.1800	0.1250	0.0000	0.0000	0.0000	
Reinsured to Registered	0.0000	0.0000	0.7500	0.7700	0.8750	1.0000	0.3600	1.0000	
Reinsured to Unregistered	0.0000	0.0000	0.0500	0.0500	0.0000	0.0000	0.6400	0.0000	
Paid to Date Retained	\$0	\$5,512,785	\$175,274	\$0	\$0	\$0	\$0	\$0	\$5,688,059
Paid Ceded to									
Registered Reinsurers	\$0	\$0	\$657,278	\$0	\$0	\$0	\$0	\$0	\$657,278
Unregistered Reinsurers	\$0	\$0	\$43,819	\$0	\$0	\$0	\$0	\$0	\$43,819
Case Reserves Retained	\$0	\$487,215	\$18,069	\$0	\$0	\$0	\$0	\$0	\$505,284
Case Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$67,760	\$0	\$0	\$0	\$0	\$0	\$67,760
Unregistered Reinsurers	\$0	\$0	\$4,517	\$0	\$0	\$0	\$0	\$0	\$4,517
IBNR Reserves Retained	\$21,276	\$216,916	\$35,265	\$26,968	\$7,771	\$0	\$0	\$0	\$308,196
IBNR Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$132,244	\$115,365	\$54,398	\$4,833	\$861	\$758	\$308,459
Unregistered Reinsurers	\$0	\$0	\$8,816	\$7,491	\$0	\$0	\$1,531	\$0	\$17,838
Total Reserves Retained	\$21,276	\$704,131	\$53,334	\$26,968	\$7,771	\$0	\$0	\$0	\$813,481
Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$200,004	\$115,365	\$54,398	\$4,833	\$861	\$758	\$376,219
Unregistered Reinsurers	\$0	\$0	\$13,334	\$7,491	\$0	\$0	\$1,531	\$0	\$22,355

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2007-1

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 140	20 xs 160	Totals
<u>Derivation of Ultimate Incurred</u>									
Earned Lawyer Count	2,374	2,374	2,374	2,374	2,374	2,374	2,127	2,127	
Expected Loss Cost per Lawyer	\$184	\$1,879	\$1,531	\$1,301	\$540	\$42	\$24	\$18	
Gross Expected Loss Volume	\$437,492	\$4,460,430	\$3,636,029	\$3,088,127	\$1,281,128	\$99,719	\$51,054	\$38,291	
IBNR Factor	0.048	0.048	0.048	0.048	0.048	0.048	0.048	0.048	
IBNR Amount	\$21,000	\$214,101	\$174,529	\$148,230	\$61,494	\$4,786	\$2,451	\$1,838	\$628,429
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$21,000	\$214,101	\$174,529	\$148,230	\$61,494	\$4,786	\$2,451	\$1,838	\$628,429
Paid to Date	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Ultimate Incurred	\$21,000	\$214,101	\$174,529	\$148,230	\$61,494	\$4,786	\$2,451	\$1,838	\$628,429
<u>Derivation of Loss Adjustment Expenses</u>									
IBNR LAE	\$787	\$8,029	\$6,545	\$5,559	\$2,306	\$179	\$92	\$69	\$23,566
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$787	\$8,029	\$6,545	\$5,559	\$2,306	\$179	\$92	\$69	\$23,566
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>									
Retention	1.0000	1.0000	0.2000	0.1800	0.1250	0.0000	0.0000	0.0000	
Reinsured to Registered	0.0000	0.0000	0.7500	0.7700	0.8750	1.0000	0.3600	1.0000	
Reinsured to Unregistered	0.0000	0.0000	0.0500	0.0500	0.0000	0.0000	0.6400	0.0000	
Paid to Date Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid Ceded to									
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$21,000	\$214,101	\$34,906	\$26,681	\$7,687	\$0	\$0	\$0	\$304,374
IBNR Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$130,897	\$114,137	\$53,807	\$4,786	\$882	\$1,838	\$306,348
Unregistered Reinsurers	\$0	\$0	\$8,726	\$7,412	\$0	\$0	\$1,568	\$0	\$17,706
Total Reserves Retained	\$21,000	\$214,101	\$34,906	\$26,681	\$7,687	\$0	\$0	\$0	\$304,374
Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$130,897	\$114,137	\$53,807	\$4,786	\$882	\$1,838	\$306,348
Unregistered Reinsurers	\$0	\$0	\$8,726	\$7,412	\$0	\$0	\$1,568	\$0	\$17,706

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2007-2

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 140	20 xs 160	Totals
<u>Derivation of Ultimate Incurred</u>									
Earned Lawyer Count	2,356	2,356	2,356	2,356	2,356	2,356	2,099	1,414	
Expected Loss Cost per Lawyer	\$106	\$1,501	\$1,279	\$945	\$379	\$28	\$13	\$9	
Gross Expected Loss Volume	\$248,658	\$3,536,467	\$3,013,726	\$2,225,966	\$893,454	\$65,961	\$27,284	\$12,724	
IBNR Factor	0.111	0.111	0.111	0.111	0.111	0.111	0.111	0.111	
IBNR Amount	\$27,601	\$392,548	\$334,524	\$247,082	\$99,173	\$7,322	\$3,028	\$1,412	\$1,112,690
Case Reserves	\$0	\$81,594	\$0	\$0	\$0	\$0	\$0	\$0	\$81,594
Total Reserves (Ind. & Leg.)	\$27,601	\$474,142	\$334,524	\$247,082	\$99,173	\$7,322	\$3,028	\$1,412	\$1,194,284
Paid to Date	\$0	\$2,184,024	\$0	\$0	\$0	\$0	\$0	\$0	\$2,184,024
Total Ultimate Incurred	\$27,601	\$2,658,165	\$334,524	\$247,082	\$99,173	\$7,322	\$3,028	\$1,412	\$3,378,308
<u>Derivation of Loss Adjustment Expenses</u>									
IBNR LAE	\$1,035	\$14,721	\$12,545	\$9,266	\$3,719	\$275	\$114	\$53	\$41,726
Case Reserves LAE	\$0	\$3,060	\$0	\$0	\$0	\$0	\$0	\$0	\$3,060
Total LAE(3.75%)	\$1,035	\$17,780	\$12,545	\$9,266	\$3,719	\$275	\$114	\$53	\$44,786
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>									
Retention	1.0000	1.0000	0.3000	0.1800	0.1250	0.0000	0.0000	0.0000	
Reinsured to Registered	0.0000	0.0000	0.6500	0.7700	0.8750	1.0000	0.3600	1.0000	
Reinsured to Unregistered	0.0000	0.0000	0.0500	0.0500	0.0000	0.0000	0.6400	0.0000	
Paid to Date Retained	\$0	\$2,184,024	\$0	\$0	\$0	\$0	\$0	\$0	\$2,184,024
Paid Ceded to									
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$81,594	\$0	\$0	\$0	\$0	\$0	\$0	\$81,594
Case Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$27,601	\$392,548	\$100,357	\$44,475	\$12,397	\$0	\$0	\$0	\$577,377
IBNR Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$217,440	\$190,253	\$86,777	\$7,322	\$1,090	\$1,412	\$504,295
Unregistered Reinsurers	\$0	\$0	\$16,726	\$12,354	\$0	\$0	\$1,938	\$0	\$31,019
Total Reserves Retained	\$27,601	\$474,142	\$100,357	\$44,475	\$12,397	\$0	\$0	\$0	\$658,971
Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$217,440	\$190,253	\$86,777	\$7,322	\$1,090	\$1,412	\$504,295
Unregistered Reinsurers	\$0	\$0	\$16,726	\$12,354	\$0	\$0	\$1,938	\$0	\$31,019

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2008-1

As at December 31, 2012

LAYER	.75 xs .25	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 140	20 xs 160	Totals
<u>Derivation of Ultimate Incurred</u>									
Earned Lawyer Count	2,428	2,428	2,428	2,428	2,428	2,428	2,162	1,476	
Expected Loss Cost per Lawyer	\$106	\$1,504	\$1,280	\$945	\$379	\$28	\$13	\$9	
Gross Expected Loss Volume	\$256,794	\$3,652,186	\$3,107,901	\$2,295,130	\$921,305	\$67,977	\$28,103	\$13,280	
IBNR Factor	0.111	0.111	0.111	0.111	0.111	0.111	0.111	0.111	
IBNR Amount	\$28,504	\$405,393	\$344,977	\$254,759	\$102,265	\$7,545	\$3,119	\$1,474	\$1,148,037
Case Reserves	\$0	\$1,000,000	\$0	\$24,257	\$0	\$0	\$0	\$0	\$1,024,257
Total Reserves (Ind. & Leg.)	\$28,504	\$1,405,393	\$344,977	\$279,016	\$102,265	\$7,545	\$3,119	\$1,474	\$2,172,293
Paid to Date	\$0	\$4,000,000	\$7,500,000	\$475,743	\$0	\$0	\$0	\$0	\$11,975,743
Total Ultimate Incurred	\$28,504	\$5,405,393	\$7,844,977	\$754,759	\$102,265	\$7,545	\$3,119	\$1,474	\$14,148,037
<u>Derivation of Loss Adjustment Expenses</u>									
IBNR LAE	\$1,069	\$15,202	\$12,937	\$9,553	\$3,835	\$283	\$117	\$55	\$43,051
Case Reserves LAE	\$0	\$37,500	\$0	\$910	\$0	\$0	\$0	\$0	\$38,410
Total LAE(3.75%)	\$1,069	\$52,702	\$12,937	\$10,463	\$3,835	\$283	\$117	\$55	\$81,461
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>									
Retention	1.0000	1.0000	0.3000	0.1800	0.1250	0.0000	0.0000	0.0000	
Reinsured to Registered	0.0000	0.0000	0.6500	0.7700	0.8750	1.0000	0.3600	1.0000	
Reinsured to Unregistered	0.0000	0.0000	0.0500	0.0500	0.0000	0.0000	0.6400	0.0000	
Paid to Date Retained	\$0	\$4,000,000	\$2,250,000	\$85,634	\$0	\$0	\$0	\$0	\$6,335,634
Paid Ceded to									
Registered Reinsurers	\$0	\$0	\$4,875,000	\$366,322	\$0	\$0	\$0	\$0	\$5,241,322
Unregistered Reinsurers	\$0	\$0	\$375,000	\$23,787	\$0	\$0	\$0	\$0	\$398,787
Case Reserves Retained	\$0	\$1,000,000	\$0	\$4,366	\$0	\$0	\$0	\$0	\$1,004,366
Case Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$0	\$18,678	\$0	\$0	\$0	\$0	\$18,678
Unregistered Reinsurers	\$0	\$0	\$0	\$1,213	\$0	\$0	\$0	\$0	\$1,213
IBNR Reserves Retained	\$28,504	\$405,393	\$103,493	\$45,857	\$12,783	\$0	\$0	\$0	\$596,030
IBNR Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$224,235	\$196,165	\$89,482	\$7,545	\$1,123	\$1,474	\$520,024
Unregistered Reinsurers	\$0	\$0	\$17,249	\$12,738	\$0	\$0	\$1,996	\$0	\$31,983
Total Reserves Retained	\$28,504	\$1,405,393	\$103,493	\$50,223	\$12,783	\$0	\$0	\$0	\$1,600,396
Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$224,235	\$214,842	\$89,482	\$7,545	\$1,123	\$1,474	\$538,702
Unregistered Reinsurers	\$0	\$0	\$17,249	\$13,951	\$0	\$0	\$1,996	\$0	\$33,196

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2008-2

As at December 31, 2012

LAYER	.975 xs .025	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 140	30 xs 160	Totals
<u>Derivation of Ultimate Incurred</u>									
Earned Lawyer Count	2,393	2,393	2,393	2,393	2,393	2,393	2,136	1,457	
Expected Loss Cost per Lawyer	\$138	\$1,341	\$1,082	\$768	\$381	\$8	\$3	\$2	
Gross Expected Loss Volume	\$329,492	\$3,208,533	\$2,588,748	\$1,837,058	\$911,711	\$19,140	\$6,409	\$2,915	
IBNR Factor	0.298	0.298	0.298	0.298	0.298	0.298	0.298	0.298	
IBNR Amount	\$98,189	\$956,143	\$771,447	\$547,443	\$271,690	\$5,704	\$1,910	\$869	\$2,653,393
Case Reserves	\$0	\$500,000	\$0	\$0	\$0	\$0	\$0	\$0	\$500,000
Total Reserves (Ind. & Leg.)	\$98,189	\$1,456,143	\$771,447	\$547,443	\$271,690	\$5,704	\$1,910	\$869	\$3,153,393
Paid to Date	\$0	\$5,042	\$0	\$0	\$0	\$0	\$0	\$0	\$5,042
Total Ultimate Incurred	\$98,189	\$1,461,185	\$771,447	\$547,443	\$271,690	\$5,704	\$1,910	\$869	\$3,158,435
<u>Derivation of Loss Adjustment Expenses</u>									
IBNR LAE	\$3,682	\$35,855	\$28,929	\$20,529	\$10,188	\$214	\$72	\$33	\$99,502
Case Reserves LAE	\$0	\$18,750	\$0	\$0	\$0	\$0	\$0	\$0	\$18,750
Total LAE(3.75%)	\$3,682	\$54,605	\$28,929	\$20,529	\$10,188	\$214	\$72	\$33	\$118,252
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>									
Retention	1.0000	1.0000	0.3500	0.2400	0.1250	0.0000	0.0000	0.0000	
Reinsured to Registered	0.0000	0.0000	0.6000	0.7100	0.8750	1.0000	0.3600	1.0000	
Reinsured to Unregistered	0.0000	0.0000	0.0500	0.0500	0.0000	0.0000	0.6400	0.0000	
Paid to Date Retained	\$0	\$5,042	\$0	\$0	\$0	\$0	\$0	\$0	\$5,042
Paid Ceded to									
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$500,000	\$0	\$0	\$0	\$0	\$0	\$0	\$500,000
Case Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$98,189	\$956,143	\$270,006	\$131,386	\$33,961	\$0	\$0	\$0	\$1,489,685
IBNR Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$462,868	\$388,685	\$237,729	\$5,704	\$688	\$869	\$1,096,541
Unregistered Reinsurers	\$0	\$0	\$38,572	\$27,372	\$0	\$0	\$1,222	\$0	\$67,167
Total Reserves Retained	\$98,189	\$1,456,143	\$270,006	\$131,386	\$33,961	\$0	\$0	\$0	\$1,989,685
Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$462,868	\$388,685	\$237,729	\$5,704	\$688	\$869	\$1,096,541
Unregistered Reinsurers	\$0	\$0	\$38,572	\$27,372	\$0	\$0	\$1,222	\$0	\$67,167

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2009-1

As at December 31, 2012

LAYER	.975 xs .025	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 140	30 xs 160	Totals
<u>Derivation of Ultimate Incurred</u>									
Earned Lawyer Count	2,443	2,443	2,443	2,443	2,443	2,443	2,174	1,472	
Expected Loss Cost per Lawyer	\$138	\$1,344	\$1,083	\$768	\$381	\$8	\$3	\$2	
Gross Expected Loss Volume	\$337,176	\$3,283,352	\$2,645,033	\$1,876,395	\$931,126	\$19,540	\$6,521	\$2,945	
IBNR Factor	0.298	0.298	0.298	0.298	0.298	0.298	0.298	0.298	
IBNR Amount	\$100,478	\$978,439	\$788,220	\$559,166	\$277,476	\$5,823	\$1,943	\$877	\$2,712,422
Case Reserves	\$0	\$600,000	\$0	\$0	\$0	\$0	\$0	\$0	\$600,000
Total Reserves (Ind. & Leg.)	\$100,478	\$1,578,439	\$788,220	\$559,166	\$277,476	\$5,823	\$1,943	\$877	\$3,312,422
Paid to Date	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Ultimate Incurred	\$100,478	\$1,578,439	\$788,220	\$559,166	\$277,476	\$5,823	\$1,943	\$877	\$3,312,422
<u>Derivation of Loss Adjustment Expenses</u>									
IBNR LAE	\$3,768	\$36,691	\$29,558	\$20,969	\$10,405	\$218	\$73	\$33	\$101,716
Case Reserves LAE	\$0	\$22,500	\$0	\$0	\$0	\$0	\$0	\$0	\$22,500
Total LAE(3.75%)	\$3,768	\$59,191	\$29,558	\$20,969	\$10,405	\$218	\$73	\$33	\$124,216
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>									
Retention	1.0000	1.0000	0.3500	0.2400	0.1250	0.0000	0.0000	0.0000	
Reinsured to Registered	0.0000	0.0000	0.6000	0.7100	0.8750	1.0000	0.3600	1.0000	
Reinsured to Unregistered	0.0000	0.0000	0.0500	0.0500	0.0000	0.0000	0.6400	0.0000	
Paid to Date Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid Ceded to									
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$600,000	\$0	\$0	\$0	\$0	\$0	\$0	\$600,000
Case Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$100,478	\$978,439	\$275,877	\$134,200	\$34,684	\$0	\$0	\$0	\$1,523,678
IBNR Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$472,932	\$397,008	\$242,791	\$5,823	\$700	\$877	\$1,120,131
Unregistered Reinsurers	\$0	\$0	\$39,411	\$27,958	\$0	\$0	\$1,244	\$0	\$68,613
Total Reserves Retained	\$100,478	\$1,578,439	\$275,877	\$134,200	\$34,684	\$0	\$0	\$0	\$2,123,678
Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$472,932	\$397,008	\$242,791	\$5,823	\$700	\$877	\$1,120,131
Unregistered Reinsurers	\$0	\$0	\$39,411	\$27,958	\$0	\$0	\$1,244	\$0	\$68,613

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2009-2

As at December 31, 2012

LAYER	.975 xs .025	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 140	30 xs 160	Totals
<u>Derivation of Ultimate Incurred</u>									
Earned Lawyer Count	2,402	2,402	2,402	2,402	2,402	2,402	2,118	1,441	
Expected Loss Cost per Lawyer	\$143	\$1,419	\$1,093	\$844	\$373	\$13	\$7	\$5	
Gross Expected Loss Volume	\$343,640	\$3,408,081	\$2,624,425	\$2,027,484	\$894,687	\$31,220	\$14,828	\$7,206	
IBNR Factor	0.481	0.481	0.481	0.481	0.481	0.481	0.481	0.481	
IBNR Amount	\$165,291	\$1,639,287	\$1,262,349	\$975,220	\$430,344	\$15,017	\$7,132	\$3,466	\$4,498,105
Case Reserves	\$0	\$2,500,000	\$0	\$0	\$0	\$0	\$0	\$0	\$2,500,000
Total Reserves (Ind. & Leg.)	\$165,291	\$4,139,287	\$1,262,349	\$975,220	\$430,344	\$15,017	\$7,132	\$3,466	\$6,998,105
Paid to Date	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Ultimate Incurred	\$165,291	\$4,139,287	\$1,262,349	\$975,220	\$430,344	\$15,017	\$7,132	\$3,466	\$6,998,105
<u>Derivation of Loss Adjustment Expenses</u>									
IBNR LAE	\$6,198	\$61,473	\$47,338	\$36,571	\$16,138	\$563	\$267	\$130	\$168,679
Case Reserves LAE	\$0	\$93,750	\$0	\$0	\$0	\$0	\$0	\$0	\$93,750
Total LAE(3.75%)	\$6,198	\$155,223	\$47,338	\$36,571	\$16,138	\$563	\$267	\$130	\$262,429
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>									
Retention	1.0000	1.0000	0.4500	0.2800	0.1500	0.0000	0.0000	0.0000	
Reinsured to Registered	0.0000	0.0000	0.5200	0.6800	0.8500	1.0000	0.3600	1.0000	
Reinsured to Unregistered	0.0000	0.0000	0.0300	0.0400	0.0000	0.0000	0.6400	0.0000	
Paid to Date Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid Ceded to									
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$2,500,000	\$0	\$0	\$0	\$0	\$0	\$0	\$2,500,000
Case Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$165,291	\$1,639,287	\$568,057	\$273,061	\$64,552	\$0	\$0	\$0	\$2,710,248
IBNR Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$656,421	\$663,149	\$365,793	\$15,017	\$2,568	\$3,466	\$1,706,413
Unregistered Reinsurers	\$0	\$0	\$37,870	\$39,009	\$0	\$0	\$4,565	\$0	\$81,444
Total Reserves Retained	\$165,291	\$4,139,287	\$568,057	\$273,061	\$64,552	\$0	\$0	\$0	\$5,210,248
Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$656,421	\$663,149	\$365,793	\$15,017	\$2,568	\$3,466	\$1,706,413
Unregistered Reinsurers	\$0	\$0	\$37,870	\$39,009	\$0	\$0	\$4,565	\$0	\$81,444

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2010-1

As at December 31, 2012

LAYER	.975 xs .025	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 140	30 xs 160	Totals
<u>Derivation of Ultimate Incurred</u>									
Earned Lawyer Count	2,416	2,416	2,416	2,416	2,416	2,416	2,135	1,466	
Expected Loss Cost per Lawyer	\$144	\$1,428	\$1,095	\$846	\$373	\$13	\$7	\$5	
Gross Expected Loss Volume	\$347,777	\$3,449,111	\$2,644,515	\$2,042,387	\$900,893	\$31,402	\$14,947	\$7,331	
IBNR Factor	0.481	0.481	0.481	0.481	0.481	0.481	0.481	0.481	
IBNR Amount	\$167,281	\$1,659,022	\$1,272,011	\$982,388	\$433,330	\$15,104	\$7,189	\$3,526	\$4,539,852
Case Reserves	\$0	\$1,096,732	\$0	\$0	\$0	\$0	\$0	\$0	\$1,096,732
Total Reserves (Ind. & Leg.)	\$167,281	\$2,755,754	\$1,272,011	\$982,388	\$433,330	\$15,104	\$7,189	\$3,526	\$5,636,584
Paid to Date	\$0	\$523,268	\$0	\$0	\$0	\$0	\$0	\$0	\$523,268
Total Ultimate Incurred	\$167,281	\$3,279,022	\$1,272,011	\$982,388	\$433,330	\$15,104	\$7,189	\$3,526	\$6,159,852
<u>Derivation of Loss Adjustment Expenses</u>									
IBNR LAE	\$6,273	\$62,213	\$47,700	\$36,840	\$16,250	\$566	\$270	\$132	\$170,244
Case Reserves LAE	\$0	\$41,127	\$0	\$0	\$0	\$0	\$0	\$0	\$41,127
Total LAE(3.75%)	\$6,273	\$103,341	\$47,700	\$36,840	\$16,250	\$566	\$270	\$132	\$211,372
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>									
Retention	1.0000	1.0000	0.4500	0.2800	0.1500	0.0000	0.0000	0.0000	
Reinsured to Registered	0.0000	0.0000	0.5200	0.6800	0.8500	1.0000	0.3600	1.0000	
Reinsured to Unregistered	0.0000	0.0000	0.0300	0.0400	0.0000	0.0000	0.6400	0.0000	
Paid to Date Retained	\$0	\$523,268	\$0	\$0	\$0	\$0	\$0	\$0	\$523,268
Paid Ceded to									
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$1,096,732	\$0	\$0	\$0	\$0	\$0	\$0	\$1,096,732
Case Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$167,281	\$1,659,022	\$572,405	\$275,069	\$64,999	\$0	\$0	\$0	\$2,738,776
IBNR Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$661,446	\$668,024	\$368,330	\$15,104	\$2,588	\$3,526	\$1,719,019
Unregistered Reinsurers	\$0	\$0	\$38,160	\$39,296	\$0	\$0	\$4,601	\$0	\$82,057
Total Reserves Retained	\$167,281	\$2,755,754	\$572,405	\$275,069	\$64,999	\$0	\$0	\$0	\$3,835,508
Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$661,446	\$668,024	\$368,330	\$15,104	\$2,588	\$3,526	\$1,719,019
Unregistered Reinsurers	\$0	\$0	\$38,160	\$39,296	\$0	\$0	\$4,601	\$0	\$82,057

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2010-2

As at December 31, 2012

LAYER	.975 xs .025	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 140	40 xs 160	Totals
<u>Derivation of Ultimate Incurred</u>									
Earned Lawyer Count	2,368	2,368	2,368	2,368	2,368	2,368	2,094	1,434	
Expected Loss Cost per Lawyer	\$132	\$1,350	\$1,057	\$838	\$367	\$20	\$13	\$9	
Gross Expected Loss Volume	\$311,556	\$3,197,598	\$2,502,009	\$1,983,277	\$869,590	\$47,355	\$27,222	\$12,902	
IBNR Factor	0.649	0.649	0.649	0.649	0.649	0.649	0.649	0.649	
IBNR Amount	\$202,200	\$2,075,241	\$1,623,804	\$1,287,146	\$564,364	\$30,733	\$17,667	\$8,373	\$5,809,528
Case Reserves	\$0	\$39,431	\$0	\$0	\$0	\$0	\$0	\$0	\$39,431
Total Reserves (Ind. & Leg.)	\$202,200	\$2,114,672	\$1,623,804	\$1,287,146	\$564,364	\$30,733	\$17,667	\$8,373	\$5,848,959
Paid to Date	\$242,012	\$10,569	\$0	\$0	\$0	\$0	\$0	\$0	\$252,581
Total Ultimate Incurred	\$444,212	\$2,125,241	\$1,623,804	\$1,287,146	\$564,364	\$30,733	\$17,667	\$8,373	\$6,101,541
<u>Derivation of Loss Adjustment Expenses</u>									
IBNR LAE	\$7,582	\$77,822	\$60,893	\$48,268	\$21,164	\$1,153	\$663	\$314	\$217,857
Case Reserves LAE	\$0	\$1,479	\$0	\$0	\$0	\$0	\$0	\$0	\$1,479
Total LAE(3.75%)	\$7,582	\$79,300	\$60,893	\$48,268	\$21,164	\$1,153	\$663	\$314	\$219,336
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>									
Retention	1.0000	1.0000	0.5000	0.3000	0.2000	0.0000	0.0000	0.0000	
Reinsured to Registered	0.0000	0.0000	0.4750	0.6750	0.8000	1.0000	0.3600	1.0000	
Reinsured to Unregistered	0.0000	0.0000	0.0250	0.0250	0.0000	0.0000	0.6400	0.0000	
Paid to Date Retained	\$242,012	\$10,569	\$0	\$0	\$0	\$0	\$0	\$0	\$252,581
Paid Ceded to									
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$39,431	\$0	\$0	\$0	\$0	\$0	\$0	\$39,431
Case Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$202,200	\$2,075,241	\$811,902	\$386,144	\$112,873	\$0	\$0	\$0	\$3,588,359
IBNR Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$771,307	\$868,824	\$451,491	\$30,733	\$6,360	\$8,373	\$2,137,088
Unregistered Reinsurers	\$0	\$0	\$40,595	\$32,179	\$0	\$0	\$11,307	\$0	\$84,081
Total Reserves Retained	\$202,200	\$2,114,672	\$811,902	\$386,144	\$112,873	\$0	\$0	\$0	\$3,627,790
Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$771,307	\$868,824	\$451,491	\$30,733	\$6,360	\$8,373	\$2,137,088
Unregistered Reinsurers	\$0	\$0	\$40,595	\$32,179	\$0	\$0	\$11,307	\$0	\$84,081

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2011-1

As at December 31, 2012

LAYER	.975 xs .025	4 xs 1	7.5 xs 5	12.5 xs 12.5	10 xs 25	30 xs 50	20 xs 140	40 xs 160	Totals
<u>Derivation of Ultimate Incurred</u>									
Earned Lawyer Count	2,403	2,403	2,403	2,403	2,403	2,403	2,140	1,472	
Expected Loss Cost per Lawyer	\$131	\$1,347	\$1,056	\$837	\$367	\$20	\$13	\$9	
Gross Expected Loss Volume	\$315,296	\$3,235,990	\$2,537,427	\$2,011,531	\$882,137	\$48,065	\$27,814	\$13,250	
IBNR Factor	0.649	0.649	0.649	0.649	0.649	0.649	0.649	0.649	
IBNR Amount	\$204,627	\$2,100,157	\$1,646,790	\$1,305,484	\$572,507	\$31,194	\$18,051	\$8,599	\$5,887,410
Case Reserves	\$0	\$1,554,872	\$0	\$0	\$0	\$0	\$0	\$0	\$1,554,872
Total Reserves (Ind. & Leg.)	\$204,627	\$3,655,030	\$1,646,790	\$1,305,484	\$572,507	\$31,194	\$18,051	\$8,599	\$7,442,282
Paid to Date	\$0	\$1,902,619	\$0	\$0	\$0	\$0	\$0	\$0	\$1,902,619
Total Ultimate Incurred	\$204,627	\$5,557,649	\$1,646,790	\$1,305,484	\$572,507	\$31,194	\$18,051	\$8,599	\$9,344,901
<u>Derivation of Loss Adjustment Expenses</u>									
IBNR LAE	\$7,674	\$78,756	\$61,755	\$48,956	\$21,469	\$1,170	\$677	\$322	\$220,778
Case Reserves LAE	\$0	\$58,308	\$0	\$0	\$0	\$0	\$0	\$0	\$58,308
Total LAE(3.75%)	\$7,674	\$137,064	\$61,755	\$48,956	\$21,469	\$1,170	\$677	\$322	\$279,086
<u>Distribution of Losses between CLLAS and Proportional Reinsurers</u>									
Retention	1.0000	1.0000	0.5000	0.3000	0.2000	0.0000	0.0000	0.0000	
Reinsured to Registered	0.0000	0.0000	0.4750	0.6750	0.8000	1.0000	0.3600	1.0000	
Reinsured to Unregistered	0.0000	0.0000	0.0250	0.0250	0.0000	0.0000	0.6400	0.0000	
Paid to Date Retained	\$0	\$1,902,619	\$0	\$0	\$0	\$0	\$0	\$0	\$1,902,619
Paid Ceded to									
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$1,554,872	\$0	\$0	\$0	\$0	\$0	\$0	\$1,554,872
Case Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$204,627	\$2,100,157	\$823,395	\$391,645	\$114,501	\$0	\$0	\$0	\$3,634,326
IBNR Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$782,225	\$881,202	\$458,005	\$31,194	\$6,498	\$8,599	\$2,167,724
Unregistered Reinsurers	\$0	\$0	\$41,170	\$32,637	\$0	\$0	\$11,553	\$0	\$85,359
Total Reserves Retained	\$204,627	\$3,655,030	\$823,395	\$391,645	\$114,501	\$0	\$0	\$0	\$5,189,199
Reserves Ceded to									
Registered Reinsurers	\$0	\$0	\$782,225	\$881,202	\$458,005	\$31,194	\$6,498	\$8,599	\$2,167,724
Unregistered Reinsurers	\$0	\$0	\$41,170	\$32,637	\$0	\$0	\$11,553	\$0	\$85,359

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2011-2
As at December 31, 2012

<i>LAYER</i>	<i>.975 xs .025</i>	<i>4 xs 1</i>	<i>5 xs 5</i>	<i>10 xs 10</i>	<i>30 xs 20</i>	<i>30 xs Min 65</i>	<i>40 xs 160</i>	<i>60 xs 160</i>	<i>Totals</i>
<u><i>Derivation of Ultimate Incurred</i></u>									
Earned Lawyer Count	2,340	2,340	2,340	2,340	2,340	2,340	714	1,770	
Expected Loss Cost per Lawyer	\$125	\$1,248	\$640	\$780	\$870	\$1	\$8	\$9	
Gross Expected Loss Volume	\$291,817	\$2,919,370	\$1,497,082	\$1,824,927	\$2,034,400	\$2,918	\$5,398	\$16,206	
IBNR Factor	0.856	0.856	0.856	0.856	0.856	0.856	0.856	0.856	
IBNR Amount	\$249,795	\$2,498,981	\$1,281,502	\$1,562,138	\$1,741,446	\$2,498	\$4,620	\$13,872	\$7,354,853
Case Reserves	\$15,377	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$15,377
Total Reserves (Ind. & Leg.)	\$265,173	\$2,498,981	\$1,281,502	\$1,562,138	\$1,741,446	\$2,498	\$4,620	\$13,872	\$7,370,230
Paid to Date	\$106,506	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$106,506
Total Ultimate Incurred	\$371,679	\$2,498,981	\$1,281,502	\$1,562,138	\$1,741,446	\$2,498	\$4,620	\$13,872	\$7,476,736
<u><i>Derivation of Loss Adjustment Expenses</i></u>									
IBNR LAE	\$9,367	\$93,712	\$48,056	\$58,580	\$65,304	\$94	\$173	\$520	\$275,807
Case Reserves LAE	\$577	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$577
Total LAE(3.75%)	\$9,944	\$93,712	\$48,056	\$58,580	\$65,304	\$94	\$173	\$520	\$276,384
<u><i>Distribution of Losses between CLLAS, Colchester and Proportional Reinsurers</i></u>									
Retention	1.0000	0.2500	0.2500	0.2500	0.2500	0.0000	0.0000	0.0000	
Reinsured to Colchester	0.0000	0.2500	0.2500	0.2500	0.2500	0.0000	0.0000	0.0000	
Reinsured to Registered	0.0000	0.5000	0.5000	0.5000	0.5000	1.0000	0.7600	0.7600	
Reinsured to Unregistered	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.2400	0.2400	
Paid to Date Retained	\$106,506	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$106,506
Paid Ceded to									
Colchester	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$15,377	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$15,377
Case Reserves Ceded to									
Colchester	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$249,795	\$624,745	\$320,376	\$390,534	\$435,362	\$0	\$0	\$0	\$2,020,812
IBNR Reserves Ceded to									
Colchester	\$0	\$624,745	\$320,376	\$390,534	\$435,362	\$0	\$0	\$0	\$1,771,017
Registered Reinsurers	\$0	\$1,249,491	\$640,751	\$781,069	\$870,723	\$2,498	\$3,511	\$10,543	\$3,558,585
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$1,109	\$3,329	\$4,438
Total Reserves Retained	\$265,173	\$624,745	\$320,376	\$390,534	\$435,362	\$0	\$0	\$0	\$2,036,190
Reserves Ceded to									
Colchester	\$0	\$624,745	\$320,376	\$390,534	\$435,362	\$0	\$0	\$0	\$1,771,017
Registered Reinsurers	\$0	\$1,249,491	\$640,751	\$781,069	\$870,723	\$2,498	\$3,511	\$10,543	\$3,558,585
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$1,109	\$3,329	\$4,438

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2012-1
As at December 31, 2012

LAYER	.975 xs .025	4 xs 1	5 xs 5	10 xs 10	30 xs 20	30 xs Min 65	40 xs 160	60 xs 160	Totals
<u>Derivation of Ultimate Incurred</u>									
Earned Lawyer Count	2,368	2,368	2,368	2,368	2,368	2,368	721	1,496	
Expected Loss Cost per Lawyer	\$127	\$1,267	\$650	\$780	\$870	\$1	\$8	\$9	
Gross Expected Loss Volume	\$299,961	\$3,000,842	\$1,538,861	\$1,847,159	\$2,059,183	\$2,953	\$5,452	\$13,699	
IBNR Factor	0.856	0.856	0.856	0.856	0.856	0.856	0.856	0.856	
IBNR Amount	\$256,767	\$2,568,720	\$1,317,265	\$1,581,168	\$1,762,660	\$2,528	\$4,667	\$11,727	\$7,505,503
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$256,767	\$2,568,720	\$1,317,265	\$1,581,168	\$1,762,660	\$2,528	\$4,667	\$11,727	\$7,505,503
Paid to Date	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Ultimate Incurred	\$256,767	\$2,568,720	\$1,317,265	\$1,581,168	\$1,762,660	\$2,528	\$4,667	\$11,727	\$7,505,503
<u>Derivation of Loss Adjustment Expenses</u>									
IBNR LAE	\$9,629	\$96,327	\$49,397	\$59,294	\$66,100	\$95	\$175	\$440	\$281,456
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$9,629	\$96,327	\$49,397	\$59,294	\$66,100	\$95	\$175	\$440	\$281,456
<u>Distribution of Losses between CLLAS, Colchester and Proportional Reinsurers</u>									
Retention	1.0000	0.2500	0.2500	0.2500	0.2500	0.0000	0.0000	0.0000	
Reinsured to Colchester	0.0000	0.2500	0.2500	0.2500	0.2500	0.0000	0.0000	0.0000	
Reinsured to Registered	0.0000	0.5000	0.5000	0.5000	0.5000	1.0000	0.7600	0.7600	
Reinsured to Unregistered	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.2400	0.2400	
Paid to Date Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid Ceded to									
Colchester	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to									
Colchester	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$256,767	\$642,180	\$329,316	\$395,292	\$440,665	\$0	\$0	\$0	\$2,064,220
IBNR Reserves Ceded to									
Colchester	\$0	\$642,180	\$329,316	\$395,292	\$440,665	\$0	\$0	\$0	\$1,807,453
Registered Reinsurers	\$0	\$1,284,360	\$658,633	\$790,584	\$881,330	\$2,528	\$3,547	\$8,912	\$3,629,894
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$1,120	\$2,814	\$3,935
Total Reserves Retained	\$256,767	\$642,180	\$329,316	\$395,292	\$440,665	\$0	\$0	\$0	\$2,064,220
Reserves Ceded to									
Colchester	\$0	\$642,180	\$329,316	\$395,292	\$440,665	\$0	\$0	\$0	\$1,807,453
Registered Reinsurers	\$0	\$1,284,360	\$658,633	\$790,584	\$881,330	\$2,528	\$3,547	\$8,912	\$3,629,894
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$1,120	\$2,814	\$3,935

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period : 2012-2
As at December 31, 2012

LAYER	.975 xs .025	4 xs 1	5 xs 5	10 xs 10	30 xs 20	30 xs Min 65	40 xs 160	60 xs 160	Totals
<u>Derivation of Ultimate Incurred</u>									
Earned Lawyer Count	2,064	2,064	2,064	2,064	2,064	2,064	720	1,473	
Expected Loss Cost per Lawyer	\$121	\$1,178	\$673	\$847	\$1,103	\$10	\$28	\$35	
Gross Expected Loss Volume	\$249,311	\$2,431,845	\$1,389,765	\$1,748,431	\$2,277,091	\$20,641	\$19,857	\$50,969	
IBNR Factor	0.928	0.928	0.928	0.928	0.928	0.928	0.928	0.928	
IBNR Amount	\$231,361	\$2,256,752	\$1,289,702	\$1,622,544	\$2,113,140	\$19,155	\$18,427	\$47,299	\$7,598,380
Case Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserves (Ind. & Leg.)	\$231,361	\$2,256,752	\$1,289,702	\$1,622,544	\$2,113,140	\$19,155	\$18,427	\$47,299	\$7,598,380
Paid to Date	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Ultimate Incurred	\$231,361	\$2,256,752	\$1,289,702	\$1,622,544	\$2,113,140	\$19,155	\$18,427	\$47,299	\$7,598,380
<u>Derivation of Loss Adjustment Expenses</u>									
IBNR LAE	\$8,676	\$84,628	\$48,364	\$60,845	\$79,243	\$718	\$691	\$1,774	\$284,939
Case Reserves LAE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LAE(3.75%)	\$8,676	\$84,628	\$48,364	\$60,845	\$79,243	\$718	\$691	\$1,774	\$284,939
<u>Distribution of Losses between CLLAS, Colchester and Proportional Reinsurers</u>									
Retention	1.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	
Reinsured to Colchester	0.0000	0.3500	0.3500	0.3500	0.3500	0.0000	0.0000	0.0000	
Reinsured to Registered	0.0000	0.6500	0.6500	0.6500	0.6500	1.0000	0.7600	0.7600	
Reinsured to Unregistered	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.2400	0.2400	
Paid to Date Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paid Ceded to									
Colchester	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Retained	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Case Reserves Ceded to									
Colchester	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Registered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IBNR Reserves Retained	\$231,361	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$231,361
IBNR Reserves Ceded to									
Colchester	\$0	\$789,863	\$451,396	\$567,890	\$739,599	\$0	\$0	\$0	\$2,548,748
Registered Reinsurers	\$0	\$1,466,889	\$838,306	\$1,054,653	\$1,373,541	\$19,155	\$14,005	\$35,947	\$4,802,497
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$4,423	\$11,352	\$15,774
Total Reserves Retained	\$231,361	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$231,361
Reserves Ceded to									
Colchester	\$0	\$789,863	\$451,396	\$567,890	\$739,599	\$0	\$0	\$0	\$2,548,748
Registered Reinsurers	\$0	\$1,466,889	\$838,306	\$1,054,653	\$1,373,541	\$19,155	\$14,005	\$35,947	\$4,802,497
Unregistered Reinsurers	\$0	\$0	\$0	\$0	\$0	\$0	\$4,423	\$11,352	\$15,774

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

IBNR - REFLECTING PROPORTIONAL REINSURANCE

Period: All Years
As at December 31, 2012

LAYER	Totals
IBNR Amount	\$55,526,458
Case Reserves	\$11,900,144
Total Reserves (Ind. & Leg.)	\$67,426,602
Paid to Date	\$169,064,986
Total Ultimate Incurred	\$236,491,589
Paid to Date Retained	\$71,961,128
Paid Ceded to	
Colchester	\$0
Registered Reinsurers	\$89,505,286
Unregistered Reinsurers	\$7,598,572
Case Reserves Retained	\$11,807,976
Case Reserves Ceded to	
Colchester	\$0
Registered Reinsurers	\$86,438
Unregistered Reinsurers	\$5,730
IBNR Reserves Retained	\$23,379,544
IBNR Reserves Ceded to	
Colchester	\$6,127,218
Registered Reinsurers	\$25,284,830
Unregistered Reinsurers	\$734,866
Total Reserves Retained	\$35,187,521
Reserves Ceded to	
Colchester	\$6,127,218
Registered Reinsurers	\$25,371,267
Unregistered Reinsurers	\$740,596

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

INDICATED INCURRED LOSS DEVELOPMENT FACTORS
FOR LOSSES IN EXCESS OF VARIOUS PER OCCURRENCE RETENTIONS (1)

Retention per Occurrence		Loss Development Factor to Ultimate at Duration t (in months)												
		t=	6	18	30	42	54	66	78	90	102	114	126	138
\$	25,000		2.948	1.961	1.330	1.133	1.042	0.983	0.953	0.954	0.967	0.974	0.978	0.981
	50,000		3.545	2.271	1.451	1.193	1.072	0.995	0.956	0.953	0.964	0.971	0.975	0.978
	100,000		4.319	2.667	1.605	1.275	1.119	1.014	0.961	0.955	0.965	0.971	0.974	0.977
	200,000		5.404	3.119	1.710	1.328	1.140	1.013	0.953	0.952	0.961	0.968	0.976	0.978
	300,000		5.596	3.167	1.683	1.305	1.122	0.990	0.930	0.934	0.945	0.953	0.964	0.970
	1,000,000		13.850	6.950	2.850	1.925	1.425	1.125	1.050	1.050	1.050	1.035	1.015	1.008
	Selected		13.850	6.950	2.850	1.925	1.425	1.125	1.050	1.050	1.050	1.035	1.015	1.008

(1) Based on industry data for Lawyers Professional Liability insurance.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

DETERMINATION OF THE PROVISION FOR UNALLOCATED LOSS ADJUSTMENT EXPENSES

<i>Year</i>	<i>Assumed Annual Claims Management Expenses (1) (in \$2012)</i>	<i>Assumed Portion Applicable to Losses Outstanding As at December 31, 2012</i>	<i>Future Indexing (3% per year)</i>	<i>Estimated Provision As at December 31, 2012</i>
2013	\$593,000	7/7	1.000	\$ 593,000
2014	593,000	6/7	1.030	523,534
2015	593,000	5/7	1.061	449,367
2016	593,000	4/7	1.093	370,278
2017	593,000	3/7	1.126	286,040
2018	593,000	2/7	1.159	196,414
2019	593,000	1/7	1.194	101,153
Total				\$ 2,519,787

Gross Outstanding Liabilities

- Case Reserve	\$ 11,900,144
- IBNR	<u>55,526,458</u>
- Total	\$ 67,426,602

Unallocated Loss Adjustment Expenses Provision
as a % of Gross Outstanding liabilities

- Indicated	3.74%
- Selected	3.75%

(1) Based upon actual CLLAS internal claims management expenses of \$424,000 in 2012 and estimated 2013 expenses of \$593,000.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
GROSS AND NET OF PROPORTIONAL EXPERIENCE
As at December 31, 2012

<i>Policy Period</i>	GROSS CLLAS EXPERIENCE (1)				NET OF PROPORTIONAL REINSURANCE			
	<i>Paid</i>	<i>Case Reserves</i>	<i>IBNR</i>	<i>Total Incurred</i>	<i>Paid</i>	<i>Case Reserves</i>	<i>IBNR</i>	<i>Total Incurred</i>
July 1, 1987 - June 30, 1988	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
July 1, 1988 - June 30, 1989	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
July 1, 1989 - June 30, 1990	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
July 1, 1990 - June 30, 1991	\$3,593,148	\$0	\$0	\$3,593,148	\$1,796,574	\$0	\$0	\$1,796,574
July 1, 1991 - June 30, 1992	\$7,416,563	\$0	\$0	\$7,416,563	\$3,470,496	\$0	\$0	\$3,470,496
July 1, 1992 - June 30, 1993	\$326,599	\$0	\$0	\$326,599	\$163,299	\$0	\$0	\$163,299
July 1, 1993 - June 30, 1994	\$30,654,825	\$0	\$0	\$30,654,825	\$8,388,230 (2)	\$0	\$0	\$8,388,230
July 1, 1994 - June 30, 1995	\$9,318,988	\$0	\$0	\$9,318,988	\$4,633,180	\$0	\$0	\$4,633,180
July 1, 1995 - June 30, 1996	\$3,742,644	\$0	\$0	\$3,742,644	\$1,871,322	\$0	\$0	\$1,871,322
July 1, 1996 - June 30, 1997	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
July 1, 1997 - June 30, 1998	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
July 1, 1998 - June 30, 1999	\$20,296,669	\$0	\$0	\$20,296,669	\$6,254,045	\$0	\$0	\$6,254,045
July 1, 1999 - June 30, 2000	\$8,492,585	\$0	\$0	\$8,492,585	\$3,464,559	\$0	\$0	\$3,464,559
July 1, 2000 - June 30, 2001	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
July 1, 2001 - June 30, 2002	\$17,553,756	\$0	\$142,491	\$17,696,247	\$5,601,781	\$0	\$42,756	\$5,644,537
July 1, 2002 - June 30, 2003	\$3,422,488	\$3,098,657	\$300,049	\$6,821,194	\$3,422,488	\$3,098,657	\$141,132	\$6,662,277
July 1, 2003 - June 30, 2004	\$38,933,335	\$0	\$729,036	\$39,662,371	\$13,933,335	\$0	\$345,931	\$14,279,266
July 1, 2004 - June 30, 2005	\$1,262,333	\$811,662	\$1,096,147	\$3,170,143	\$1,262,333	\$811,662	\$515,605	\$2,589,600
July 1, 2005 - June 30, 2006	\$712,114	\$0	\$1,175,640	\$1,887,754	\$712,114	\$0	\$546,677	\$1,258,790
July 1, 2006 - June 30, 2007	\$6,389,155	\$577,562	\$1,262,922	\$8,229,639	\$5,688,059	\$505,284	\$612,571	\$6,805,914
July 1, 2007 - June 30, 2008	\$14,159,767	\$1,105,850	\$2,260,727	\$17,526,345	\$8,519,658	\$1,085,960	\$1,173,407	\$10,779,024
July 1, 2008 - June 30, 2009	\$5,042	\$1,100,000	\$5,365,815	\$6,470,857	\$5,042	\$1,100,000	\$3,013,364	\$4,118,406
July 1, 2009 - June 30, 2010	\$523,268	\$3,596,732	\$9,037,957	\$13,157,957	\$523,268	\$3,596,732	\$5,449,024	\$9,569,024
July 1, 2010 - June 30, 2011	\$2,155,200	\$1,594,303	\$11,696,938	\$15,446,442	\$2,155,200	\$1,594,303	\$7,222,686	\$10,972,189
July 1, 2011 - June 30, 2012	\$106,506	\$15,377	\$14,860,355	\$14,982,239	\$106,506	\$15,377	\$4,085,032	\$4,206,916
July 1, 2012 - December 31, 2012	\$0	\$0	\$7,598,380	\$7,598,380	\$0	\$0	\$231,361	\$231,361
Total	\$169,064,986	\$11,900,144	\$55,526,458	\$236,491,589	\$71,971,489	\$11,807,976	\$23,379,544	\$107,159,010

(1) Excluding unallocated loss adjustment expenses.

(2) An expense amount of \$10,361 for claim 94-010 is fully assumed by CLLAS.

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
COLCHESTER PROPORTIONAL REINSURANCE
As at December 31, 2012**

<i>Policy Period</i>	<i>Paid</i>	<i>Case Reserves</i>	<i>IBNR</i>	<i>Total Incurred</i>
July 1, 2011 - June 30, 2012	\$0	\$0	\$3,578,470	\$3,578,470
July 1, 2012 - December 31, 2012	\$0	\$0	\$2,548,748	\$2,548,748
Total	\$0	\$0	\$6,127,218	\$6,127,218

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
AGGREGATE AND NET OF AGGREGATE EXPERIENCE
As at December 31, 2012

<i>Policy Period</i>	STOP LOSS PROPORTION (1)						LOSS PORTFOLIO TRANSFER TO COLCHESTER			
	<i>Stop Loss Reins. Ratio</i>	<i>Stop Loss Limit</i>	<i>Paid</i>	<i>Case Reserves</i>	<i>IBNR</i>	<i>Total Incurred</i>	<i>Paid</i>	<i>Case Reserves</i>	<i>IBNR</i>	<i>Total Incurred</i>
July 1, 1987 - June 30, 1988	0.000	n/a	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
July 1, 1988 - June 30, 1989	0.000	n/a	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
July 1, 1989 - June 30, 1990	0.300	\$750,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
July 1, 1990 - June 30, 1991	0.330	\$900,000	\$900,000	\$0	\$0	\$900,000	\$0	\$0	\$0	\$0
July 1, 1991 - June 30, 1992	0.360	\$1,000,000	\$1,000,000	\$0	\$0	\$1,000,000	\$0	\$0	\$0	\$0
July 1, 1992 - June 30, 1993	0.360	\$1,000,000	\$163,299	\$0	\$0	\$163,299	\$0	\$0	\$0	\$0
July 1, 1993 - June 30, 1994	0.600	\$3,000,000 (2)	\$2,750,000	\$0	\$0	\$2,750,000	\$0	\$0	\$0	\$0
July 1, 1994 - June 30, 1995	0.600	\$3,000,000 (2)	\$2,750,000	\$0	\$0	\$2,750,000	\$0	\$0	\$0	\$0
July 1, 1995 - June 30, 1996	0.300	\$4.7M xs \$3.3M	\$3,300,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
July 1, 1996 - June 30, 1997	0.300	\$4.7M xs \$3.3M	\$3,300,000	\$0	\$0	\$0 (3)	\$0	\$0	\$0	\$0
July 1, 1997 - June 30, 1998	0.300	\$4.7M xs \$3.3M	\$3,300,000	\$0	\$0	\$0 (3)	\$0	\$0	\$0	\$0
July 1, 1998 - June 30, 1999	0.300	\$4.7M xs \$3.3M	\$3,300,000	\$2,954,045	\$0	\$2,954,045	\$0	\$0	\$0	\$0
July 1, 1999 - June 30, 2000	0.300	\$4.7M xs \$3.3M	\$3,300,000	\$164,559	\$0	\$164,559	\$0	\$0	\$0	\$0
July 1, 2000 - June 30, 2001	0.300	\$4.7M xs \$3.3M	\$3,300,000	\$0	\$0	\$0 (3)	\$0	\$0	\$0	\$0
July 1, 2001 - June 30, 2002	0.300	\$4.7M xs \$3.3M	\$3,300,000	\$2,301,781	\$0	\$42,756 (4)	\$2,344,537	\$0	(\$0)	\$0 (\$0)
July 1, 2002 - June 30, 2003	0.300	\$7.5M xs \$5.5M	\$5,500,000	\$0	\$1,021,145	\$141,132 (4)	\$1,162,277	\$6,690	\$2,077,512	\$0 \$2,084,202
July 1, 2003 - June 30, 2004	0.300	\$7.5M xs \$5.5M	\$5,500,000	\$7,500,000	\$0	\$0 (5)	\$7,500,000	\$0	\$0	\$345,931 \$345,931
July 1, 2004 - June 30, 2005	0.300	\$7.5M xs \$5.5M	\$5,500,000	\$0	\$0	\$154,682 (3)	\$154,682	\$0	\$811,662	\$360,924 \$1,172,586
July 1, 2005 - June 30, 2006	0.400	\$9.5M xs \$5.5M	\$5,500,000	\$0	\$0	\$218,671 (3)	\$218,671	\$0	\$0	\$328,006 \$328,006
July 1, 2006 - June 30, 2007	0.100	\$5M xs \$15.0M	\$15,000,000	\$0	\$0	\$61,257 (3)	\$61,257	\$637,746	\$505,284	\$551,314 \$1,694,344
July 1, 2007 - June 30, 2008	0.100	\$5M xs \$15.0M	\$15,000,000	\$0	\$0	\$117,341 (3)	\$117,341	(\$5,530)	\$1,085,960	\$1,056,066 \$2,136,496
July 1, 2008 - June 30, 2009	0.100	\$5M xs \$15.0M	\$15,000,000	\$0	\$0	\$301,336 (3)	\$301,336	\$0	\$1,100,000	\$2,712,028 \$3,812,028
July 1, 2009 - June 30, 2010	0.150	\$10M xs \$15.0M	\$15,000,000	\$0	\$0	\$817,354 (3)	\$817,354	\$503,572	\$3,596,732	\$4,631,670 \$8,731,974
July 1, 2010 - June 30, 2011	0.175	\$10M xs \$15.0M	\$15,000,000	\$0	\$0	\$1,263,970 (3)	\$1,263,970	\$81,764	\$1,594,303	\$5,958,716 \$7,634,783
July 1, 2011 - June 30, 2012	0.035	\$22.5M xs \$17.5M	\$17,500,000	\$0	\$0	\$142,976 (3)	\$142,976	\$0	\$15,377	\$3,942,056 \$3,957,434
July 1, 2012 - December 31, 2012	0.000	\$10M xs \$5M	\$5,000,000	\$0	\$0	\$0 (3)	\$0	N/A	N/A	N/A \$0
Total			\$20,483,684	\$1,021,145	\$3,261,474	\$24,766,303	\$1,224,243	\$10,786,832	\$19,886,710	\$31,897,784

(1) Ceded to Colchester Reinsurance Limited. Additional stop-loss coverage provided by Colchester per Schedule 1.

(2) First \$250,000 of CLLAS net of proportional retention is assumed by CLLAS and the next \$2,750,000 layer is assumed by Colchester.

(3) IBNR net of proportional reinsurance allocated by stop loss reinsurance ratio between CLLAS and Colchester.

(4) IBNR net of proportional reinsurance 100% allocated to Colchester Reinsurance Limited, subject to aggregate limits since attachment point is reached.

(5) IBNR net of proportional reinsurance 100% allocated to CLLAS since attachment point is reached. Paid adjusting expenses of \$327,187 are retained by CLLAS.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
NET EXPERIENCE
As at December 31, 2012

<i>Policy Period</i>	ULAE LIABILITIES		NET CLLAS EXPERIENCE			
	<i>ULAE Case Reserves</i>	<i>ULAE IBNR</i>	<i>Paid</i>	<i>Total Case Reserves</i>	<i>Total IBNR (1)</i>	<i>Total Incurred</i>
July 1, 1987 - June 30, 1988	\$0	\$0	\$0	\$0	\$0	\$0
July 1, 1988 - June 30, 1989	\$0	\$0	\$0	\$0	\$0	\$0
July 1, 1989 - June 30, 1990	\$0	\$0	\$0	\$0	\$0	\$0
July 1, 1990 - June 30, 1991	\$0	\$0	\$896,574	\$0	\$0	\$896,574
July 1, 1991 - June 30, 1992	\$0	\$0	\$2,470,496	\$0	\$0	\$2,470,496
July 1, 1992 - June 30, 1993	\$0	\$0	\$0	\$0	\$0	\$0
July 1, 1993 - June 30, 1994	\$0	\$0	\$5,638,230	\$0	\$0	\$5,638,230
July 1, 1994 - June 30, 1995	\$0	\$0	\$1,883,180	\$0	\$0	\$1,883,180
July 1, 1995 - June 30, 1996	\$0	\$0	\$1,871,322	\$0	\$0	\$1,871,322
July 1, 1996 - June 30, 1997	\$0	\$0	\$0	\$0	\$0	\$0
July 1, 1997 - June 30, 1998	\$0	\$0	\$0	\$0	\$0	\$0
July 1, 1998 - June 30, 1999	\$0	\$0	\$3,300,000	\$0	\$0	\$3,300,000
July 1, 1999 - June 30, 2000	\$0	\$0	\$3,300,000	\$0	\$0	\$3,300,000
July 1, 2000 - June 30, 2001	\$0	\$0	\$0	\$0	\$0	\$0
July 1, 2001 - June 30, 2002	\$0	\$5,343	\$3,300,000	\$0	\$5,343	\$3,305,343
July 1, 2002 - June 30, 2003	\$116,200	\$11,252	\$3,415,798	\$0	\$127,451	\$3,543,249
July 1, 2003 - June 30, 2004	\$0	\$27,339	\$6,433,335	\$0	\$27,339	\$6,460,674
July 1, 2004 - June 30, 2005	\$30,437	\$41,106	\$1,262,333	\$0	\$71,543	\$1,333,876
July 1, 2005 - June 30, 2006	\$0	\$44,086	\$712,114	\$0	\$44,086	\$756,200
July 1, 2006 - June 30, 2007	\$21,659	\$47,360	\$5,050,313	\$0	\$69,018	\$5,119,331
July 1, 2007 - June 30, 2008	\$41,469	\$84,777	\$8,525,188	\$0	\$126,247	\$8,651,434
July 1, 2008 - June 30, 2009	\$41,250	\$201,218	\$5,042	\$0	\$242,468	\$247,510
July 1, 2009 - June 30, 2010	\$134,877	\$338,923	\$19,696	\$0	\$473,801	\$493,497
July 1, 2010 - June 30, 2011	\$59,786	\$438,635	\$2,073,436	\$0	\$498,422	\$2,571,858
July 1, 2011 - June 30, 2012	\$577	\$557,263	\$106,506	\$0	\$557,840	\$664,346
July 1, 2012 - December 31, 2012	\$0	\$284,939	\$0	\$0	\$516,300	\$516,300
Total	\$446,255	\$2,082,242	\$50,263,562	\$0	\$2,759,858	\$53,023,421

(1) Including unallocated loss adjustment expenses.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
GROSS AND NET LOSS AND LOSS ADJUSTMENT EXPENSE RATIO
As at December 31, 2012

<i>Policy Period</i>	<i>GROSS EARNED PREMIUM (\$'000'S)</i>	<i>GROSS ULTIMATE LOSS (\$'000'S) ⁽¹⁾</i>	<i>GROSS LOSS RATIO</i>	<i>NET EARNED PREMIUM (\$'000'S)</i>	<i>NET ULTIMATE LOSSES (\$'000'S) ⁽¹⁾</i>	<i>NET LOSS RATIO</i>
July 1, 1987 - June 30, 1988	\$4,434,000	\$0	0%	\$1,883,829	\$0	0%
July 1, 1988 - June 30, 1989	\$3,614,000	\$0	0%	\$1,137,725	\$0	0%
July 1, 1989 - June 30, 1990	\$3,740,400	\$0	0%	\$689,957	\$0	0%
July 1, 1990 - June 30, 1991	\$4,233,600	\$3,593,148	85%	\$586,847	\$896,574	153%
July 1, 1991 - June 30, 1992	\$4,320,000	\$7,416,563	172%	\$577,354	\$2,470,496	428%
July 1, 1992 - June 30, 1993	\$4,478,400	\$326,599	7%	\$389,208	\$0	0%
July 1, 1993 - June 30, 1994	\$4,512,600	\$30,654,825	679%	\$373,280	\$5,638,230	1510%
July 1, 1994 - June 30, 1995	\$5,153,700	\$9,318,988	181%	\$1,328,836	\$1,883,180	142%
July 1, 1995 - June 30, 1996	\$5,807,500	\$3,742,644	64%	\$1,930,552	\$1,871,322	97%
July 1, 1996 - June 30, 1997	\$5,276,196	\$0	0%	\$1,070,215	\$0	0%
July 1, 1997 - June 30, 1998	\$6,587,610	\$0	0%	\$1,627,963	\$0	0%
July 1, 1998 - June 30, 1999	\$10,826,416	\$20,296,669	187%	\$4,368,122	\$3,300,000	76%
July 1, 1999 - June 30, 2000	\$12,093,829	\$8,492,585	70%	\$5,100,300	\$3,300,000	65%
July 1, 2000 - June 30, 2001	\$14,968,458	\$0	0%	\$6,734,718	\$0	0%
July 1, 2001 - June 30, 2002	\$14,694,378	\$17,696,247	120%	\$5,919,526	\$3,300,000	56%
July 1, 2002 - June 30, 2003	\$17,346,379	\$6,821,194	39%	\$4,631,546 ⁽¹⁾	\$3,415,798	74%
July 1, 2003 - June 30, 2004	\$22,376,007	\$39,662,371	177%	\$6,619,932 ⁽²⁾	\$6,433,335	97%
July 1, 2004 - June 30, 2005	\$24,676,487	\$3,170,143	13%	\$6,832,821	\$1,262,333	18%
July 1, 2005 - June 30, 2006	\$25,025,027	\$1,887,754	8%	\$6,259,056	\$712,114	11%
July 1, 2006 - June 30, 2007	\$33,356,139	\$8,229,639	25%	\$12,326,959	\$5,050,313	41%
July 1, 2007 - June 30, 2008	\$27,040,048	\$17,526,345	65%	\$10,121,699	\$8,525,188	84%
July 1, 2008 - June 30, 2009	\$24,343,680	\$6,470,857	27%	\$9,812,057	\$5,042	0%
July 1, 2009 - June 30, 2010	\$23,632,747	\$13,157,957	56%	\$9,849,698	\$19,696	0%
July 1, 2010 - June 30, 2011	\$20,852,074	\$15,446,442	74%	\$8,040,957	\$2,073,436	26%
July 1, 2011 - June 30, 2012 ⁽⁴⁾	\$17,006,743	\$14,982,239	88%	\$5,101,008	\$106,506	2%
July 1, 2012 - December 31, 2012	\$7,172,838	\$7,598,380	106%	\$1,694,853	\$231,361	14%
Total	\$347,569,257	\$236,491,589	68%	\$115,009,018	\$50,494,923	44%
December 31, 1996 Retroassessment call	\$7,000,000			\$7,000,000		
June 30, 1998 Retroassessment call	\$1,600,000			\$1,600,000		
June 30, 2012 Loss portfolio transfer				-\$44,700,000		
Total Including retroassessment calls and loss portfolio transfer premium	\$356,169,257	\$236,491,589	66%	\$78,909,018	\$50,494,923	64%

(1) Excluding reinsurance swing premium return of \$706,071.

(2) Excluding reinsurance swing premium payment of \$3,148,262.

(3) Excluding unallocated loss adjustment expenses.

(4) Excluding loss portfolio transfer premium ceded of \$44,700,000.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

INVESTMENT PORTFOLIO VALUATION & SELECTION OF DISCOUNT RATE

As at December 31, 2012

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
BONDS									
Bond Issuer	Holdings	Coupon Rate	Maturity Date	Cost	Market Value	Valuation Date	Market Yield	Market Effective Yield	Duration
Canada Treasury Bills	8,075,000	-	1/17/2013	8,064,729	8,064,729	12/31/2012	0.94%	0.94%	0.046
Canada Treasury Bills	2,000,000	-	1/31/2013	1,998,642	1,998,460	12/31/2012	0.90%	0.90%	0.084
BOND TOTAL				10,063,371	10,063,189				

(10) Duration-Weighted Effective Market Yield on Bonds: 0.93%

(11) Selected Discount Rate: 0.85%

(1) - (5) From Investment Manager

(6) Valuation Date = 12/31/2012

(7) Expected future yield on bond

(8) $= [(1 + (7) / 2) ^ 2] - 1$

(9) Duration of bond

(10) $= [(5) \times (8) \times (9)] / [(5) \times (9)]$

(11) Judgment

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

SELECTION FOR PROVISION FOR ADVERSE DEVIATION

As at December 31, 2012

Major Valuation Variables	Low Margin	High Margin	Considerations	Evaluation (1)	Weight(2)	Indicated PFAD	Selected PFAD
Claims Development	2.50%	20.00%	Company practices: Consistency in claims handling procedures and personnel	0	1	10.00%	10.00%
			System changes	0	1		
			Changes in case reserve estimation	0	1		
			Data: Number of years of past experience on which expected development is based	0	1		
			Volume of business in each year	1	1		
			Changes in volume of business over last five to seven years	1	1		
			Changes in mix of business over last five to seven years	0	1		
			Homogeneity of data grouping	1	1		
			Stability of historical development	1	1		
			Potential impact of large individual claims	2	1		
			Line of Business: Length of time over which potential development might take place from reporting of new losses	2	2		
			Likelihood of external changes which may significantly affect development	2	1		
			Net retention of the company for the line of business	0	1		
			Change in policy form	0	1		
Reinsurance Recovery	0.00%	15.00%	Ceded claims ratio	0	1	5.00%	5.00%
			Potential problem reinsurers	1	1		
			Balance sheet exposure for each assuming company	1	1		
Interest Rate	25 BP	200 BP	Investment portfolio	0	2	0.25%	0.25%
			Investment climate	0	1		
			Method of valuing assets	0	1		
			Matching of investments to claims payments patterns	0	1		

(1) Evaluation of Consideration:

Low Margin=0
Medium Margin=1
High Margin=2

(2) Consideration Weight:

Low Weight=0
Medium Weight=1
High Weight=2

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

PROVISION FOR ADVERSE DEVIATION
Gross Claims Liabilities
Interest Rate Component

(1) <i>Policy Year</i>	(2) <i>Gross Outstanding Liabilities</i>	(3) <i>Present Value of Gross Outstanding Liabilities</i>		(4)
		<i>0.85%</i>	<i>0.60%</i>	
1987/88	-	-	-	-
1988/89	-	-	-	-
1989/90	-	-	-	-
1990/91	-	-	-	-
1991/92	-	-	-	-
1992/93	-	-	-	-
1993/94	-	-	-	-
1994/95	-	-	-	-
1995/96	-	-	-	-
1996/97	-	-	-	-
1997/98	-	-	-	-
1998/99	-	-	-	-
1999/00	-	-	-	-
2000/01	-	-	-	-
2001/02	147,834	144,752		145,646
2002/03	3,526,157	3,439,489		3,464,593
2003/04	756,375	734,891		741,103
2004/05	1,979,352	1,916,673		1,934,762
2005/06	1,219,726	1,181,280		1,192,359
2006/07	1,909,502	1,850,655		1,867,593
2007/08	3,492,824	3,383,765		3,415,129
2008/09	6,708,283	6,487,112		6,550,665
2009/10	13,108,490	12,635,719		12,771,433
2010/11	13,789,663	13,246,695		13,402,373
2011/12	15,433,573	14,772,689		14,961,921
2012/13	7,883,319	7,504,444		7,612,760
Total	69,955,100	67,298,163		68,060,337

Recommended Margin on Interest Rate Variable
[total column (4) less total column (3)]:

762,174

- (1) Policy Year
- (2) Exhibit V plus loss adjustment expense reserves at 3.75%
- (3) Present Value of column (2) at a .85% discount factor.
- (4) Present Value of column (2) at a .60% discount factor.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

PROVISION FOR ADVERSE DEVIATION
Gross Claims Liabilities
Calculation of Provision For Adverse Deviation

	<u><i>Discounted</i></u> <u><i>Liabilities</i></u>	<u><i>Recommended Margin</i></u> <u><i>Percentage Amount</i></u>		
(1) Undiscounted Gross Outstanding Liabilities As at December 31, 2012				69,955,100
(2) Discounted Gross Outstanding Liabilities As at December 31, 2012				\$67,298,163
(3) Loss Development Recommended Margin	\$67,298,163	10.0%	\$6,729,816	\$6,729,816
(4) Reinsurance Recovery Recommended Margin	\$0	0.0%	\$0	\$0
(5) Recommended Margin on Interest Rate Variable				\$762,174
(6) Calculated Provision for Adverse Deviation				<u>\$7,491,990</u>
(7) Discounted Gross Outstanding Liabilities plus Calculated Provision for Adverse Deviation				<u><u>\$74,790,153</u></u>

- (1) From Exhibit XI - Page 2, column (2).
- (2) From Exhibit XI - Page 2, columns (3).
- (3) Equals (2) times 10% margin.
- (4) Nil, as liabilities are selected on a gross basis.
- (5) From Exhibit XI - Page 2, column (4) minus column (3).
- (6) Equals the sum of (3), (4) and (5).
- (7) Equals (2) plus (6).

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

PROVISION FOR ADVERSE DEVIATION

ULAE Liabilities

Interest Rate Component

(1) <i>Policy Year</i>	(2) <i>Gross Outstanding Liabilities</i>	(3) <i>Present Value of Gross Outstanding Liabilities</i>		(4)
		<i>0.85%</i>		<i>0.60%</i>
1987/88	-	-		-
1988/89	-	-		-
1989/90	-	-		-
1990/91	-	-		-
1991/92	-	-		-
1992/93	-	-		-
1993/94	-	-		-
1994/95	-	-		-
1995/96	-	-		-
1996/97	-	-		-
1997/98	-	-		-
1998/99	-	-		-
1999/00	-	-		-
2000/01	-	-		-
2001/02	5,343	5,232		5,264
2002/03	127,451	124,319		125,226
2003/04	27,339	26,562		26,787
2004/05	71,543	69,277		69,931
2005/06	44,086	42,697		43,097
2006/07	69,018	66,891		67,503
2007/08	126,247	122,305		123,438
2008/09	242,468	234,474		236,771
2009/10	473,801	456,713		461,618
2010/11	498,422	478,796		484,423
2011/12	557,840	533,953		540,792
2012/13	284,939	271,245		275,160
Total	2,528,498	2,432,464		2,460,012

Recommended Margin on Interest Rate Variable

[total column (4) less total column (3)]:

27,548

(1) Policy Year

(2) Exhibit VII, loss adjustment expense reserves at 3.75%

(3) Present Value of column (2) at a .85% discount factor.

(4) Present Value of column (2) at a .60% discount factor.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

PROVISION FOR ADVERSE DEVIATION
ULAE Liabilities
Calculation of Provision For Adverse Deviation

	<i>Discounted Liabilities</i>	<i>Recommended Margin</i>		
		<i>Percentage</i>	<i>Amount</i>	
(1) Undiscounted Gross Outstanding Liabilities As at December 31, 2012				\$2,528,498
(2) Discounted Gross Outstanding Liabilities As at December 31, 2012				\$2,432,464
(3) Loss Development	\$2,432,464	10.0%	\$243,246	
Recommended Margin				\$243,246
(4) Reinsurance Recovery	\$0	0.0%	\$0	
Recommended Margin				\$0
(5) Recommended Margin on Interest Rate Variable				\$27,548
(6) Calculated Provision for Adverse Deviation				<u>\$270,794</u>
(7) Discounted Gross Outstanding Liabilities plus Calculated Provision for Adverse Deviation				<u><u>\$2,703,258</u></u>

- (1) From Exhibit XI - Page 4, column (2).
- (2) From Exhibit XI - Page 4, columns (3).
- (3) Equals (2) times 10% margin.
- (4) Nil, as liabilities are selected on a gross basis.
- (5) From Exhibit XI - Page 4, column (4) minus column (3).
- (6) Equals the sum of (3), (4) and (5).
- (7) Equals (2) plus (6).

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

PROVISION FOR ADVERSE DEVIATION

Net Claims Liabilities

Interest Rate Component

(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>Policy</i>	<i>Gross</i>	<i>Net</i>	<i>Undiscounted</i>	<i>Present Value of Net</i>		<i>Discounted</i>
<i>Year</i>	<i>Outstanding</i>	<i>Outstanding</i>	<i>Reinsurance</i>	<i>Outstanding Liabilities</i>		<i>Reinsurance</i>
	<i>Liabilities</i>	<i>Liabilities</i>	<i>Recovery</i>	<i>0.85%</i>	<i>0.60%</i>	<i>Recovery</i>
1987/88	-	-	-	-	-	-
1988/89	-	-	-	-	-	-
1989/90	-	-	-	-	-	-
1990/91	-	-	-	-	-	-
1991/92	-	-	-	-	-	-
1992/93	-	-	-	-	-	-
1993/94	-	-	-	-	-	-
1994/95	-	-	-	-	-	-
1995/96	-	-	-	-	-	-
1996/97	-	-	-	-	-	-
1997/98	-	-	-	-	-	-
1998/99	-	-	-	-	-	-
1999/00	-	-	-	-	-	-
2000/01	-	-	-	-	-	-
2001/02	147,834	5,343	142,491	5,232	5,264	139,520
2002/03	3,526,157	127,451	3,398,706	124,319	125,226	3,315,170
2003/04	756,375	27,339	729,036	26,562	26,787	708,329
2004/05	1,979,352	71,543	1,907,810	69,277	69,931	1,847,395
2005/06	1,219,726	44,086	1,175,640	42,697	43,097	1,138,583
2006/07	1,909,502	69,018	1,840,484	66,891	67,503	1,783,764
2007/08	3,492,824	126,247	3,366,578	122,305	123,438	3,261,460
2008/09	6,708,283	242,468	6,465,815	234,474	236,771	6,252,638
2009/10	13,108,490	473,801	12,634,689	456,713	461,618	12,179,006
2010/11	13,789,663	498,422	13,291,241	478,796	484,423	12,767,898
2011/12	15,433,573	557,840	14,875,733	533,953	540,792	14,238,737
2012/13	7,883,319	516,300	7,367,019	491,487	498,580	7,012,957
Total	69,955,100	2,759,858	67,195,242	2,652,705	2,683,433	64,645,458

Recommended Margin on Interest Rate Variable

[total column (6) less total column (5)]:

30,727

(1) Policy Year

(2) Exhibit V plus loss adjustment expense reserves at 3.75%

(3) Exhibit VIII (Net CLLAS experience)

(4) Column (2) minus column (3).

(5) Present Value of column (3) at a .85% discount factor.

(6) Present Value of column (3) at a .60% discount factor.

(7) Present Value of column (4) at a .85% discount factor.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

PROVISION FOR ADVERSE DEVIATION
Net Claims Liabilities
Calculation of Provision For Adverse Deviation

	<i><u>Discounted</u></i> <i><u>Liabilities</u></i>	<i><u>Recommended Margin</u></i> <i><u>Percentage Amount</u></i>		
(1) Undiscounted Net Outstanding Liabilities As at December 31, 2012				\$2,759,858
(2) Discounted Net Outstanding Liabilities As at December 31, 2012				\$2,652,705
(3) Loss Development Recommended Margin	\$2,652,705	10.0%	\$265,271	\$265,271
(4) Reinsurance Recovery Recommended Margin	\$64,645,458	5.0%	\$3,232,273	\$3,232,273
(5) Recommended Margin on Interest Rate Variable				\$30,727
(6) Calculated Provision for Adverse Deviation				<u>\$3,528,271</u>
(7) Discounted Net Outstanding Liabilities plus Calculated Provision for Adverse Deviation				<u><u>\$6,180,976</u></u>

- (1) From Exhibit XI - Page 6, column (2).
- (2) From Exhibit XI - Page 6, column (5).
- (3) Equals (2) times 10% margin.
- (4) From Exhibit XI - Page 6, column (7) times 5% margin.
- (5) From Exhibit XI - Page 6, column (6) minus column (5).
- (6) Equals the sum of (2), (3) and (4).
- (7) Equals (2) plus (6).

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
PREMIUM LIABILITIES
As at December 31, 2012**

	<u>\$ 000's</u>
GROSS	
(1) Gross Unearned Premiums Reported in Annual Return	7,056
(2) Expected Loss and ALAE Ratio /1	134%
(3) Expected Losses and ALAE, [(1) * (2)]	9,423
(4) Expected ULAE, (3) x 3.75% /2	353
(5) Undiscounted Expected Losses and Loss Adjustment Expenses, [(3) + (4)]	9,777
(6) Discounted Claims Liabilities in Connection with Unearned Premium plus Provision for Adverse Deviation, (Exhibit XII page 2)	10,373
(7) Policyholder Service Costs, (1) x 5.0% /3	353
(8) Due to Reinsurer	0
(9) Investment Income on Unearned Premiums @ .85%, (23)	4
(10) Gross Liabilities in Connection with Unearned Premium, [(6) + (7) + (8) - (9)]	10,722
RECOVERABLE FROM REINSURERS	
(11) Ceded Unearned Premiums, [(1) - (15)]	5,399
(12) Expected Claims Ceded, [(6) - (20)]	9,213
(13) Doubtful Account	0
(14) Recoverable [(12) - (13)]	9,213
NET	
(15) Net unearned premiums reported in Annual Return	1,657
(16) Expected Loss and ALAE Ratio /4	20%
(17) Expected Losses and ALAE [(15) * (16)]	331
(18) Expected ULAE, (4)	353
(19) Undiscounted Expected Losses and Loss Adjustment Expenses [(17) + (18)]	685
(20) Discounted Claims Liabilities in Connection with Unearned Premium plus Provision for Adverse Deviation (Exhibit XII page 3)	1,159
(21) Policyholder Service Costs, (7)	353
(22) Due to Reinsurer, (8)	0
(23) Investment Income on Net Unearned Premiums @ 0.85%, [(15) * (0.0085^(1/4) - 1)]	4
(24) Change in Reinsurance Costs	0
(25) Net liabilities in Connection with Unearned Premium, [(20) + (21) + (22) - (23) + (24)]	1,509
(26) Deferred Policy Acquisition Expense (DPAE) Reported in Annual Return	148
(27) Unearned Commissions Reported in Annual Return	0
(28) Other Net Liabilities Reported in Annual Return	0
(29) Net liabilities in Connection with Unearned Premium Reported in Annual Return, [(15) - (26) + (27) + (28)]	1,509
(30) Maximum Allowable DPAE Based on Claims Experience, Max[(15) - (25) + (27) + (28), 0]	149
(31) Excess of Maximum Allowable DPAE over Reported DPAE, Max[(30) - (26), 0]	1
(32) Premium Deficiency, Max[(25) + (26) - (15) - (27) - (28), 0]	0

/1 Based on expected losses from 2012/2013 rating and actual 2012/2013 premiums collected.

/2 ULAE Percentage Selected in Exhibit IV.

/3 Selected from the ratio of Paid General Expenses to Earned Premiums * 1/3 subject to a maximum of 5% and minimum of 3%.

/4 Selected based on 2012/2013 rating study for retained layer.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

PROVISION FOR ADVERSE DEVIATION
Gross Liabilities in Connection with Unearned Premium
Calculation of Provision For Adverse Deviation

	<u><i>Discounted Liabilities</i></u>	<u><i>Recommended Margin Percentage</i></u>	<u><i>Amount</i></u>	
(1) Expected Gross Liabilities in Connection with Unearned Premium				\$9,776,752
(2) Discounted Gross Expected Losses				
(a) Discounted at .85%				\$9,307,958
(a) Discounted at .60%				\$9,441,980
(3) Loss Development	\$9,307,958	10.0%	\$930,796	
Recommended Margin				\$930,796
(4) Reinsurance Recovery	\$0	0.0%	\$0	
Recommended Margin				\$0
(5) Recommended Margin on Interest Rate Variable				\$134,023
(6) Calculated Provision for Adverse Deviation				<u>\$1,064,819</u>
(7) Discounted Gross Claims Liabilities in Connection with Unearned Premium plus Calculated Provision for Adverse Deviation				<u><u>\$10,372,776</u></u>

- (1) Gross Undiscounted Expected Losses and Loss Adjustment Expenses, (Page 1 - (5))
(2) (1) discounted based on selected payout pattern.
(3) Equals (2)(a) times 10% margin.
(4) Nil, as liabilities are selected on a gross basis.
(5) (2)(b) - (2)(a)
(6) Equals the sum of (3), (4) and (5).
(7) Equals (2)(a) plus (6).

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

PROVISION FOR ADVERSE DEVIATION
Net Liabilities in Connection with Unearned Premium
Calculation of Provision For Adverse Deviation

	<u><i>Discounted</i></u> <u><i>Liabilities</i></u>		<u><i>Recommended Margin</i></u> <u><i>Percentage</i></u>	<u><i>Amount</i></u>
(1) Expected Net Liabilities in Connection with Unearned Premium				\$684,853
(2) Discounted Net Expected Losses				
(a) Discounted at .85%				\$652,014
(a) Discounted at .60%				\$661,403
(3) Loss Development	\$652,014	10.0%	\$65,201	
Recommended Margin				\$65,201
(4) Reinsurance Recovery	\$8,655,943	5.0%	\$432,797	
Recommended Margin				\$432,797
(5) Recommended Margin on Interest Rate Variable				\$9,388
(6) Calculated Provision for Adverse Deviation				<u>\$507,386</u>
(7) Discounted Net Claims Liabilities in Connection with Unearned Premium plus Calculated Provision for Adverse Deviation				<u><u>\$1,159,401</u></u>

- (1) Net Undiscounted Expected Losses and Loss Adjustment Expenses, (Page 1 - (19))
- (2) (1) discounted based on selected payout pattern.
- (3) Equals (2)(a) times 10% margin.
- (4) Page-2 - (2)(a) - Page-3 - (2)(a) times 5% margin.
- (5) (2)(b) - (2)(a)
- (6) Equals the sum of (3), (4) and (5).
- (7) Equals (2)(a) plus (6).

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

SUMMARY OF NET OUTSTANDING LIABILITIES
AND PROVISION FOR ADVERSE DEVIATION BY YEAR

As at December 31, 2012

NET (Policy Year)

<i>Policy Period*</i>	<i>Policy Period</i>		<i>CASE</i>	<u><i>UNDISCOUNTED</i></u>		<i>TOTAL</i>		<i>CASE</i>	<u><i>DISCOUNTED +PFAD</i></u>		<i>TOTAL</i>
				<i>IBNR</i>					<i>IBNR</i>		
1989/1990	1990	\$	0	\$	0	\$	0	\$	0	\$	0
1990/1991	1991		0		0		0		0		0
1991/1992	1992		0		0		0		0		0
1992/1993	1993		0		0		0		0		0
1993/1994	1994		0		0		0		0		0
1994/1995	1995		0		0		0		0		0
1995/1996	1996		0		0		0		0		0
1996/1997	1997		0		0		0		0		0
1997/1998	1998		0		0		0		0		0
1998/1999	1999		0		0		0		0		0
1999/2000	2000		0		0		0		0		0
2000/2001	2001		0		0		0		0		0
2001/2002	2002		0		5,343		5,343		0		13,000
2002/2003	2003		0		127,451		127,451		0		303,000
2003/2004	2004		0		27,339		27,339		0		65,000
2004/2005	2005		0		71,543		71,543		0		169,000
2005/2006	2006		0		44,086		44,086		0		104,000
2006/2007	2007		0		69,018		69,018		0		163,000
2007/2008	2008		0		126,247		126,247		0		299,000
2008/2009	2009		0		242,468		242,468		0		573,000
2009/2010	2010		0		473,801		473,801		0		1,116,000
2010/2011	2011		0		498,422		498,422		0		1,171,000
2011/2012	2012		0		557,840		557,840		0		1,306,000
2012/2013	2013		0		516,300		516,300		0		899,000
Total	Total	\$	0	\$	2,759,858	\$	2,759,858	\$	0	\$	6,181,000

* The Policy Period runs from July 1 to June 30.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

SUMMARY OF NET OUTSTANDING LIABILITIES
AND PROVISION FOR ADVERSE DEVIATION BY YEAR

As at December 31, 2012

NET (Calendar Year)

<i>Calendar Year*</i>	<i>CASE</i>	<u><i>UNDISCOUNTED</i></u>			<i>TOTAL</i>	<i>CASE</i>	<u><i>DISCOUNTED +PFAD</i></u>			<i>TOTAL</i>
			<i>IBNR</i>					<i>IBNR</i>		
1989	\$	0	\$	0	\$	0	\$	0	\$	0
1990		0		0		0		0		0
1991		0		0		0		0		0
1992		0		0		0		0		0
1993		0		0		0		0		0
1994		0		0		0		0		0
1995		0		0		0		0		0
1996		0		0		0		0		0
1997		0		0		0		0		0
1998		0		0		0		0		0
1999		0		0		0		0		0
2000		0		0		0		0		0
2001		0		2,672		2,672		0		6,000
2002		0		66,397		66,397		0		158,000
2003		0		77,395		77,395		0		184,000
2004		0		49,441		49,441		0		117,000
2005		0		57,815		57,815		0		137,000
2006		0		56,552		56,552		0		134,000
2007		0		97,632		97,632		0		231,000
2008		0		184,357		184,357		0		436,000
2009		0		358,134		358,134		0		845,000
2010		0		486,111		486,111		0		1,143,000
2011		0		528,131		528,131		0		1,238,000
2012		0		795,220		795,220		0		1,552,000
Total	\$	0	\$	2,759,858	\$	2,759,858	\$	0	\$	6,181,000

* January 1 to December 31.

** IBNR Includes the full impact of discounting and PFAD.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

SUMMARY OF GROSS OUTSTANDING LIABILITIES
AND PROVISION FOR ADVERSE DEVIATION BY YEAR

As at December 31, 2012

GROSS (Policy Year)

<i>Policy Period*</i>	<i>Policy Period</i>	<u>UNDISCOUNTED</u>			<u>DISCOUNTED + PFAD</u>		
		<i>CASE</i>	<i>IBNR</i>	<i>TOTAL</i>	<i>CASE</i>	<i>IBNR</i>	<i>TOTAL</i>
1989/1990	1990	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
1990/1991	1991	0	0	0	0	0	0
1991/1992	1992	0	0	0	0	0	0
1992/1993	1993	0	0	0	0	0	0
1993/1994	1994	0	0	0	0	0	0
1994/1995	1995	0	0	0	0	0	0
1995/1996	1996	0	0	0	0	0	0
1996/1997	1997	0	0	0	0	0	0
1997/1998	1998	0	0	0	0	0	0
1998/1999	1999	0	0	0	0	0	0
1999/2000	2000	0	0	0	0	0	0
2000/2001	2001	0	0	0	0	0	0
2001/2002	2002	0	147,834	147,834	0	160,000	160,000
2002/2003	2003	3,098,657	427,500	3,526,157	3,099,000	710,000	3,809,000
2003/2004	2004	0	756,375	756,375	0	815,000	815,000
2004/2005	2005	811,662	1,167,690	1,979,352	812,000	1,314,000	2,126,000
2005/2006	2006	0	1,219,726	1,219,726	0	1,310,000	1,310,000
2006/2007	2007	577,562	1,331,941	1,909,502	578,000	1,475,000	2,053,000
2007/2008	2008	1,105,850	2,386,974	3,492,824	1,106,000	2,648,000	3,754,000
2008/2009	2009	1,100,000	5,608,283	6,708,283	1,100,000	6,099,000	7,199,000
2009/2010	2010	3,596,732	9,511,758	13,108,490	3,597,000	10,438,000	14,035,000
2010/2011	2011	1,594,303	12,195,360	13,789,663	1,594,000	13,134,000	14,728,000
2011/2012	2012	15,377	15,418,195	15,433,573	15,000	16,425,000	16,440,000
2012/2013	2013	0	7,883,319	7,883,319	0	8,361,000	8,361,000
Total	Total	\$ 11,900,144	\$ 58,054,956	\$ 69,955,100	\$ 11,901,000	\$ 62,889,000	\$ 74,790,000

* The Policy Period runs from July 1 to June 30.

** IBNR Includes the full impact of discounting and PFAD.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

SUMMARY OF GROSS OUTSTANDING LIABILITIES
AND PROVISION FOR ADVERSE DEVIATION BY YEAR

As at December 31, 2012

GROSS (Calendar Year)

<i>Calendar Year*</i>	<i>CASE</i>	<u><i>UNDISCOUNTED</i></u>		<i>TOTAL</i>	<i>CASE</i>	<u><i>DISCOUNTED +PFAD</i></u>		<i>TOTAL</i>
		<i>IBNR</i>				<i>IBNR</i>		
1989	\$	0	\$	0	\$	0	\$	0
1990		0		0		0		0
1991		0		0		0		0
1992		0		0		0		0
1993		0		0		0		0
1994		0		0		0		0
1995		0		0		0		0
1996		0		0		0		0
1997		0		0		0		0
1998		0		0		0		0
1999		0		0		0		0
2000		0		0		0		0
2001		0		73,917		0		80,000
2002		1,549,329		287,667		1,549,000		435,000
2003		1,549,329		591,938		1,549,000		763,000
2004		405,831		962,032		406,000		1,065,000
2005		405,831		1,193,708		406,000		1,312,000
2006		288,781		1,275,833		289,000		1,393,000
2007		841,706		1,859,457		842,000		2,061,000
2008		1,102,925		3,997,629		1,103,000		4,373,000
2009		2,348,366		7,560,021		2,348,000		8,269,000
2010		2,595,518		10,853,559		2,596,000		11,785,000
2011		804,840		13,806,777		805,000		14,778,000
2012		7,689		15,592,417		8,000		16,575,000
Total	\$	11,900,144	\$	58,054,956	\$	11,901,000	\$	62,889,000

* January 1 to December 31.

** IBNR Includes the full impact of discounting and PFAD.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
COMPARISON OF NET ACTUAL EXPERIENCE WITH NET EXPECTED EXPERIENCE
FROM THE DECEMBER 31, 2002 THROUGH DECEMBER 31, 2011 VALUATIONS

<i>Policy Period</i> ⁽¹⁾	<i>Selected Ultimate</i> ⁽⁴⁾									
	<i>as at Dec. 31, 2003</i>	<i>as at Dec. 31, 2004</i>	<i>as at Dec. 31, 2005</i>	<i>as at Dec. 31, 2006</i>	<i>as at Dec. 31, 2007</i>	<i>as at Dec. 31, 2008</i>	<i>as at Dec. 31, 2009</i>	<i>as at Dec. 31, 2010</i>	<i>as at Dec. 31, 2011</i>	<i>as at Dec. 31, 2012</i> ⁽⁴⁾
1987/1988	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1988/1989	0	0	0	0	0	0	0	0	0	0
1989/1990	0	0	0	0	0	0	0	0	0	0
1990/1991	897,000	897,000	897,000	897,000	897,000	897,000	897,000	897,000	897,000	897,000
1991/1992	2,470,000	2,470,000	2,470,000	2,470,000	2,470,000	2,470,000	2,470,000	2,470,000	2,470,000	2,470,000
1992/1993	0	0	0	0	0	0	0	0	0	0
1993/1994	5,869,000	6,148,000	6,135,000	5,638,000	5,638,000	5,638,000	5,638,000	5,638,000	5,638,000	5,638,000
1994/1995	1,899,000	1,931,000	1,898,000	1,883,000	1,883,000	1,883,000	1,883,000	1,883,000	1,883,000	1,883,000
1995/1996	1,900,000	1,936,000	1,910,000	1,889,000	1,871,000	1,871,000	1,871,000	1,871,000	1,871,000	1,871,000
1996/1997	56,000	97,000	73,000	36,000	20,000	0	0	0	0	0
1997/1998	96,000	134,000	97,000	58,000	37,000	18,000	0	0	0	0
1998/1999	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000
1999/2000	356,000	3,173,000	3,058,000	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000
2000/2001	914,000	737,000	897,000	777,000	893,000	747,000	625,000	553,000	28,000	0
2001/2002	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000
2002/2003	5,500,000	4,111,000	2,985,000	5,500,000	5,500,000	5,500,000	5,500,000	5,500,000	5,500,000	3,416,000
2003/2004	6,261,000 ⁽²⁾	5,500,000	10,058,000	7,915,000	6,068,000	5,500,000	5,500,000	6,654,000	7,242,000	6,433,000
2004/2005	n/a	8,824,000 ⁽²⁾	5,500,000	5,500,000	4,948,000	3,797,000	2,841,000	2,376,000	2,435,000	1,262,000
2005/2006	n/a	n/a	6,326,000 ⁽²⁾	5,500,000	3,877,000	3,801,000	2,763,000	1,471,000	1,040,000	712,000
2006/2007	n/a	n/a	n/a	10,917,000 ⁽²⁾	10,888,000	8,556,000	8,180,000	6,561,000	7,425,000	5,050,000
2007/2008	n/a	n/a	n/a	n/a	8,441,000 ⁽²⁾	7,819,000	10,237,000	11,100,000	12,535,000	8,525,000
2008/2009	n/a	n/a	n/a	n/a	n/a	8,150,000 ⁽²⁾	7,626,000	5,524,000	4,419,000	5,000
2009/2010	n/a	n/a	n/a	n/a	n/a	n/a	8,797,000 ⁽²⁾	9,329,000	8,299,000	20,000
2010/2011	n/a	n/a	n/a	n/a	n/a	n/a	n/a	8,322,000 ⁽²⁾	9,795,000	2,073,000
2011/2012	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4,665,000 ⁽²⁾	107,000
2012/2013	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	463,000 ⁽²⁾
TOTAL	\$32,818,000	\$42,558,000	\$48,904,000	\$58,880,000	\$63,331,000	\$66,547,000	\$74,728,000	\$80,049,000	\$86,042,000	\$50,725,000

(1) July 1 to June 30.

(2) Annualized figure based on six months result.

(3) Excludes unallocated loss adjustment expenses.

(4) Reflects loss portfolio transfer.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
COMPARISON OF NET ACTUAL EXPERIENCE WITH NET EXPECTED EXPERIENCE
FROM THE DECEMBER 31, 2002 THROUGH DECEMBER 31, 2011 VALUATIONS

<i>Policy Period</i> ⁽¹⁾	<i>Changes in Ultimate</i> ⁽³⁾								
	<i>From 2003 to 2012</i>	<i>From 2004 to 2012</i>	<i>From 2005 to 2012</i>	<i>From 2006 to 2012</i>	<i>From 2007 to 2012</i>	<i>From 2008 to 2012</i>	<i>From 2009 to 2012</i>	<i>From 2010 to 2012</i>	<i>From 2011 to 2012</i> ⁽⁴⁾
1987/1988	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1988/1989	0	0	0	0	0	0	0	0	0
1989/1990	0	0	0	0	0	0	0	0	0
1990/1991	0	0	0	0	0	0	0	0	0
1991/1992	0	0	0	0	0	0	0	0	0
1992/1993	0	0	0	0	0	0	0	0	0
1993/1994	(231,000)	(510,000)	(497,000)	0	0	0	0	0	0
1994/1995	(16,000)	(48,000)	(15,000)	0	0	0	0	0	0
1995/1996	(29,000)	(65,000)	(39,000)	(18,000)	0	0	0	0	0
1996/1997	(56,000)	(97,000)	(73,000)	(36,000)	(20,000)	0	0	0	0
1997/1998	(96,000)	(134,000)	(97,000)	(58,000)	(37,000)	(18,000)	0	0	0
1998/1999	0	0	0	0	0	0	0	0	0
1999/2000	2,944,000	127,000	242,000	0	0	0	0	0	0
2000/2001	(914,000)	(737,000)	(897,000)	(777,000)	(893,000)	(747,000)	(625,000)	(553,000)	(28,000)
2001/2002	0	0	0	0	0	0	0	0	0
2002/2003	(2,084,000)	(695,000)	431,000	(2,084,000)	(2,084,000)	(2,084,000)	(2,084,000)	(2,084,000)	(2,084,000)
2003/2004	172,000	933,000	(3,625,000)	(1,482,000)	365,000	933,000	933,000	(221,000)	(809,000)
2004/2005	n/a	(7,562,000)	(4,238,000)	(4,238,000)	(3,686,000)	(2,535,000)	(1,579,000)	(1,114,000)	(1,173,000)
2005/2006	n/a	n/a	(5,614,000)	(4,788,000)	(3,165,000)	(3,089,000)	(2,051,000)	(759,000)	(328,000)
2006/2007	n/a	n/a	n/a	(5,867,000)	(5,838,000)	(3,506,000)	(3,130,000)	(1,511,000)	(2,375,000)
2007/2008	n/a	n/a	n/a	n/a	84,000	706,000	(1,712,000)	(2,575,000)	(4,010,000)
2008/2009	n/a	n/a	n/a	n/a	n/a	(8,145,000)	(7,621,000)	(5,519,000)	(4,414,000)
2009/2010	n/a	n/a	n/a	n/a	n/a	n/a	(8,777,000)	(9,309,000)	(8,279,000)
2010/2011	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(6,249,000)	(7,722,000)
2011/2012	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(4,558,000)
2012/2013	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
TOTAL	(\$310,000)	(\$8,788,000)	(\$14,422,000)	(\$19,348,000)	(\$15,274,000)	(\$18,485,000)	(\$26,646,000)	(\$29,894,000)	(\$35,780,000)

(1) July 1 to June 30.

(2) Annualized figure based on six months result.

(3) Excludes unallocated loss adjustment expenses.

(4) Reflects loss portfolio transfer.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
Unpaid Claims and Loss Ratio Analysis Exhibit
As at December 31, 2012
(All amounts are on a Net basis and in 000\$)

Actuary's Category :

Professional Liability - Total

Exhibit Category :

Liability

Line	Accident Year	Paid Losses		Unpaid Claim Analysis									Loss Ratio Analysis				
		Current Year (2011)	Cumulative (2011 and prior)	Undiscounted Unpaid Claims and Adjustment Expenses			Present Value of Unpaid Claims and Adjustment Expenses - Total	Provision and Margin for Adverse Deviation (PfAD and MfAD)				Discounted Reserves including PfAD	Income		Cumulative Investment Income from Unpaid Claim Reserves	Loss Ratio (%)	
				Case Reserves	IBNR	Total		PfAD: Claims (000\$)	MfAD: Claims (%)	PfAD: Reinsurance (000\$)	PfAD: Interest Rate (000\$)		Earned Premiums	Invest. Income from UPR		Undiscounted	Discounted
	(01)	(02)	(03)	(04)	(05)	(06)	(07)	(08)	(09)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
1	2002 and Prior	-	24,368	-	-	-	-	-	10%	89	-	89					
2	2003	286	4,925	-	-	-	-	-	10%	101	-	101	5,626	99	949	87.54%	71.21%
3	2004	286	3,848	-	-	-	-	-	10%	64	-	64	6,726	110	797	57.21%	45.57%
4	2005	-	987	-	-	-	-	-	10%	75	-	75	6,546	157	778	15.08%	4.24%
5	2006	2,525	2,881	-	-	-	-	-	10%	73	-	73	9,293	171	1,201	31.00%	18.52%
6	2007	2,608	6,788	-	-	-	-	-	10%	126	-	126	11,224	241	1,392	60.48%	48.16%
7	2008	82	4,265	-	-	-	-	-	10%	238	-	238	9,967	342	860	42.79%	35.34%
8	2009	-	12	-	-	-	-	-	10%	461	-	461	9,831	118	608	0.12%	-1.36%
9	2010	206	1,047	-	-	-	-	-	10%	624	-	624	8,945	118	527	11.70%	12.62%
10	2011	249	1,090	-	-	-	-	-	10%	675	-	675	6,571	156	189	16.59%	23.43%
11	2012	53	53	-	231	231	220	22	10%	707	3	952	4,245	50	2	6.69%	23.35%
12	Total	6,295	50,264	-	231	231	220	22	10%	3,233	3	3,478	78,974	1,562	7,303	34.58%	27.63%
17	MfAD: Reinsurance (%)											5.00%					
18	MfAD: Interest Rate (%)											0.25%					
19	Interest Rate to Discount Unpaid Claims and Adjustment Expenses (%)											0.85%					

Total
Total

		Paid Losses		Unpaid Claim Analysis									Loss Ratio Analysis				
Line	Accident Year	Current Year (2011)	Cumulative (2011 and prior)	Undiscounted Unpaid Claims and Adjustment Expenses			Present Value of Unpaid Claims and Adjustment Expenses - Total	Provision and Margin for Adverse Deviation (PfAD and MfAD)				Discounted Reserves including PfAD	Income		Cumulative Investment Income from Unpaid Claim Reserves	Loss Ratio (%)	
				Case Reserves	IBNR	Total		PfAD: Claims (000\$)	MfAD: Claims (%)	PfAD: Reinsurance (000\$)	PfAD: Interest Rate (000\$)		Earned Premiums	Invest. Income from UPR		Undiscounted	Discounted
	(01)	(02)	(03)	(04)	(05)	(06)	(07)	(08)	(09)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
1	2002 and Prior	-	24,368	-	-	-	-	-	10%	89	-	89	-	-	-	-	0.0
2	2003	286	4,925	-	-	-	-	-	10%	101	-	101	5,626	99	949	87.54%	71.21%
3	2004	286	3,848	-	-	-	-	-	10%	64	-	64	6,726	110	797	57.21%	45.57%
4	2005	-	987	-	-	-	-	-	10%	75	-	75	6,546	157	778	15.08%	4.24%
5	2006	2,525	2,881	-	-	-	-	-	10%	73	-	73	9,293	171	1,201	31.00%	18.52%
6	2007	2,608	6,788	-	-	-	-	-	10%	126	-	126	11,224	241	1,392	60.48%	48.16%
7	2008	82	4,265	-	-	-	-	-	10%	238	-	238	9,967	342	860	42.79%	35.34%
8	2009	-	12	-	-	-	-	-	10%	461	-	461	9,831	118	608	0.12%	-1.36%
9	2010	206	1,047	-	-	-	-	-	10%	624	-	624	8,945	118	527	11.70%	12.62%
10	2011	249	1,090	-	-	-	-	-	10%	675	-	675	6,571	156	189	16.59%	23.43%
11	2012	53	53	-	231	231	220	22	10%	707	3	952	4,245	50	2	6.69%	23.35%
12	Total	6,295	50,264	-	231	231	220	22	10%	3,233	3	3,478	78,974	1,562	7,303	34.58%	27.63%
13	ULAE - Total											2,703					
14	"Facility Association" and "Plan"											-					
15	Other reserves											-					
16	Grand Total											6,181					

February 21, 2013

Private & Confidential

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

Dear Nick,

The purpose of this letter is to set out the proposed operating budget for CLLAS for 2013, including the proposed budget for the provision of Management and Professional Services.

TOTAL OPERATING BUDGET FOR 2013

The draft total operating budget for 2013 is presented in Attachment A to this letter, together with the budget and actual figures for 2012. A discussion of the "Other Expense" lines is immediately below.

- **Audit Expenses.** Audit expenses were higher than budgeted primarily due to the additional fee invoiced by Deloitte in 2012 for the work done in 2011 relating to review of IFRS, reinsurance structure and premium tax. This additional fee was not included in the 2012 budget. The budget for the 2013 is \$115,000. This includes \$15,000 for fees attributable to the 2012 audit which were not budgeted for in 2012: \$12,500 for the MCT audit and \$1,500 for the restructuring review. The balance is the estimated fee for the 2013 audit, including the on-going MCT audit and a 3% fee increase for 2013 proposed by Deloitte.
- **Premium Taxes.** In the last couple of years, the actuaries have determined a write down of the deferred policy acquisition cost (DPAC) due to premium deficiency. This write down is reflected in premium taxes expenses, making it higher than usual in the year the write down is done. For 2012, a provision was made for a potential write down of premium taxes at December 31, 2012. However the year closed with only \$52,000 of written down out of the \$273,000 provision. The departure of Blakes also contributed to the decrease in premium taxes. The premium taxes for 2013 are budgeted at \$348,000. The 2012-2013 premiums have been used to estimate the premium taxes for 2013. Also no provision has been made for any write down of DPAC at 2013 year-end.

- **Premium Tax on Interest.** The \$46,000 relates to the interest and penalty reimbursed to one of the CLLAS firms for BC premium tax paid for years 2006 to 2009. The other firms applied for and received their reimbursement prior to 2012.
- **Special Services.** This line finished the year just under budget with expenses mainly related to the legal fees incurred on the premium tax matter and for coverage analyses on two matters which were obtained for discussions with reinsurers on claims reimbursements.
- **Special Service Restructuring.** Fees were incurred for the legal work and opinion required by CLLAS to implement the reinsurance security agreement with Colchester.
- **Miller Fees.** An adjustment of \$6,000 (i.e. to \$279,000) was recently agreed with Miller for the 2012/13 policy year, and Miller has agreed to maintain its fees at this level for the 2013/14 policy year. As a result, the budget line shows includes \$3,000 to reflect the adjustment for the 2012/13 fee just agreed.
- **Assessment Fees.** In 2012, the annual assessment fees charged by Insurance Council of BC was \$2,000 and by Financial Services Commission of Ontario (FSCO) was \$1,000. Also in 2012, FSCO refunded \$3,313 from a reassessment relating to previous year. No fee was charged by Alberta. It is estimated that \$5,000 will cover the total assessment fee for 2013.
- **Investment Counsel Fees and Custodial Fees.** The budgets for investment counsel fees and custodial fees have been adjusted to reflect the decrease in investments due to the transfer of fixed income securities to Colchester under the reinsurance security agreement. The best estimate of these fees for 2013 is \$21,000 for investment counsel fees and \$18,000 for custodial fees. Investment counsel fees are driven by the size and term of the portfolio under management. Please note if any surplus funds are invested in long term securities this will result in an increase in the investment counsel fees.
- **Risk Management/Loss Prevention.** The Risk Management/Loss Prevention line finished the year under budget. Approximately \$48,590 was paid to Bluedrop in 2012 for licensing and set up costs along with a program update mid-year. The balance of the fees were paid to Walker Sorenson for risk management services, in particular the work on getting the Bluedrop program certified as a CPD credit under the LSUC continuing legal education criteria. No risk management re-audits were completed in 2012 and therefore not all the budget was utilized.

PROFESSIONAL AND MANAGEMENT SERVICES

1. Management Services

Management Services are provided on a fixed fee basis, with the exception of Claims Analysis, which is a variable line item, related to management of CLLAS' active large loss files. Management Services finished the year \$10,607 under its budget of \$588,000 and the proposed budget for 2013 is \$611,000, an increase of \$23,000, or 3.9%, over the previous year. We note that since 2009, the fixed fee budget for Management Services has increased, on average, by about 10% per year. This increase obviously outpaces wage inflation and the excess is driven by increases in activity flowing from changes such as the new reinsurance structure (with reinsurers attaching excess of the law society limits), the change in drop down cover to attach at \$25,000 and heightened regulatory requirements (e.g. IFRS, filings in multiple jurisdictions).

Details by line are presented in the following table:

Activity	2012 Budget	2012 Actual	Fav/ (Unfav) Variance	2013 Budget (proposed)	Change
Financial	\$142,000	\$142,000	\$ 0	\$158,000	\$16,000
General Admin.	\$ 74,000	\$ 74,000	\$ 0	\$ 81,000	\$ 7,000
Claims Admin.	\$300,000	\$300,000	\$ 0	\$300,000	\$ 0
Claims Analysis*	\$ 72,000	\$ 61,393	(\$10,607)	\$ 72,000	\$ 0
Total	\$588,000	\$577,393	(\$10,607)	\$611,000	\$23,000

* Variable

(a) **Financial Reporting.** Activity on the Financial Reporting line tracked marginally higher than the budgeted level. As expected, activity associated with tracking premiums, claims, etc. by jurisdiction since CLLAS obtained its licences in BC and Alberta has not proven to be significant. Having said that, dealing with these regulators, in particular Alberta given its proactive approach to implementing federal (OSFI) requirements requires more effort than dealing with FSCO which was relatively passive in comparison. In addition, loss portfolio transfer and the reinsurance security agreement in place with Colchester has led to additional activity for CLLAS as additional steps are required to make claims payments etc. We do not expect any significant activity with respect to IFRS (the new accounting standards) in the coming year. Overall, we are proposing an increase of \$16,000, or about 11% for the Financial Reporting line.

(b) **General Administration.** Activity on the General Administration line (e.g. Board meeting preparation, renewal applications, policy preparation, risk management initiatives, miscellaneous enquiries from Subscribers, etc.) was

slightly higher than expected in 2012 and we are proposing an increase of \$7,000, or about 9%, for this line for 2013.

(c) **Claims Administration.** Activity on the Claims Administration line remained steady in 2012. This line was adjusted going into 2012 to reflect the new reinsurance arrangements, i.e.:

- Additional up-front work, e.g. diary dates on files are shorter, we have implemented additional follow ups to ensure the receipt of the CLLAS claim reporting form with both the firm and the individual member signature, and we monitor the level of reserving established on claim files by the underlying program but also the change reserves from quarter to quarter, and
- Increased involvement on drop-down claims, i.e. claims where there is no underlying law society coverage and CLLAS must respond excess of the firm's \$25,000 retention.

The CLLAS firms can assist the General Manager's office in efficiently managing claims by ensuring we obtain consents from the involved lawyers as is required by LawPRO. This enables CLLAS to obtain paid/reserve information by claim from LawPRO on a quarterly basis and greatly improves our ability to manage claims. It would also be of assistance to have responses to status requests. Overall, we are proposing no adjustment to the Claims Administration line for 2013.

(d) **Claims Analysis.** The Claims Analysis line, which tracks activity on the claims where CLLAS is actively involved in claims management (due to the nature or significance of the particular claims) finished 2012 somewhat under budget. As we have discussed, CLLAS is currently facing a number of very complex claims, many of them class actions. The fact that the number of claims in this category is relatively small has meant that activity on this line has been contained. The Claims Analysis line is variable, i.e. it is adjusted quarterly based on activity in the year, and we propose no change to this line for 2013.

We are proposing no change to the fixed fee structure, i.e. the services will be provided on a fixed fee basis, with the exception of the variable line for Claims Analysis. Please see Attachment B to this letter for a brief summary of the activity associated with each of the above line items.

2. Professional Services

On an aggregate basis, fees for Professional Services finished the year well under budget. The budget lines were for 2012 were established on a conservative basis to reflect the anticipated activity associated with the restructuring of CLLAS, in particular the change in regulatory jurisdiction to from Ontario to Alberta, the implementation of the Loss Portfolio Transfer and the establishment of the reinsurance security arrangement with Colchester. Overall, these budget lines proved to be more than sufficient, with Professional Services finishing the year about \$155,000 (about 19%) under budget.

We are proposing a further reduction in the overall Professional Services fee budget for the year, as set out in the table below. Details by line are discussed after the table.

	2012 Budget	2012 Actual	Fav/ (Unfav) Variance	2013 Budget (proposed)	Change
Actuarial	\$102,000	\$ 90,928	\$ 11,072	\$102,000	\$ 0
Reinsurance	\$375,000	\$335,106	\$ 39,894	\$350,000	(\$ 25,000)
Strategic	\$120,000	\$ 17,639	\$102,361	\$120,000	\$ 0
Restructuring	\$225,000	\$222,792	\$ 2,208	\$ 0	(\$225,000)
Total	\$822,000	\$666,465	\$155,535	\$572,000	(\$250,000)

- (a) **Actuarial Services.** Activity on the Actuarial Services line in 2012 fell within expectations, finishing the year about 11% under budget. We expect activity in 2013 to be in keeping with the recent past and we are proposing no change to this line in 2013.
- (b) **Reinsurance Services.** Activity on the Reinsurance Services line was within budget as well, with activity about \$40,000, or 11%, under budget. We are proposing a reduction of \$25,000 to this line for 2013. The budget should prove to be conservative unless there is a need to restructure the program or introduce new markets.
- (c) **Strategic Services.** The Strategic Services line finished the year well under budget. Fees of about \$17,000 (against a budget of \$120,000) related to activities such as the commencement of the Sixth Underwriting Period and the departure of Blakes, and Quebec licencing discussions. Much of the work that we would normally expect to see on this line, e.g. work on updating CLLAS' surplus policy, was either subsumed in the restructuring activity or was postponed to 2013 as a result of the restructuring initiative. The Strategic Services line is a difficult budget to predict but we anticipate activity in 2013 following on from the restructuring, e.g. updating the Subscribers Agreement, revising the surplus and investment policies, etc. To be conservative (and to

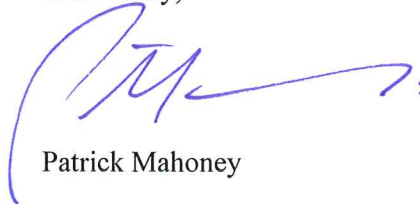
account for the emergence of unforeseen issues), we are proposing that this line remain unchanged for 2013.

- (d) **Restructuring.** A budget of \$225,000 was established for this line in 2012 to address the various elements of the restructuring initiative including the change in regulatory jurisdiction (which required among other things the preparation of a business case for the regulators and amendments to the Subscribers Agreement), the implementation of the Loss Portfolio Transfer and the establishment of the reinsurance security agreement with Colchester. The line finished the year essentially on budget. A budget for this line is not required for 2013 and we propose that it be reduced to zero.

The foregoing are budget estimates only and to the extent that the level of activity on a particular line proves to be less than anticipated, the budget will of course not be fully expended.

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

Yours truly,



Patrick Mahoney

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CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY (CLLAS)
OPERATING BUDGET - EXPENSES
January 1, 2013 - December 31, 2013

Attachment A
DRAFT

	FY 12 Budget	FY 12 Actual	Fav/ (Unfav) Variance	Proposed FY 2013 Budget	% Change from FY11Bdgt
MANAGEMENT SERVICES					
Financial	142,000	142,000	0	158,000	11.27%
General Administration	74,000	74,000	0	81,000	9.46%
Claims Administration	300,000	300,000	0	300,000	0.00%
Claims Analysis	72,000	61,393	10,607	72,000	0.00%
Sub-Total Management Services	588,000	577,393	10,607	611,000	3.91%
PROFESSIONAL SERVICES					
Actuarial Services	102,000	90,928	11,072	102,000	0.00%
Reinsurance Matters	375,000	335,106	39,894	350,000	-6.67%
Strategic Matters	120,000	17,639	102,361	120,000	0.00%
Restructuring	225,000	222,792	2,208	0	100.00%
Sub-Total Professional Services	822,000	666,465	155,535	572,000	-30.41%
Total Management & Professional Services	1,410,000	1,243,858	166,142	1,183,000	-16.10%
G/HST on Consulting Fees	183,300	161,702	21,598	153,790	-16.10%
Total Consulting Services	1,593,300	1,405,560	187,740	1,336,790	-16.10%
OTHER EXPENSES					
Audit Expenses	84,000	105,655	(21,655)	115,000	36.90%
Annual Dinner	7,000	6,714	287	7,000	0.00%
Premium Taxes	545,000	251,759	293,241	348,000	-36.15%
Premium Taxes: Interest	0	46,013	(46,013)	0	0.00%
Chairman's Expenses	2,000	507	1,493	2,000	0.00%
Chairman's Honourium	75,000	75,000	0	75,000	0.00%
Reinsurance Expense	10,000	6,332	3,668	8,000	-20.00%
Office Expenses	25,000	26,169	(1,169)	25,000	0.00%
Office Expenses - Website management software	1,000	1,188	(188)	1,100	10.00%
Claims: Borderaux (LawPro/LSBC)	15,000	15,740	(740)	16,000	6.67%
Special Services	100,000	90,910	9,090	100,000	0.00%
Special Services - Restructuring	75,000	34,591	40,409	0	-100.00%
Miller Insurance Fees	300,000	273,000	27,000	282,000	-6.00%
I.B.C Statistical Plan Fees	16,000	15,719	281	16,000	0.00%
Assessment Fees	10,000	(312)	10,312	5,000	-50.00%
Investment counsel fees	167,000	122,312	44,688	21,000	-87.43%
Investment - Custodial	47,000	39,032	7,969	18,000	-61.70%
Risk Management/Loss Prevention	100,000	59,355	40,645	100,000	0.00%
Licensing Fee	5,000	4,314	686	5,000	0.00%
Sub-total	1,584,000	1,173,995	410,005	1,144,100	-27.77%
TOTAL	\$3,177,300	\$2,579,555	\$597,745	\$2,480,890	-21.92%

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**Management Services - Overview of Activity by Budget Line**

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

1. Financial Reporting

The Financial Reporting area involves all financial functions including:

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

2. General Administration

The General Administration line covers work relating to:

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

3. Claims Administration

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

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

4. Claims Analysis

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

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

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

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

(CLLAS)

REPORT ON REINSURANCE

FEBRUARY 19, 2013

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A	Dion, Durrell + Associates Inc. Letter on its Reinsurance Security Practices
B	Miller Services LLP Letter on its Reinsurance Security Practices
C	Current A.M. Best and S&P Ratings Compared to the Previous Year
D	CLLAS Reinsurance – Top 25 Reinsurers by % of Current Liability – All Years
E	CLLAS Reinsurance – Reinsurers by % of Current Liability – Current Year (2012/13)
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H	A.M. Best Credit Report – Allied World Assurance Company Limited
I	Audited Financial Statements – Colchester Reinsurance Limited
J	A.M. Best Credit Report – CRC Reinsurance Limited
K	A.M. Best Credit Report – Lloyd's of London
L	A.M. Best Credit Report – Swiss Reinsurance Company
M	A.M. Best Credit Report – Transatlantic Reinsurance Company
N	A.M. Best Credit Report – Argo Group International Holdings, Ltd.

1. REINSURANCE SECURITY CONSIDERATIONS

1.1 Status Update

The purpose of this report is to provide the CLLAS Audit Committee with a status review of the current CLLAS reinsurance security.

Effective July 1, 2012, CLLAS moved its regulatory jurisdiction to Alberta. CLLAS also converted its Reinsurance Trust Agreement for Colchester to the Office of the Superintendent of Financial Institutions' (OSFI's) new Reinsurance Security Agreement (RSA) arrangement. Although the Alberta Superintendent of Insurance (ASI) does not strictly adhere to OSFI's guidelines, they do tend to follow form and this has allowed CLLAS to reduce its annual risk retention to below 25% of gross written premiums. Colchester, with an RSA in place, has made this possible.

1.2 Reinsurance Security

One of the responsibilities of the Audit Committee is to monitor CLLAS reinsurers and to recommend changes to the Board based on any number of factors including, but not limited to:

- Downgrading of the security rating;
- A rating agency placing a reinsurer on a "watch" list;
- Exposure to any one reinsurer exceeding an agreed percentage;
- Difficulties collecting reinsurance proceeds after a claim is settled;
- Use of unregistered (in Canada) security; and
- Any other matters that may threaten the security of a reinsurer.

The Committee acknowledges that reinsurance intermediaries cannot guarantee the solvency of any reinsurer and that they rely on the rating agencies to evaluate reinsurers' financial strength. The Audit Committee is not meant to substitute the expert advice provided by CLLAS' intermediaries. Its purpose is to use this advice to assist the Advisory Board in its due diligence process. Included in Appendices A and B are letters from Dion, Durrell + Associates Inc. and Miller Insurance Services LLP respectively which provide information on the reinsurance security practices of these firms.

1.3 Level I Monitoring

Level I monitoring of CLLAS reinsurance consists of the following:

- Current A.M. Best and S&P ratings compared to the previous year – see Appendix C;
- Current total liability exposure (i.e. case reserves and IBNR) from each reinsurer for all years – see Appendix D;
- Expected loss exposure from each reinsurer for the current year – see Appendix E;
- Expected limit exposure to each reinsurer for the current year – see Appendix F.

CLLAS reinsurers should be rated A- or better by A.M. Best and S&P except for special circumstances agreed to by the Board.

1.4 Level II Monitoring Triggers

Should any of the following events happen, then a Level II monitoring would take place:

- Downgrading of the financial strength rating;
- A rating agency placing a reinsurer on a “watch” list;
- Difficulties collecting reinsurance proceeds after a claim is settled;
- Case reserves and IBNR exposure to any one reinsurer exceeding 10% of total liabilities for all years;
- Expected losses of any one reinsurer exceeding 10% of all expected losses for the current year;
- Total limits of any one reinsurer exceeding 10% of the total limits provided by CLLAS;
- Use of a reinsurer that is unregistered in Canada;
- Any other events deemed material by the Audit Committee or its advisors.

1.5 Level II Monitoring

The following Level II monitoring should take place for any reinsurer that requires it due to events identified above:

- Additional information should be reviewed by the Audit Committee, including a review of:
 - ❖ Stock performance relative to the remainder of the market;
 - ❖ Early warning signals/ratios (as provided by A.M. Best or equivalent agency);
 - ❖ Balance sheet and income statement highlights (as provided by A.M. Best or equivalent agency);
- Meetings or direct correspondence with such reinsurers as necessary to discuss the financial health of the reinsurer.

The Audit Committee should make recommendations to the Board based on such reviews.

1.6 Commercial Layers Limit Exposure

Appendix G combines the CLLAS limit exposure with the exposure from the commercial layers placed with Pro-Form Insurance Services Inc. The inclusion of the commercial layers increases the total limits, and effectively reduces the limit exposure metric resulting in only Lloyds’s with over 10%.

Liabilities associated with insurer default were not provided and are therefore not included in the current liability-based exhibits. Based on rough estimates of the expected loss costs in these layers, liability is unlikely to reach 10% of the total. However, it is worth noting that commercial insurance placements do not benefit from the risk-spreading effect of CLLAS and therefore an insurer default is likely to affect a single firm for a claim’s full value in each layer. The result is that the financial impact of a default of a commercial insurer would be visited entirely upon a particular firm.

2. *LEVEL II MONITORING*

2.1 Reinsurers Requiring Level II Monitoring

As the first step in our reinsurance security monitoring process, Level I tests were performed on all CLLAS reinsurers. The following identifies the reinsurers that were placed on the Level II monitoring list and the reasons why such monitoring was deemed necessary:

Allied World Assurance Company Limited (AWAC)

- AWAC is a Bermuda reinsurer, unregistered in Canada, and has a significant participation in one of the CLLAS optional layers;
- AWAC's participation represents up to 10.3% (depending on limits selected by each firm) of the overall CLLAS per loss limit, exceeding the 10% threshold.

Colchester Reinsurance Limited (Colchester)

- Colchester is a reinsurer domiciled in Barbados, unregistered in Canada, and is also the sole aggregate stop loss reinsurer for CLLAS;
- Colchester's claims liabilities for the current year are 33.5% of the overall CLLAS liabilities, exceeding the 10% threshold.

CRC Reinsurance Limited (CRC)

- CRC is a reinsurer domiciled in Bermuda, unregistered in Canada, but has not been an active participant on the CLLAS Program since 2010;
- CRC had their rating downgraded by A.M. Best from A to A-, but outlook remains stable;
- CRC represents less than 1% of CLLAS' liabilities across all years.

Lloyd's of London (Lloyd's)

- Lloyd's, as a group, participates on a number of CLLAS layers and represents 22.7% of the all time CLLAS claims liabilities, exceeding the 10% threshold;
- Lloyd's also represents 53.5% of the CLLAS current liability or expected loss cost for the current year, exceeding the 10% threshold;
- Lloyd's participation represents 41.9% of the overall CLLAS per loss limit, exceeding the 10% threshold.

Swiss Reinsurance Company (Swiss Re)

- Swiss Re's participation, through a Canadian insurance group member, Westport Insurance Corporation, represents 19.1% of the overall CLLAS per loss limit, exceeding the 10% threshold.

Transatlantic Reinsurance Company (Transatlantic)

- CLLAS experienced a reinsurance recoverable problem with Transatlantic;

- In 2009, Transatlantic was downgraded by both A.M. Best and S&P as a result of their AIG connection. However, their rating has remained stable since that time, with an A.M. Best rating of A (Excellent)/Stable and an S&P rating of A+ (Strong)/Stable;
- Parent company Alleghany has a sub-A A.M. Best rating of BBB+ and S&P rating of BBB;
- Transatlantic is no longer an active participant on the CLLAS Program.

Argo Syndicate (AMA 1200)

- Although this is an individual syndicate within Lloyd's, which has already been identified for Level II monitoring, Argo's current year liability of 28.8% and loss limit exposure of 10.9% each qualifying it for Level II monitoring.

2.2 Reinsurers Removed from Level II Monitoring

There were no reinsurers removed from the Level II monitoring list.

2.3 Allied World Assurance Company Limited

General

Allied World Assurance Company Limited is a global specialty insurance and reinsurance company with offices in Bermuda, Europe and the United States.

Launched in 2001, AWAC originally consisted of four employees located in a small office in Bermuda. Today, AWAC has offices in Atlanta, Bermuda, Boston, Chicago, Dublin, Farmington (CT), London, New York, San Francisco and Zug, and is listed on the New York Stock Exchange under the ticker symbol of "AWH".

AWAC has been a participant in the CLLAS Program since 2002. Currently, AWAC participates in the high level of the CLLAS Program – the Optional Excess Layer. The CLLAS/AWAC reinsurance agreement includes a provision for outstanding claims advances by AWAC in favour of CLLAS.

Stock Performance

The following is the 2-year stock performance of AWAC.

Allied World Assurance Company

■ AWH



Highlights of A.M. Best Report

The complete A.M. Best report is set forth in Appendix H.

- Current rating is A (Excellent) Positive from A.M. Best;
- Overall financial performance has been strong since inception in 2001, with the exception of 2005;
- Underwrites a diversified portfolio of property and casualty insurance and reinsurance lines of business;
- The Reinsurance segment includes the company's operations in the United States, Bermuda, Europe and Singapore;
- Capitalization: AWAC maintains strong capitalization for its current rating level:
 - ❖ Based on Best's Capital Adequacy Ratio (BCAR), AWAC maintains excellent capitalization for its current rating level;
 - ❖ \$419 million of common shares have been repurchased through March 31, 2012 with \$81 million authorization remaining to be purchased;
- Gross premiums written: \$1,872,612,000 in 2011 and \$1,740,376,000 in 2010;
- Net income: \$252,621,000 in 2011 and \$735,923,000 in 2010;
- Liquidity: AWAC has provided solid operating cash flows since inception due to both its casualty orientation and its strong underwriting performance:
 - ❖ Conservative investment strategy specifically focused on preserving the value of invested assets and providing sufficient liquidity to pay claims promptly;
 - ❖ The investment portfolio is comprised of high quality corporate and government bonds.

2.4 Colchester Reinsurance Limited

Please see Appendix I for a copy of the most recent financial statements (as of June 30, 2012). The following are some of the highlights from these financials:

- Cash and cash equivalents increased from \$388,800 in 2011 to \$1,172,582 in 2012;
- Retained earnings increased from \$18,398,132 in 2011 to \$28,610,412 in 2012;
- Income for the year after taxation increased from \$2,182,902 in 2011 to \$10,212,280 in 2012:
 - ❖ Reinsurance premiums written and earned increased from \$2,558,813 in 2011 to \$47,986,427 in 2012, while retrocession premiums ceded also increased from \$1,050,000 in 2011 to \$3,857,575 in 2012, in large measure, this is due to a one-time loss portfolio transfer with CLLAS;
 - ❖ Net investment income decreased from \$893,731 in 2011 to \$774,783 in 2012;
 - ❖ Cumulative result of the above two factors was an increase in revenue from \$2,402,544 in 2011 to \$44,903,635 in 2012;
- All the assets of Colchester are held in trust in a custodial account in favour of CLLAS, subject to an RSA, as outlined by OSFI and approved by ASI.

2.5 CRC Reinsurance Limited

General

CRC is a direct, wholly owned subsidiary of Fairfax Financial Holdings Limited. The majority of CRC's premium writings are assumed reinsurance from the four operating subsidiaries of Northbridge Financial Corporation (Northbridge) which is a wholly owned subsidiary of Fairfax Financial Holdings Limited. The four Northbridge companies are domiciled in Canada.

The CLLAS/CRC reinsurance agreement includes a provision for outstanding claims advances by CRC in favour of CLLAS.

Stock Performance

CRC is not publicly traded, so we have included the stock performance of their ultimate parent company, Fairfax Financial.

The following is the 2-year stock performance of Fairfax Financial Holdings.



Highlights of A.M. Best Report

The complete A.M. Best report is set forth in Appendix J. Current rating from A.M. Best was downgraded in May 2012 from A (Excellent)/Stable to A- (Excellent)/Stable.

- The ratings reflect CRC's adequate risk-adjusted capitalization, favorable historical long-term operating performance and the implicit and explicit support provided by its ultimate parent, Fairfax;
- Partially offsetting these positive rating attributes are the continued underwriting losses posted by CRC, the company's business concentration as a reinsurer with its Canadian affiliates, and the exposure to global property shock losses through its reinsurance arrangement with Advent;
- CRC's financial results (expressed in Canadian dollars and reported utilizing Canadian IFRS) for 2011 produced an underwriting loss of \$51.2 million, up from an underwriting loss of \$19.2 million in 2010;
- The 2011 combined ratio of 135.6 is a deterioration relative to the combined ratio of 109.6 produced in 2010;
- Shareholders' equity decreased to \$182 million at year-end 2011 from \$231 million at year-end 2010;
- Gross premiums written: \$109,436,000 in 2011 and \$192,212,000 in 2010;
- Net income: (\$50,051,000) in 2011, \$16,925,000 in 2010 and (\$37,319,000) in 2009;
- Liquidity: CRC maintains an excellent liquidity position with a large percentage of its investment portfolio in cash, short-term investments and equities:
 - ❖ CRC benefits from its position as a wholly owned subsidiary of Fairfax Financial Holdings Limited, which maintains substantial cash and liquid assets;

- ❖ CRC generated a steady stream of investment income totaling \$17.01million in 2011.

2.6 Lloyd's of London

General

Lloyd's of London is the world's leading insurance market, housed in Lime Street in the City of London.

The Corporation of Lloyd's oversees the market, establishing standards and providing services to support its activities.

It also manages Lloyd's worldwide licences. The Corporation's Executive Team exercises the day-to-day powers and functions of the Council and the Franchise Board.

As well as providing cost-effective services to aid the smooth running of the market, the Corporation strives to raise the standards and improve the performance. The Corporation's work is split into two main areas:

1. Overall risk and performance management of the market;
2. Maintaining and developing the attractiveness of the market's capital providers, distributors and clients while preserving Lloyd's diversity and London based business model.

Lloyd's is regulated by the UK Financial Services Authority (FSA) under the Financial Services and Markets Act 2000. The FSA also regulates Lloyd's managing agents, members' agents and Lloyd's brokers.

The FSA and Lloyd's have common objectives in ensuring that Lloyd's market is appropriately regulated and, to minimize duplication, the FSA has made arrangements with Lloyd's for the co-operation on supervision and enforcement.

Lloyd's has been a participant on the CLLAS Program since 1987 and remains the largest participant.

Stock Performance

Not applicable.

Highlights of A.M. Best Report

The complete A.M. Best report is set forth in Appendix K. Current rating is A (Excellent)/Stable from A.M. Best.

- A.M. Best's rating of Lloyd's of London reflects its strong capitalization, good financial flexibility, good prospective financial performance and excellent global business profile;
- Financial flexibility due to the diversity of capital providers (corporate and non-corporate);
- As in 2010, earnings in 2011 were reduced by above-average catastrophe losses, in spite of the absence of significant U.S. hurricane losses;

- Lloyd's underwriting performance is expected to be supported by reserve releases for an eighth successive year in 2012, although their contribution to earnings is likely to be lower than in recent years;
- Lloyd's has an excellent business profile, particularly in the U.S. and London market, and continues to expand its global reach through extension of its licence network and local trading platforms;
- Capitalization: A.M. Best believes Lloyd's will maintain a solid capital base through 2013:
 - ❖ Lloyd's capitalization is expected to remain strong into 2013, underpinned by a stable central capital base;
 - ❖ Central assets for solvency purposes rose 2% in 2011;
- Liquidity: In A.M. Best's opinion, Lloyd's is likely to maintain good overall liquidity in 2012:
 - ❖ Managing agents are responsible for the investment of syndicate premium trust funds;
 - ❖ Overall, these funds exhibit a high level of liquidity, as most syndicate investment portfolios tend to consist primarily of cash and high-quality, fixed-income securities of relatively short duration;
 - ❖ Lloyd's monitors liquidity levels at individual syndicates as part of its capital adequacy review;
 - ❖ Lloyd's also monitors projected liquidity for its central assets, which are tailored to meet the disbursement requirements of the Central Fund and the Corporation of Lloyd's (including its debt obligations).

2.7 Swiss Reinsurance Company/Westport Insurance Corporation

General

Founded in Zurich, Switzerland, in 1863, Swiss Re operates in more than 25 countries and provides its expertise and services to clients throughout the world. Swiss Re's traditional reinsurance products and related services for property and casualty as well as for life and health business are complemented by insurance-based corporate finance solutions and supplementary services for comprehensive risk management. The Canadian operation of Swiss Reinsurance Company is a branch of Swiss Reinsurance Company Ltd.

Swiss Re (UK) joined the CLLAS Program in 1992 and Swiss Re (Canada) joined the Program in 1995. Swiss Re (Canada), now Westport Insurance Corporation, has taken over all of the CLLAS business and Swiss Re (UK) no longer participates. Swiss Re currently participates on the Optional Excess and Umbrella Layers.

Stock Performance

The following is the 2-year stock performance for Swiss Re (shown in CHF).



Highlights of A.M. Best Report

The complete A.M. Best report is set forth in Appendix L. Current rating is A+ (Superior)/Stable from A.M. Best. The financial information below is denominated in CHF:

- Through December 31, 2011, core underwriting results have been enhanced with investment related gains as the group continues to generate an overall level of profitability;
- Swiss Re's underwriting results have been solid over the past three years:
 - ❖ Property/casualty combined ratios measured 101.6%, 93.9% and 88.3% in years 2011, 2010 and 2009 respectively;
 - ❖ In 2011, Swiss Re reported a 101.6% non-life combined ratio driven by catastrophe losses including the Japan quake and tsunami, New Zealand quake and Thailand floods;
- Gross premiums: \$13,850,000,000 in 2011 and \$15,541,000,000 in 2010.

2.8 Transatlantic Reinsurance Company

General

Transatlantic Holdings, Inc. (TRH) is an international reinsurance organization headquartered in New York, with operations worldwide. TRH's subsidiaries, Transatlantic Reinsurance Company, Trans Re Zurich and Putnam Reinsurance Company, offer reinsurance capacity on both a treaty and facultative basis – structuring programs for a full range of property and casualty products, with an emphasis on specialty risks.

Transatlantic no longer participates on the CLLAS Program.

While Transatlantic has maintained an A rating with A.M. Best, and an A+ rating with S&P, its new parent, Alleghany Corporation, has a sub-A rating from both agencies.

In March 2012, Alleghany Corporation and Transatlantic Holdings, Inc. completed a merger and Transatlantic became an indirect wholly-owned subsidiary of Alleghany Corporation. As a result, we have included the stock performance of Alleghany Corporation.

Stock Performance

The following is the 2-year stock performance of Alleghany Corporation.



Highlights of A.M. Best Report

The complete A.M. Best report is set forth in Appendix M. Current rating is A (Excellent)/Stable from A.M. Best.

- The rating reflects Transatlantic's excellent business profile as a leading international reinsurance organization, with a book of business that is diversified by product line and geography;
- Partially offsetting these positive rating attributes are A.M. Best's concerns regarding the soft casualty market, from which Transatlantic derives a significant portion of its premiums as well as reserve adequacy on casualty-oriented business;
- The group has generated positive operating results that compare favorably with the reinsurance industry over the recent 5-year period, reflecting strong underwriting capability and net investment income growth;
- Capitalization: The group maintains adequate risk-adjusted capital based on its Best's Capital Adequacy Ratio (BCAR). The BCAR score remains adequate given the overall diversification of its book of business and increasing capital base;

- Net premiums written: \$2,258,260,000 at 09/30/2012 and \$2,557,623,000 at 09/30/2011;
- Net income: \$345,465,000 at 09/30/2012 and \$51,608,000 at 09/30/2011;
- Liquidity: Liquidity measures are reflective of Transatlantic's conservative investment strategy which provides for laddered maturities to respond to both its short and long-term obligations. The group's continued solid operating cash flows provide an additional funding source to meet these obligations. Based on Transatlantic's historically solid operating experience and modest catastrophe exposure, A.M. Best expects that the group's overall liquidity profile is more than adequate to support its current operations.

About Alleghany

Alleghany creates stockholder value through the ownership and management of operating subsidiaries and investments, anchored by a core position in property and casualty insurance.

Alleghany's current operating subsidiaries include:

Transatlantic Holdings, Inc., a leading international reinsurance organization headquartered in New York; RSUI Group, Inc., a national underwriter of property and liability specialty insurance coverages; Capitol Transamerica Corporation, an underwriter of property and casualty insurance coverages with a focus on the Midwest and Plains states and a national underwriter of specialty property and casualty and surety insurance coverages; Pacific Compensation Corporation, an underwriter of workers' compensation insurance primarily in California; and Alleghany Properties LLC, a significant landowner in Sacramento, California.

2.9 Argo Group International Holdings, Ltd.

General

Argo Group's operating companies provide primary and excess insurance, high-quality reinsurance products and tailored risk solutions for the managing general agency market. They are industry leaders in many of the markets Argo serves with proven results and top professionals who have deep expertise about their specialty clients' unique needs. Argo Group underwrites on an international platform and organizes their reporting into four segments:

Excess & Surplus Lines serves clients who cannot be insured in the standard markets because of the nature of their businesses, their particular risk exposures or their loss histories.

Commercial Specialty provides standard-market property and casualty insurance to highly specialized commercial markets and public entities.

Reinsurance writes reinsurance business worldwide through the broker market, with offerings that include specialty property catastrophe reinsurance and excess casualty and professional insurance.

International Specialty operates through Lloyd's of London syndicates offering property and liability coverage.

Argo Group's insurance subsidiaries are A. M. Best-rated A (Excellent)/Stable (third highest rating out of 16 rating classifications) with a stable outlook, and S&P's-rated A- (Strong) with a stable outlook.

Stock Performance

The following is the Argo Group International Holdings 2-year stock performance.



Highlights of A.M. Best Report

The complete A.M. Best report is set forth in Appendix N.

Argo Group International Holdings, Ltd. (Argo Group), through its subsidiaries, is an international underwriter of specialty insurance and reinsurance products in the property and casualty market. Argo Group offers a full line of products and services designed to meet the unique coverage and claims handling needs of businesses in four primary segments: Excess and Surplus Lines, Commercial Specialty, International Specialty (formerly Reinsurance) and Syndicate 1200 (formerly International Specialty). Argo Group is the combined international holding company resulting from the August 7, 2007 merger of Argonaut Group, Inc., and PXRE Group, Ltd. In connection with the merger, Argo Group's common shares were approved for listing on the NASDAQ Global Select Market and trade under the symbol "AGII". The company was founded in 1986 and is headquartered in Pembroke, Bermuda.

The **Syndicate 1200** (formerly International Specialty) segment is focused on underwriting worldwide property and non-U.S. liability insurance on behalf of underwriting syndicates, under the Lloyd's of London global franchise. The segment's business platform, Argo International Holdings Ltd. (Argo International) based in London, is comprised of four principal components: Argo Managing Agency, which underwrites insurance risks on behalf of the syndicate for the providers of capital; Syndicate 1200, which bears the insurance risk; Argo Underwriting Agency, which participates with other capital providers on the syndicate via its subsidiary corporate member

companies; and Argo Direct Limited, a wholly owned service company, which enters into insurance contracts on behalf of Syndicate 1200 from both the U.K. and a branch based in Paris (Argo Assurances). The combined underwriting activities have been carried out by two divisions within Syndicate 1200: worldwide property and non-U.S. liability business. Argo International's worldwide property division concentrates mainly on underwriting short-tail risks with an emphasis on commercial property which are also exposed to catastrophes and other man-made or natural disasters. Argo International's liability division underwrites non-U.S. professional indemnity, international general liability and directors and officers insurance. In 2011, Argo's International Specialty added two more divisions: Aerospace and Energy, which are supported by experienced underwriting teams. In addition, a small portion of the syndicate premium is written on a range of U.S. general liability risks.

The following are some of the financial highlights from the A.M. Best report. Please note that the following financial figures are stated in USD:

- Stable gross premiums written since 2006: \$1,155,600,000 in 2006, \$1,180,900,000 in 2007, \$1,601,500,000 in 2008, \$1,988,900,000 in 2009, \$1,527,100,000 in 2010 and \$1,544,800,000 in 2011;
- Stable net premiums written since 2006: \$847,000,000 in 2006, \$854,200,000 in 2007, \$1,151,000,000 in 2008, \$1,421,400,000 in 2009, \$1,095,700,000 in 2010 and \$1,071,800,000 in 2011;
- Positive net income from 2006-2010 and negative net income in 2011: \$106,000,000 in 2006, \$143,800,000 in 2007, \$62,900,000 in 2008, \$117,500,000 in 2009, \$82,600,000 in 2010 and (\$82,400,000) in 2011;
- Total investments to total reserves have exceeded 100% since 2006: 100.5% in 2006, 122.7% in 2007, 105.2% in 2008, 108.6% in 2009, 112.9% in 2010 and 107.6% in 2011;
- Interest coverage ratio was positive from 2006-2010: 11.9 in 2006, 5.5 in 2007, 4.9 in 2008, 7.2 in 2009, 4.4 in 2010, and (4.1%) in 2011;
- Argo Group has shown underwriting stability since 2006, with loss ratios less than 80% in each of the last six years: 58.8% in 2006, 61.3% in 2007, 64.3% in 2008, 60.3% in 2009, 64.2% in 2010 and 79.8% in 2011.

June 9, 2009

Mr. Nick Leblovic
Chairman, CLLAS
c/o Davies Ward Phillips & Vineberg LLP
44th Floor, 1 First Canadian Place
Toronto, Ontario M5X 1B1

Dear Nick,

This is in response to your request for Dion Durrell to provide a letter regarding the reinsurance that is placed on behalf of CLLAS. As you know, we work closely with Miller Insurance Services Ltd. on all CLLAS reinsurance matters with Miller being responsible for the London placement (including Lloyd's and certain European companies) and the Colchester (new this year) retrocession placement. Dion Durrell prepares the reinsurance submission that goes out to all markets and specifically places the domestic and Bermuda reinsurance as well as the aggregate stop-loss reinsurance placed through Colchester. We may use our brokerage subsidiary, Alternative Risk Services Inc., to facilitate the Lloyd's placement due to the Part XIII changes that were recently introduced by OSFI.

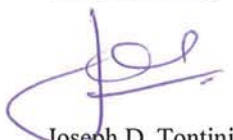
In the past, we had established with CLLAS a minimum reinsurance security rating standard of no less than A- as determined by AM Best and Standard & Poor's. Any deviation from such standard was referred to the CLLAS Advisory Board. For example, when Scor Re was downgraded to below A-, we provided CLLAS with detailed information on how Scor Re intended to gain back the confidence of the market and the rating agencies. Since Canadian assets were ring fenced, the CLLAS Board agreed to keep Scor Re on the placement but, as a due diligence process, CLLAS decided to reduce Scor Re's participation. After two years, Scor Re regained its A- rating and in fact was recently upgraded to A "Strong" by S&P. This kind of thoughtful and deliberate monitoring preserves the important relationships that CLLAS has developed over the years with its reinsurers.

Please be advised that neither Dion Durrell nor Alternative Risk Services Inc. carries out its own assessment of the solvency of any insurer or reinsurer and nor do we guarantee the solvency or continuing solvency of any insurer or reinsurer. You should note that the financial solvency of any insurer or reinsurer could change after the reinsurance protection has been placed. We are committed to providing CLLAS with up-to-date information on any material changes in the financial status or the security ratings of CLLAS reinsurers. To this end, we have proposed that CLLAS adopt a reinsurance security process which we would provide assistance in any way that we can, especially with Level II monitoring which would require a review of more detailed monitoring and information about the specific reinsurer.

In general, we are prepared to provide CLLAS with updates from AM Best and S&P based on our monitoring of the security ratings of each of the participating reinsurers. We will advise CLLAS on any adverse developments which may require CLLAS to replace a certain reinsurer mid-term or to decide to monitor and continue to use a certain reinsurer for a prescribed period of time.

We hope that the above is satisfactory, however, should you have any questions, please do not hesitate to contact the undersigned.

Yours sincerely,



Joseph D. Tontini
Consultant



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Nicholas J. Leblovic
Chairman
Canadian Lawyers Liability Assurance Society
Suite 2900
250 Yonge Street
Toronto
Ontario M5B 2L7
Canada

5th June 2009

Dear Nick

**CLLAS Reinsurance Programme
Renewal effective 1st July 2009**

In accordance with your request and in conjunction with Dion, Durrell + Associates, Inc., we have compiled various material relating to the reinsurers we use who participate on the CLLAS reinsurance programme. We have collated this information with the underwriters' responses given during our meetings to the set of questions posed during your recent visit to London. A copy of the matrix with reinsurers' feedback is enclosed.

You have asked us to comment on the appropriateness of the reinsurers who are involved as well as give our views on possible new markets. Miller does not assess or guarantee the solvency of any (re)insurer, however we check the financial strength ratings provided by specialist agencies (such as Standard & Poor's and A.M. Best) for each participating market and each must be authorised internally at Miller for us to use. Any markets which do not meet a minimum criteria may still be used but only with specific client approval. In practice the current specialist agency financial strength ratings of all the reinsurers used by us on your programme are in excess of our minimum criteria for authorisation.

On an ongoing basis we monitor these ratings as well as developments in the market and will advise you in the event there are circumstances which lead a market to fall out of our authorised classification. Taking into consideration reinsurers' feedback from our meetings, the Miller authorisations of each of the markets we use on the CLLAS programme are unaffected.

For 2009 we will be approaching the current participants for their support and many of these have had long term relationships with CLLAS. As outlined in London, we and Dion, Durrell work closely together to strategically manage the size and layering of participations offered by each reinsurer to ensure that the most optimal result is achieved for CLLAS, in line with its objectives for renewal. At present there are no new reinsurance companies which we wish to approach with your programme this year, but there are several new Lloyd's syndicates which may be interested in supporting your account and we will be approaching them for their views in due course. The current Lloyd's rating by Standard & Poor's is A+ (strong) with a stable outlook.

Please don't hesitate to let me know if you have any questions or comments.

Yours sincerely

A handwritten signature in black ink, appearing to read "Mark Popple".

Mark Popple
Director – Professional Risks

Encl.

APPENDIX C
CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
REINSURERS' SECURITY RATING

Reinsurer	Registered Status	A.M. Best			S&P		
		February 15, 2013 Rating		February 8, 2012 Rating	February 15, 2013 Rating		February 8, 2012 Rating
		Rating	Change from Last Rating	Rating	Rating	Change from Last Rating	Rating
Lloyd's	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable
Aspen Re	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Strong)/Stable	Unchanged	A (Strong)/Stable
Hannover Ruck	Registered	A+ (Superior)/Stable	Rating Upgraded	A (Excellent)/Positive	AA- (Very Strong)/Stable	Unchanged	AA- (Very Strong)/Stable
Transatlantic Reinsurance Company (UK)	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable
Arch Insurance Company (Canada Branch)	Registered	A+ (Superior)/Stable	Unchanged	A+ (Superior)/Stable	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable
Allied World Assurance Company Ltd.	Unregistered	A (Excellent)/Stable	Outlook Downgraded	A (Excellent)/Positive	A (Strong)/Stable	Unchanged	A (Strong)/Stable
CRC (Bermuda) Reinsurance Ltd.	Unregistered	A- (Excellent)/Stable	Rating Downgraded	A (Excellent)/Stable			
RSA Insurance Group (formerly GCAN Insurance Company)	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A+ (Strong)/Negative	Outlook Downgraded	A+ (Strong)/Stable
SCOR Canada Reinsurance Company	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A+ (Strong)/Stable	Rating Upgraded/Outlook Downgraded	A (Strong)/Positive
Swiss Reinsurance Company Ltd. (Canada Branch)	Registered	A+ (Superior)/Stable	Unchanged	A+ (Superior)/Stable	AA- (Strong)/Stable	Unchanged	AA- (Strong)/Stable
Toa Reinsurance Company of America	Registered	A+ (Superior)/Stable	Outlook Upgraded	A+ (Superior)/Negative	A+ (Strong)/Stable	Outlook Upgraded	A+ (Strong)/Negative
Alleghany Corporation (formerly Transatlantic Reinsurance Company) (Parent)	Registered	bbb+			BBB/Stable		
Transatlantic Reinsurance Company (Canada)	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable
Colchester Reinsurance Ltd.	Unregistered						
Munich Re	Registered	A+ (Superior)/Stable	Unchanged	A+ (Superior)/Stable	AA-(Very Strong) Stable	Unchanged	AA-(Very Strong) Stable
AMA 1200 (Argo)	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A- (Strong)/Stable	Unchanged	A- (Strong)/Stable
Axis Reinsurance Company	Registered	A (Excellent)/Positive	Unchanged	A (Excellent)/Positive	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable
Continental Casualty Company (CNA)	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A- (Strong)/Positive	Unchanged	A- (Strong)/Positive
SAL 1206 (Sagicor)	Registered	A (Excellent)/Stable			A+ (Strong)/Stable		
Allianz Global Risks	Registered	A+ (Superior)/Stable			AA (Very Strong)/Negative		

Shaded areas indicate ratings were not available

CLLAS Reinsurance

Top 25 Reinsurers by % of Current Liability
ALL YEARS

Appendix D

ALL YEARS			LAYERS									All-time Percent of Total	Prev. Year Percent of Total	Move- ment?	
Watch	Name	Jurisdiction	Reg'd?	\$.975MM XS	\$4/\$49MM XS	\$7.5MM XS	\$12.5MM XS	\$10MM XS	\$30/60MM XS	\$20MM XS	\$10-60MM XS				
				\$.025MM	\$1MM	\$5MM	\$12.5MM	\$25MM	\$65MM	\$140MM	\$160MM	TOTAL			
➡	Underwriters at Lloyd's	London	Yes	0	9,778,125	2,433,961	1,608,009	1,298,333	132,399	11,738	45,173	15,307,738	22.7%	15.7%	Up
➡	Colchester	Barbados	No	0	6,127,218	0	0	0	0	0	0	6,127,218	9.1%	2.6%	Up
➡	AMA 1200	Lloyd's	Yes	0	5,552,697	0	0	0	484	0	0	5,553,181	8.2%	2.4%	Up
	Transatlantic Reinsurance Company (Combined)	Combined	Yes	0	715,694	781,690	900,256	6,144	0	0	0	2,403,784	3.6%	4.4%	Down
	AFB 623/2623	Lloyd's	Yes	0	0	1,936,410	0	0	9,346	0	0	1,945,756	2.9%	4.3%	Down
	Transatlantic Reinsurance Company (Canada)	Canada	Yes	0	715,694	333,573	600,816	0	0	0	0	1,650,083	2.4%	2.4%	Up
	AML 2001	Lloyd's	Yes	0	1,298,263	0	183,886	133,683	0	680	0	1,616,512	2.4%	1.1%	Up
	Aspen Re	London	Yes	0	0	746,428	579,518	253,898	0	0	0	1,579,843	2.3%	3.5%	Down
	Scor Re.	Canada	Yes	0	0	278,552	681,652	370,472	20,805	282	0	1,351,764	2.0%	2.7%	Down
	AGD 2526	Lloyd's	Yes	0	1,303,882	37,612	0	0	2,124	0	3,610	1,347,229	2.0%	0.5%	Up
	Hannover Ruck	London	Yes	0	0	0	1,148,215	0	0	0	0	1,148,215	1.7%	2.4%	Down
	PEM 4000	Lloyd's	Yes	0	735,875	0	317,890	0	0	961	3,098	1,057,824	1.6%	1.0%	Up
➡	Swiss Re (Combined)	Combined	Mix	0	0	0	2,573	800,625	82,025	26,424	35,303	946,951	1.4%	1.8%	Down
	MKM 2468	Lloyd's	Yes	0	0	0	425,978	482,923	0	0	5,357	914,258	1.4%	2.0%	Down
	MKL 3000	Lloyd's	Yes	0	0	0	380,866	489,717	5,634	0	11,712	887,928	1.3%	1.8%	Down
	AUL 1274	Lloyd's	Yes	0	869,139	0	0	0	0	0	0	869,139	1.3%	0.4%	Up
➡	Swiss Re (Canada)	Canada	Yes	0	0	0	2,573	739,650	62,482	20,131	17,557	842,393	1.2%	1.7%	Down
	Arch	Canada	Yes	0	0	760,451	0	0	0	0	9,237	769,688	1.1%	1.8%	Down
	Transatlantic Reinsurance Company (UK)	London	Yes	0	0	448,117	299,440	6,144	0	0	0	753,702	1.1%	2.0%	Down
➡	CRC (Bermuda) Reinsurance Ltd.	Bermuda	No	0	0	321,947	245,018	0	0	0	0	566,965	0.8%	1.3%	Down
	AXIS Re	Canada	Yes	0	504,742	0	0	0	0	0	3,286	508,028	0.8%	0.2%	Up
	Allianz Global Risks	London	Yes	0	480,621	0	0	0	0	0	0	480,621	0.7%	0.0%	Up
	TOA Re.	Canada	Yes	0	0	263,181	203,492	0	0	0	0	466,673	0.7%	1.0%	Down
	CNA	Canada	Yes	0	429,416	0	0	0	0	0	0	429,416	0.6%	0.3%	Up
	AGM 2488	Lloyd's	Yes	0	0	204,872	164,779	290	6,937	110	0	376,987	0.6%	0.6%	Down
	SAM 727	Lloyd's	Yes	0	0	248,048	0	0	0	0	0	248,048	0.4%	0.5%	Down
	HIS 33	Lloyd's	Yes	0	0	0	0	186,124	21,328	4,609	0	212,060	0.3%	0.4%	Down
	ARK 4020	Lloyd's	Yes	0	0	0	123,317	0	0	0	0	123,317	0.2%	0.2%	Down
	Total Current Liabilities			2,557,920	44,481,121	9,405,831	7,261,801	3,246,084	236,501	105,538	131,806	67,426,602			
	Proportional Reinsurance:														
	London			0	10,260,335	3,630,098	3,636,594	1,619,350	145,336	18,031	45,173	19,354,918	28.7%	23.8%	Up
	Canada			0	1,654,816	1,655,951	1,499,792	1,114,116	91,164	20,792	62,486	6,099,118	9.0%	10.1%	Down
	Bermuda			0	0	321,947	245,018	0	0	66,715	24,147	657,827	1.0%	1.4%	Down
	Barbados			0	6,127,218	0	0	0	0	0	0	6,127,218	9.1%	2.6%	Up
	Total			0	18,042,370	5,607,996	5,381,404	2,733,466	236,501	105,538	131,806	32,239,082	47.8%	38.0%	Up
	CLLAS Proportional Retention			2,557,920	26,438,752	3,797,834	1,880,397	512,618	0	0	0	35,187,521	52.2%	62.0%	Down
➡	Colchester Loss Portfolio Transfer & Stop Loss			2,326,559	26,438,752	3,797,834	1,880,397	512,618	0	0	0	34,956,160	51.8%	8.6%	Up
	CLLAS Net Retention											231,361	0.3%	53.4%	Down

CLLAS Reinsurance

Appendix E

Reinsurers by % of Current Liability
CURRENT YEAR (2012/2013)

CURRENT YEAR (2012/2013)			LAYERS				TOTAL	Percent of Total	Prev. Year		Movement?
			\$.975MM XS	\$49MM XS	\$30/60MM XS	\$10-60MM XS			Percent of Total	Percent of Total	
Watch	Name	Jurisdiction	Reg'd?	\$.025MM	\$1MM	\$65MM	\$160MM				
➡	Underwriters at Lloyd's	London	Yes	0	4,034,304	9,386	18,403	4,062,094	53.5%	37.6%	Up
➡	Colchester	Barbados	No	0	2,548,748	0	0	2,548,748	33.5%	23.4%	Up
➡	AMA 1200	Lloyd's	Yes	0	2,184,641	383	0	2,185,024	28.8%	22.1%	Up
	AGD 2526	Lloyd's	Yes	0	742,778	0	1,617	744,395	9.8%	3.7%	Up
	AML 2001	Lloyd's	Yes	0	624,079	0	0	624,079	8.2%	4.4%	Up
	Allianz Global Risks	London	Yes	0	480,621	0	0	480,621	6.3%	0.0%	Up
	AUL 1274	Lloyd's	Yes	0	308,034	0	0	308,034	4.1%	3.7%	Up
	AXIS Re	Canada	Yes	0	218,464	0	3,286	221,750	2.9%	1.9%	Up
	PEM 4000	Lloyd's	Yes	0	174,771	0	1,715	176,487	2.3%	3.7%	Down
➡	Swiss Re (Combined)	Combined	Mix	0	0	6,704	17,746	24,450	0.3%	0.1%	Up
➡	Westport Insurance Corp. (Swiss Re)	Canada	Yes	0	0	6,704	17,746	24,450	0.3%	0.0%	Up
➡	AWAC	Bermuda	No	0	0	0	15,774	15,774	0.2%	0.1%	Up
	BRT 2987	Lloyd's	Yes	0	0	4,693	3,286	7,979	0.1%	0.0%	Up
	MKL 3000	Lloyd's	Yes	0	0	1,149	5,712	6,861	0.1%	0.0%	Up
	SAL 1206	Lloyd's	Yes	0	0	1,370	4,752	6,122	0.1%	0.0%	Up
	Arch	Canada	Yes	0	0	0	5,258	5,258	0.1%	0.0%	Up
	Royal & Sun Alliance Co. of Canada	Canada	Yes	0	0	0	5,258	5,258	0.1%	0.0%	Up
	Scor Re.	Canada	Yes	0	0	3,065	0	3,065	0.0%	0.0%	Up
	FDY 435	Lloyd's	Yes	0	0	718	1,321	2,039	0.0%	0.0%	Up
	SJC 2003	Lloyd's	Yes	0	0	594	0	594	0.0%	0.0%	Up
	AFB 623/2623	Lloyd's	Yes	0	0	479	0	479	0.0%	0.0%	Up

Total Current Liabilities			231,361	7,282,137	19,155	65,726	7,598,380			
Proportional Reinsurance:										
	London		0	4,514,925	9,386	18,403	4,542,715	59.8%	37.6%	Up
	Canada		0	218,464	9,769	31,549	259,782	3.4%	9.5%	Down
	Bermuda		0	0	0	15,774	15,774	0.2%	0.1%	Up
	Barbados		0	2,548,748	0	0	2,548,748	33.5%	23.4%	Up
	Total		0	7,282,137	19,155	65,726	7,367,019	97.0%	70.6%	Up
CLLAS Proportional Retention			231,361	0	0	0	231,361	3.0%	29.4%	Down
➡	Colchester Aggregate						0	0.0%	0.9%	Zero
CLLAS Net Retention							231,361	3.0%	28.5%	Down

CLLAS Reinsurance

Reinsurers by % of Single Claim Exposure
CURRENT YEAR (2012/2013)

Appendix F

CURRENT YEAR (2012/2013)				LAYERS				TOTAL	Percent of Total	Prev. Year		Move- ment?
Watch	Name	Jurisdiction	Reg'd?	\$.975MM	\$.49MM	\$.30/60MM	\$.10-60MM					
				XS \$.025MM	XS \$1MM	XS \$65MM	XS \$160MM					
➡	Underwriters at Lloyd's	London	Yes	0	27,146,000	14,700,000	16,800,000	58,646,000	41.9%	38.6%	Up	
➡	Swiss Re (Combined)	Combined	Mix	0	0	10,500,000	16,200,000	26,700,000	19.1%	19.1%	Unchanged	
➡	Westport Insurance Corp. (Swiss Re)	Canada	Yes	0	0	10,500,000	16,200,000	26,700,000	19.1%	0.0%	Up	
➡	Colchester	Barbados	No	0	17,150,000	0	0	17,150,000	12.3%	8.8%	Up	
➡	AMA 1200	Lloyd's	Yes	0	14,700,000	600,000	0	15,300,000	10.9%	8.7%	Up	
➡	AWAC	Bermuda	No	0	0	0	14,400,000	14,400,000	10.3%	10.3%	Unchanged	
	BRT 2987	Lloyd's	Yes	0	0	7,350,000	3,000,000	10,350,000	7.4%	9.8%	Down	
	MKL 3000	Lloyd's	Yes	0	0	1,800,000	5,214,000	7,014,000	5.0%	5.6%	Down	
	SAL 1206	Lloyd's	Yes	0	0	2,145,000	4,338,000	6,483,000	4.6%	0.0%	Up	
	AGD 2526	Lloyd's	Yes	0	4,998,000	0	1,476,000	6,474,000	4.6%	3.2%	Up	
	Arch	Canada	Yes	0	0	0	4,800,000	4,800,000	3.4%	3.4%	Unchanged	
	Royal & Sun Alliance Co. of Canada	Canada	Yes	0	0	0	4,800,000	4,800,000	3.4%	0.0%	Up	
	Scor Re.	Canada	Yes	0	0	4,800,000	0	4,800,000	3.4%	3.4%	Unchanged	
	AXIS Re	Canada	Yes	0	1,470,000	0	3,000,000	4,470,000	3.2%	0.7%	Up	
	AML 2001	Lloyd's	Yes	0	4,199,300	0	0	4,199,300	3.0%	1.6%	Up	
	Allianz Global Risks	London	Yes	0	3,234,000	0	0	3,234,000	2.3%	0.0%	Up	
	PEM 4000	Lloyd's	Yes	0	1,176,000	0	1,566,000	2,742,000	2.0%	2.4%	Down	
	FDY 435	Lloyd's	Yes	0	0	1,125,000	1,206,000	2,331,000	1.7%	1.7%	Unchanged	
	AUL 1274	Lloyd's	Yes	0	2,072,700	0	0	2,072,700	1.5%	1.4%	Up	
	SJC 2003	Lloyd's	Yes	0	0	930,000	0	930,000	0.7%	0.7%	Unchanged	
	AFB 623/2623	Lloyd's	Yes	0	0	750,000	0	750,000	0.5%	0.5%	Unchanged	

Maximum Exposure Any One Claim	975,000	49,000,000	30,000,000	60,000,000	139,975,000					
Proportional Reinsurance:										
London	0	30,380,000	14,700,000	16,800,000	61,880,000	44.2%	38.6%	Up		
Canada	0	1,470,000	15,300,000	28,800,000	45,570,000	32.6%	32.9%	Down		
Bermuda	0	0	0	14,400,000	14,400,000	10.3%	10.3%	Unchanged		
Barbados	0	17,150,000	0	0	17,150,000	12.3%	8.8%	Up		
Total	0	49,000,000	30,000,000	60,000,000	139,000,000	99.3%	90.6%	Up		
CLLAS Proportional Retention	975,000	0	0	0	975,000	0.7%	9.4%	Down		
➡ Colchester Aggregate					n/a	n/a	n/a			
CLLAS Net Retention					975,000	0.7%	9.4%	Down		

CLLAS Reinsurance

Reinsurers by % of Single Claim Exposure
CURRENT YEAR (2012/2013)

Appendix G

		LAYERS														TOTAL	Percent of Total	Prev. Year		Move- ment?
Watch	Name	Jurisdiction	Reg'd?	\$.975MM XS	\$49MM XS	\$15MM XS	\$10MM XS	\$5MM XS	\$15MM XS	\$20MM XS	\$10MM XS	\$15MM XS	\$30/60MM XS	\$10-60MM XS	US\$30MM* (\$31.5MM)			Percent of Total	Percent of Total	
➡	Underwriters at Lloyd's	London	Yes	0	27,146,000	0	0	0	0	0	0	0	0	14,700,000	16,800,000	0	58,646,000	20.8%	19.2%	Up
➡	Swiss Re (Combined)	Combined	Mix	0	0	0	0	0	0	0	0	0	0	10,500,000	16,200,000	0	26,700,000	9.5%	9.5%	Unchanged
	Westport Insurance Corp. (Swiss Re)	Canada	Yes	0	0	0	0	0	0	0	0	0	0	10,500,000	16,200,000	0	26,700,000	9.5%	0.0%	Up
	Travelers Insurance Company of Canada (PF)	Canada	Yes	0	0	0	10,000,000	0	0	0	0	10,000,000	0	0	0	0	20,000,000	7.1%	0.0%	Up
	Royal & Sun Alliance Co. of Canada	Canada	Yes	0	0	0	0	5,000,000	0	0	0	0	10,050,000	0	4,800,000	0	19,850,000	7.1%	0.0%	Up
	Lexington Insurance Company (PF)**	US	No	0	0	0	0	0	0	0	0	0	0	0	0	18,900,000	18,900,000	6.7%	6.7%	Unchanged
➡	Colchester	Barbados	No	0	17,150,000	0	0	0	0	0	0	0	0	0	0	0	17,150,000	6.1%	0.0%	Up
➡	AMA 1200	Lloyd's	Yes	0	14,700,000	0	0	0	0	0	0	0	0	600,000	0	0	15,300,000	5.4%	0.0%	Up
	ACE INA Insurance (PF)	Canada	Yes	0	0	5,100,000	0	0	0	10,000,000	0	0	0	0	0	0	15,100,000	5.4%	5.4%	Unchanged
	Chartis Insurance Company of Canada (PF)	Canada	Yes	0	0	0	0	0	15,000,000	0	0	0	0	0	0	0	15,000,000	5.3%	5.3%	Unchanged
	Liberty International Canada (PF)	US	Yes	0	0	9,900,000	0	0	0	5,000,000	0	0	0	0	0	0	14,900,000	5.3%	5.3%	Unchanged
➡	AWAC	Bermuda	No	0	0	0	0	0	0	0	0	0	0	0	14,400,000	0	14,400,000	5.1%	5.1%	Unchanged
	Interstate Fire & Casualty Insurance Co. (PF)**	US	No	0	0	0	0	0	0	0	0	0	0	0	0	12,600,000	12,600,000	4.5%	4.5%	Unchanged
	BRT 2987	Lloyd's	Yes	0	0	0	0	0	0	0	0	0	0	7,350,000	3,000,000	0	10,350,000	3.7%	4.9%	Down
	Chubb Insurance Company (PF)	Canada	Yes	0	0	0	0	0	0	10,000,000	0	0	0	0	0	0	10,000,000	3.6%	5.3%	Down
	ENCON (PF)	Canada	Yes	0	0	0	0	0	0	0	10,000,000	0	0	0	0	0	10,000,000	3.6%	3.6%	Unchanged
	MKL 3000	Lloyd's	Yes	0	0	0	0	0	0	0	0	0	0	1,800,000	5,214,000	0	7,014,000	2.5%	2.8%	Down
	SAL 1206	Lloyd's	Yes	0	0	0	0	0	0	0	0	0	0	2,145,000	4,338,000	0	6,483,000	2.3%	0.0%	Up
	AGD 2526	Lloyd's	Yes	0	4,998,000	0	0	0	0	0	0	0	0	0	1,476,000	0	6,474,000	2.3%	1.6%	Up
	QBE Insurance Group (PF)	US	Yes	0	0	0	0	0	0	5,000,000	0	0	0	0	0	0	5,000,000	1.8%	0.0%	Up
	Northbridge Insurance Company (PF)	Canada	Yes	0	0	0	0	0	0	0	0	0	4,950,000	0	0	0	4,950,000	1.8%	0.0%	Up
	Arch	Canada	Yes	0	0	0	0	0	0	0	0	0	0	0	4,800,000	0	4,800,000	1.7%	1.7%	Unchanged
	Scor Re.	Canada	Yes	0	0	0	0	0	0	0	0	0	0	4,800,000	0	0	4,800,000	1.7%	1.7%	Unchanged
	AXIS Re	Canada	Yes	0	1,470,000	0	0	0	0	0	0	0	0	0	3,000,000	0	4,470,000	1.6%	0.0%	Up
	AML 2001	Lloyd's	Yes	0	4,199,300	0	0	0	0	0	0	0	0	0	0	0	4,199,300	1.5%	0.8%	Up
	Allianz Global Risks	London	Yes	0	3,234,000	0	0	0	0	0	0	0	0	0	0	0	3,234,000	1.1%	0.0%	Up
	PEM 4000	Lloyd's	Yes	0	1,176,000	0	0	0	0	0	0	0	0	0	1,566,000	0	2,742,000	1.0%	1.2%	Down
	FDY 435	Lloyd's	Yes	0	0	0	0	0	0	0	0	0	0	1,125,000	1,206,000	0	2,331,000	0.8%	0.8%	Unchanged
	AUL 1274	Lloyd's	Yes	0	2,072,700	0	0	0	0	0	0	0	0	0	0	0	2,072,700	0.7%	0.0%	Up
	SIC 2003	Lloyd's	Yes	0	0	0	0	0	0	0	0	0	0	930,000	0	0	930,000	0.3%	0.3%	Unchanged
	AFB 623/2623	Lloyd's	Yes	0	0	0	0	0	0	0	0	0	0	750,000	0	0	750,000	0.3%	0.3%	Unchanged

Maximum Exposure Any One Claim				975,000	49,000,000	15,000,000	10,000,000	5,000,000	15,000,000	20,000,000	20,000,000	10,000,000	15,000,000	30,000,000	60,000,000	31,500,000	281,475,000				
Proportional Reinsurance:																					
	London	0	30,380,000	0	0	0	0	0	0	0	0	0	0	14,700,000	16,800,000	0	61,880,000	22.0%	19.2%	Up	
	Canada	0	1,470,000	5,100,000	10,000,000	5,000,000	15,000,000	10,000,000	20,000,000	10,000,000	15,000,000	15,300,000	28,800,000	0	135,670,000	48.2%	55.4%	Down			
	US	0	0	9,900,000	0	0	0	10,000,000	0	0	0	0	0	31,500,000	51,400,000	18.3%	11.2%	Up			
	Bermuda	0	0	0	0	0	0	0	0	0	0	0	14,400,000	0	14,400,000	5.1%	5.1%	Unchanged			
	Barbados	0	17,150,000	0	0	0	0	0	0	0	0	0	0	0	17,150,000	6.1%	4.4%	Up			
	Total	0	49,000,000	15,000,000	10,000,000	5,000,000	15,000,000	20,000,000	20,000,000	10,000,000	15,000,000	30,000,000	60,000,000	31,500,000	280,500,000	99.7%	95.3%	Up			
CLLAS Proportional Retention				975,000	0	0	0	0	0	0	0	0	0	0	0	975,000	0.3%	4.7%	Down		
➡	Colchester Aggregate																n/a	n/a	n/a		
CLLAS Net Retention																	975,000	0.3%	4.7%	Down	

* Using exchange rate of CAD\$1.05 to US\$1.00 for comparison purposes, assumed participation unchanged from 2011/2012

** These insurers support only the CLLAS International Program, and therefore affect only 6 firms

Best's Credit Rating and Report Updates for ALLIED WORLD ASSURANCE COMPANY, LTD

Best's Rating of A (Excellent) Financial Size Category of XV (\$2 Billion or greater)

Rating Category (Excellent): Assigned to companies that have, in our opinion, an excellent ability to meet their ongoing insurance obligations. A.M. Best assigns each letter rated (A++ through D) insurance company a **Financial Size Category (FSC)**, which is designed to provide a convenient indicator of the size of a company based on reported policyholders' surplus and conditional or reserve funds.

The objective of **Best's Credit Rating System** is to provide an opinion of an insurer's financial strength and ability to meet ongoing obligations to policyholders. Our opinions are derived from the evaluation of a company's balance sheet strength, operating performance and business profile as compared to Best's quantitative and qualitative standards. View our [Best's Credit Rating Methodology](#) for more information.

While Best's Credit Ratings reflect our **opinion** of a company's financial strength and ability to meet its ongoing obligations to policyholders, they are **not a warranty**, nor are they a recommendation of a specific policy form, contract, rate or claim practice. View our [entire notice](#) for complete details.

The rating symbols "A++", "A+", "A", "A-", "B++", and "B+" are registered certification marks of the A.M. Best Company, Inc.

Note: The above information reflects the most recent Best's Credit Rating for this company, which may have been released subsequent to the creation of the following AMB Credit Report - Insurance Professional.

AMB Credit Report - Insurance Professional provides detailed business overview, extensive financial data and analytical commentary, product and geographic information, company history, as well as the rationale supporting the financial strength rating assigned by A.M. Best. These reports are updated on a regular basis based on input and analysis performed throughout the year.

Report Revision Date - 12/12/2012 *

The **Report Revision Date** * represents the last significant material change made to this report. Other non-material changes may have been made to this report subsequent to this date, but are not reflected in the report revision date. The AMB Credit Report - Insurance Professional below was created based on the following dates.

Rating and Commentary ¹	Financial ²	General Information ³
Best's Credit Rating: 11/15/2012	Time Period: Annual - 2011	Corporate Structure: 03/27/2009
Rating Rationale: 11/15/2012	Last Updated: 06/05/2012	States Licensed: N/A
Report Commentary: 12/12/2012	Status: Quality Cross Checked	Officers and Directors: 07/05/2011

***Note:** The **Rating and Commentary** ¹ date outlines the most recent updates to the Company's Rating, Rationale, and Report Commentary for key rating and business changes. Report commentary may include significant changes to Business Review, Financial Performance/Earnings, Capitalization, Investment/Liquidity, or Reinsurance sections of the report. The **Financial** ² date reflects the current status of the financial tables found within the body of the Report, including whether the data was loaded as received or had been run through our quality control cross-check process. The **General Information** ³ date covers key areas that may have changed such as corporate structure, states licensed or officers and

directors.

AMB Credit Report - Insurance Professional for ALLIED WORLD ASSURANCE COMPANY, LTD

Operating Company Non-Life

Ultimate Parent: Allied World Assurance Co Holdings AG

27 Richmond Road, Pembroke HM 08, Bermuda

Web: <http://www.awac.com/>

Tel: 441-278-5400

Fax: 441-296-3428

AMB#: 084808

AIIN#: AA-3194128

Ultimate Parent#: 058218

Report Revision Date: 12/12/2012

BEST'S CREDIT RATINGS

Best's Financial Strength Rating: A

Outlook: Stable

Best's Issuer Credit Rating: a

Outlook: Positive

Best's Financial Size Category: XV

RATING RATIONALE

Rating Rationale: Allied World is a property/casualty insurer/reinsurer with significant geographic reach. The ratings reflect the company's diversified mix of business, strong risk-adjusted capitalization and experienced management team. The positive outlook on the company's Issuer Credit Rating reflects Allied World's strong operating performance, sound risk management culture and strategic expansions in terms of geography, products and distribution. These positive rating attributes are expected to put the company in a favorable position to successfully execute its business plans. The breadth of Allied World's operations has been enhanced while the company has delivered strong results.

Partially offsetting these positive rating factors is Allied World's casualty orientation, as pricing for this class of business is particularly soft at this stage of the market cycle. Many of Allied World's peers have chosen to modify their business mix toward shorter-tail property business. Allied World has chosen a targeted business strategy, while taking steps to refine its cycle management capability. However, Allied World's continued focus on casualty business has helped to limit its exposure to the global catastrophes that took place in late 2010 and 2011, including the New Zealand earthquakes and the Japanese earthquake and tsunami. Allied World appears to have a prudent reserving philosophy, maintaining a significant portion of incurred but not reported reserves. As a result, the company has been able to recognize substantial favorable loss reserve development for several years, which has contributed to strong operating returns through the current soft phase of the casualty market. Accordingly, the outlook is long term in nature to allow more recent accident years to mature given the current soft pricing dynamics of the casualty market. Any future shortfall in reserves, combined with a deterioration in investment income resulting from a continuation of lower interest rates, could cause A.M. Best to reconsider its positive outlook on Allied World. If Allied World can

sustain its historical results going forward, the company will have demonstrated that it has built a business model, which is well established to withstand varying market conditions and support a higher financial strength rating.

FIVE YEAR RATING HISTORY

<u>Date</u>	BEST'S	
	<u>FSR</u>	<u>ICR</u>
11/15/12	A	a
10/25/11	A	a
08/24/10	A	a
07/15/09	A	a
10/24/08	A	a

RATING UNIT MEMBERS

Allied World Assurance Company, Ltd

(AMB# 084808):

<u>AMB#</u>	<u>COMPANY</u>	BEST'S	
		<u>FSR</u>	<u>ICR</u>
083090	Allied World Asr Co (Europe)	A	a
089238	Allied World Asr Co (Re) Ltd	A	a
012525	Allied World Asr Co (US) Inc	A	a
012526	Allied World National Assur Co	A	a
013865	Allied World Reinsurance Co	A	a
012699	Darwin National Assurance Co	A	a
011719	Darwin Select Insurance Co	A	a

BUSINESS PROFILE

Allied World Assurance Company, Ltd (Allied World), has established itself as a Bermuda-based specialty insurance and reinsurance company that underwrites a diversified portfolio of property and casualty insurance and reinsurance lines of business. The company writes direct property and casualty insurance as well as reinsurance through operations in Bermuda, Europe, Hong Kong, Lloyd's, Singapore and the United States. The company's ultimate parent, Allied World Assurance Company Holdings, AG is domiciled in Switzerland.

Management monitors the performance of its direct underwriting operations based on the geographic location of the company's offices, the markets and customers served and the type of accounts written. The company's three operating segments are U.S. Insurance, International Insurance and Reinsurance.

The U.S. Insurance segment includes the company's direct specialty insurance operations in the United States. This segment provides both direct property and specialty casualty insurance to small to middle-market, non-Fortune 1000 North American-domiciled accounts. The segment operates in the excess and surplus lines and admitted segments of the U.S. market with particular emphasis on healthcare and professional liability risks. The company has established regional offices in Atlanta, Boston, Chicago, Costa Mesa (CA), Dallas, Farmington (CT), Los Angeles, New York City, Philadelphia and San Francisco.

The International Insurance segment includes the company's direct insurance operations in Bermuda, Europe and Asia. This segment provides both direct property and casualty insurance primarily to Fortune 1000 North American-domiciled accounts and mid-sized to large European and multi-national companies domiciled outside of North America. This segment is also diversifying into smaller and middle-market accounts. In June 2010, the company announced the formation of Syndicate 2232 at Lloyd's of London. The syndicate is managed by Capita Managing Agency Limited, a subsidiary of The Capita Group Plc, which is authorized by the Financial Services Authority in the United Kingdom. The syndicate offers select product lines, which include international property, general casualty and professional liability lines targeted at key territories such as countries in Latin America and the Asia-Pacific region.

The Reinsurance segment includes the company's operations in the United States, Bermuda, Europe and Singapore. This segment currently writes reinsurance on both a treaty and a facultative basis, targeting several niche reinsurance markets, including professional liability, specialty casualty, property, accident and accident and health. The company's U.S. operations operate out of New York City and focus on general casualty, professional liability and some property per risk coverages. The company's Bermuda operation focuses on property catastrophe, property treaty and specialty casualty coverages. During 2008, the company opened an office in Zug, Switzerland, that offers property, general casualty and professional liability products throughout Europe. Syndicate 2232 also offers international treaty reinsurance. During 2009, the company expanded its reinsurance operations in Asia with its Singapore office which serves as the company's hub for all classes of treaty reinsurance for the region.

Responsibility and accountability for the results of underwriting operations are assigned by major line of business within each of the operating segments.

The company markets its insurance and reinsurance products worldwide through selected third-party intermediaries. Direct insurance policies are written through various intermediaries, including excess and surplus lines wholesalers and regional and national retail brokerage firms. The distribution network for healthcare and professional liability products grew significantly with the acquisition of Darwin in 2008 and now encompasses more than 200 insurance intermediaries. A number of those brokers also produce policies through the company's proprietary i-bind® platform for quoting and binding via the Internet. Reinsurance is mostly placed through a small group of nationally known reinsurance brokers although the company continues to build relationships with smaller distribution partners.

RISK MANAGEMENT

Allied World is viewed as a relatively conservative organization and a comprehensive risk management framework is in place. Allied World's enterprise risk management ("ERM") consists of numerous processes and controls that have been designed by senior management, with oversight by the Board of Directors, including through its Enterprise Risk Committee, and implemented by employees across the organization. The economic capital model is a key element to the company's risk management. The company's ERM supports the firm-wide decision making process by aiming to provide reliable and timely risk information.

The risk governance structure includes committees comprised of senior underwriting, actuarial, finance, legal, investment and operations staff that identify, monitor and help manage each of these risks. The management-based Risk Management Committee, chaired by the Chief Risk Officer, focuses primarily on identifying correlations among the primary categories of risk, developing

metrics to assess the overall risk position, performing an annual risk assessment and reviewing continually factors that may impact organizational risk. This risk governance structure is complemented by the internal audit department.

Regulatory and Accounting Environment: Insurance companies in Bermuda are regulated by the Insurance Division of the Bermuda Monetary Authority. In Bermuda, there are no taxes on profits, income, dividends or capital gains. There is only a licensing fee which is dependent upon the level of authorized capital. Exempted companies are able to enter an agreement with the government whereby any such taxes imposed in the future would not be applicable until March 28, 2035. Allied World has entered into such an agreement with the Bermudian government.

The Insurance Act provides that the statutory assets of an insurer must exceed its statutory liabilities by an amount greater than the prescribed minimum solvency margin, which for a Class 4 insurer such as Allied World is the greatest of \$100 million, 50% of net premiums written or 15% of net losses and loss expense reserves.

OPERATING PERFORMANCE

Operating Results: Overall financial performance has been consistently strong since the company's inception in 2001. The company has generated industry leading operating returns over the recent five-year period while operating leverage measures have generally been conservative. Underwriting and investment results have been strong despite the competitive landscape, financial turbulence and the catastrophe activity. Catastrophe losses have been in line with the company's risk appetite and reflect its casualty orientation. In 2008, the company did sustain significant realized investment losses as a result of the turmoil in the financial markets, but on a relative basis Allied World was one of just a few companies in its peer group to generate a positive total investment return for that year.

Overall, A.M. Best continues to be encouraged by the company's operating trends, market acceptance and successful recruitment. In recent years, Allied World has expanded the breadth of its operations while delivering strong operating performance.

Underwriting Results: Performance in recent years has been strong, attributed to the company's catastrophe losses being at the low end of its peer group as well as strong underwriting results that have been aided by significant favorable loss reserve development. Over the recent five-year period (2007 - 2011) the company's reported combined ratio has been amongst the best of its peer group. Going forward though, A.M. Best anticipates that the company will not experience the same level of favorable loss reserve development. As the casualty market continues to soften and reserve releases begin to diminish, the company's operating results could be dampened.

Expenses have increased in recent years as the company expanded its infrastructure and increased staff throughout its global underwriting operations but still compare favorably with its peers.

BALANCE SHEET STRENGTH

Capitalization: Based on Best's Capital Adequacy Ratio (BCAR) analysis, Allied World maintains excellent capitalization for its current rating level.

In May 2010, the company announced that its board of directors had authorized the company to repurchase up to \$500 million in the company's common shares through a share repurchase program.

\$419 million of common shares have been repurchased through March 31, 2012 with \$81 million authorization remaining to be purchased. Additionally, in May 2012, a new \$500 million share repurchase program was implemented. In 2010, the company repurchased \$505 million of shares and warrants from founders, including affiliates of The Goldman Sachs Group, Inc. and the Chubb Corporation, which were founding shareholders of Allied World. All founding shareholders have now been bought out. In 2007, the company purchased \$563.4 million of common shares from American International Group, Inc., also one of the company's founding shareholders.

In November 2010, the company issued \$300 million in ten-year senior notes. In July 2006, the company issued \$500 million in ten-year senior notes.

Liquidity: Allied World has had solid operating cash flows since inception due to both its casualty orientation and its strong underwriting performance. The company maintains a conservative investment strategy specifically focused on preserving the value of invested assets while providing sufficient liquidity to pay claims promptly. The investment portfolio is mostly comprised of high quality corporate and government bonds along with mortgage and asset-backed securities. The average duration of the portfolio is approximately 2 years which is relatively short when compared with the company's casualty insurance focus. This is due to the company's defensive posture regarding a potential rise in interest rates. With a modest commitment for debt service at the holding company level, the company retains adequate levels of cash to meet forecasted requirements.

Allied World holds approximately 5% of its investment portfolio in hedge funds. The funds' objectives are generally to seek attractive long-term returns with lower volatility by investing in a range of diversified investment strategies. Allied World's investment strategy allows the use of derivatives to manage the duration and foreign currency exposures. High standards are imposed for the credit quality of counterparties in all derivative transactions including carrying investment grade ratings and maintaining a recognized standing in the financial markets. Investment advisory and management services are provided to the company through Investment Management Agreements with various investment managers.

Summarized Accounts as of December 31, 2011

Data reflected within all tables of this report has been compiled from the consolidated financial statements of this company (Source: Company Financial Statement).

ASSETS

	12/31/2011 USD(000)	12/31/2011 % of total	12/31/2010 USD(000)
Cash and equivalents	555,231	5.1	576,567
Long term fixed maturity investments	6,446,289	59.3	6,660,946
Equity investments	367,483	3.4	174,976
Other investments	540,409	5.0	347,632
Invested assets	7,354,181	67.7	7,183,554
Receivables	1,226,980	11.3	750,742
Reinsurance recoverable	992,187	9.1	925,081
Deferred policy acquisition cost	97,417	0.9	96,713
Goodwill & other intangibles	322,274	3.0	325,252
Other assets	316,798	2.9	268,484

Total assets	10,865,068	100.0	10,126,393
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LIABILITIES & SURPLUS

	12/31/2011 USD(000)	12/31/2011 % of total	12/31/2010 USD(000)
Property / Casualty reserves	5,170,184	47.6	4,870,214
Unearned premium reserves	1,044,240	9.6	949,616
Total policy reserves	6,214,424	57.2	5,819,830
Other liabilities	834,621	7.7	661,089
Total liabilities	7,049,045	64.9	6,480,919
Equity - common stock	1,000	0.0	1,000
Paid-in capital	1,996,504	18.4	1,979,941
Accumulated other comprehensive income	14,484	0.1	57,135
Retained earnings	1,804,035	16.6	1,607,398
Total equity	3,816,023	35.1	3,645,474
Total liabilities & equity	10,865,068	100.0	10,126,393

STATEMENT OF INCOME

	12/31/2011 USD(000)	12/31/2010 USD(000)
Direct premiums written	1,333,958	1,216,170
Reins assumed	538,654	524,206
Gross premiums written	1,872,612	1,740,376
Reins ceded	395,122	360,458
Net premiums written	1,477,490	1,379,918
Change in unearned premiums	57,097	24,356
Net premiums earned	1,420,393	1,355,562
Net investment income	195,282	244,106
Net realized gains/(losses)	9,375	289,403
Other revenue	574	913
Total revenue	1,625,624	1,889,984
Benefits & reserves	914,124	701,444
Operating expenses	433,883	423,818
Non-operating expenses	1,992	1,885
Total benefits & expenses	1,349,999	1,127,147

Earnings before interest & taxes (EBIT)	275,625	762,837
Pre-tax income/(loss) from continuing operations	275,625	762,837
Total taxes	23,004	26,914
Net income/(loss) before minority interest	252,621	735,923
Net income/(loss) from continuing operations	252,621	735,923
Net income/(loss)	252,621	735,923

STATEMENT OF CHANGES IN EQUITY

	12/31/2011 USD(000)	12/31/2010 USD(000)
Common shares, beginning balance	1,000	1,000
Common shares, ending balance	1,000	1,000
Paid-in capital - Beg bal	1,979,941	1,950,123
Paid-in capital - other	16,563	29,818
Paid-in capital - End bal	1,996,504	1,979,941
AOCI - beginning balance	57,135	149,849
AOCI - change in unrealized gains/losses on investments	-42,651	-50,825
AOCI - other	...	-41,889
AOCI - ending balance	14,484	57,135
Retained earnings, beginning balance	1,607,398	1,579,586
Retained earnings, net income	252,621	735,923
Retained earnings, common dividends	55,984	750,000
Retained Earnings, other	...	41,889
Retained earnings, ending balance	1,804,035	1,607,398
Total shareholder equity	3,816,023	3,645,474

STATEMENT OF CASH FLOWS

	12/31/2011 USD(000)	12/31/2010 USD(000)
Net cash provided/(used) in operating activities	503,001	490,757
Net cash provided/(used) in investment activities	-454,846	502,080
Net cash provided/(used) in financing activities	-55,890	-750,000
Effect of exchange rates on cash	499	-570
Total increase (decrease) in cash	-7,236	242,267

Cash, beginning balance	480,194	237,927
Cash, ending balance	472,958	480,194

HISTORY

Allied World was incorporated in Bermuda on November 13, 2001, and is a wholly owned subsidiary of Allied World Assurance Company Holdings, AG, which is domiciled in Switzerland. Allied World began operations on November 21, 2001, as a registered Class 4 Bermuda insurance and reinsurance company and is subject to regulation and supervision in Bermuda under the Insurance Act of 1978 of Bermuda and its related regulations.

MANAGEMENT

OFFICERS

President: Frank N. D'Orazio (Bermuda & International Insurance) **EVP and Actuary:** Marshall Grossack
EVP and CFO: Joan H. Dillard **EVP:** Thomas McKevitt (Bermuda Reinsurance)
EVP, Secretary and General Counsel: Wesley D. Dupont **SVP and Treasurer:** Marchelle Lewis

DIRECTORS

Scott Carmilani Frank D'Orazio
Joan Dillard Wesley Dupont

REINSURANCE

Allied World provides reinsurance agreements to its operating affiliates. Under these agreements, the group's affiliates generally cede between 70% and 85% of their business to Allied World on a quota share basis. The agreements apply to all lines of business written by the affiliates and remain in force until terminated with proper notification.

BALANCE SHEET ITEMS

	USD (000) <u>2011</u>	USD (000) <u>2010</u>	USD (000) <u>2009</u>	USD (000) <u>2008</u>	USD (000) <u>2007</u>
Invested assets	7,354,181	7,183,554	7,156,263	6,328,156	6,176,528
Total assets	10,865,068	10,126,393	9,605,489	8,733,539	7,885,372
Total liabilities	7,049,045	6,480,919	5,924,931	5,846,540	5,147,890
Total equity	3,816,023	3,645,474	3,680,558	2,886,999	2,737,482
Total capital	3,816,023	3,645,474	3,680,558	2,886,999	2,737,482

INCOME STATEMENT ITEMS

	USD (000) <u>2011</u>	USD (000) <u>2010</u>	USD (000) <u>2009</u>	USD (000) <u>2008</u>	USD (000) <u>2007</u>
Gross premiums written	1,872,612	1,740,376	1,696,345	1,445,584	1,505,509
Net premiums written	1,477,490	1,379,918	1,321,125	1,107,228	1,153,110
Net investment income	195,282	244,106	300,378	307,031	294,428
Net realized gains/(losses)	9,375	289,403	76,775	-272,851	-7,617
Net income/(loss)	252,621	735,923	652,987	227,843	508,703

LIQUIDITY RATIOS (%)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total investments to total reserves	127.3	133.3	131.5	122.3	135.8
Liquid assets to total liabilities	104.5	114.4	123.2	111.5	121.9
Total investments to total liabilities	112.2	119.7	126.3	115.2	124.8
Bonds to total reserves	103.7	114.5	122.5	110.5	127.5

PROFITABILITY RATIOS (%)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Loss ratio	64.4	51.8	45.9	57.4	58.8
Expense ratio	30.3	31.0	29.6	26.1	22.0
Combined ratio	94.7	82.8	75.5	83.5	80.9
Investment income ratio	13.8	18.0	22.8	27.5	25.4
Return on assets	2.4	7.5	7.1	2.7	6.9
Return on revenues	17.8	54.3	49.6	20.4	43.9
Return on equity	6.8	20.1	19.9	8.1	19.6

LEVERAGE & DEBT RATIOS (%)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net premiums written to equity	38.7	37.9	35.9	38.4	42.1
Cash and equivalents to total assets	5.1	5.7	3.4	4.7	3.1

Find out more about our [Market Segment Outlooks](#), indicating the potential future direction of company ratings within a segment over the next 6 to 18 months.

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Best's Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Debt/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the

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AMB Credit Report - Insurance Professional BCR12122012

**COLCHESTER
REINSURANCE LIMITED**

Financial statements

June 30, 2012

COLCHESTER REINSURANCE LIMITED

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June 30, 2012

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Independent auditors' report

To the shareholders of Colchester Reinsurance Limited

We have audited the accompanying financial statements of Colchester Reinsurance Limited, which comprise the statement of financial position as at June 30 2012, and the statement of changes in equity, statement of income and comprehensive income and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Independent auditors' report (continued)

To the shareholders of Colchester Reinsurance Limited

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Colchester Reinsurance Limited as of June 30, 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Comparative Information

Without modifying our opinion, we draw attention to Note 2 to the financial statements which describes that Colchester Reinsurance Limited adopted IFRS on July 1, 2011 with a transition date of July 1, 2010. These standards were applied retrospectively by management to the comparative information in these financial statements, including the balance sheet as at June 31, 2011, and the statements of income, retained earnings and cash flows for the year ended June 31, 2011 and related disclosures. We were not engaged to report on the restated comparative information, and as such, it is unaudited.

Deloitte & Touche

November 22, 2012

COLCHESTER REINSURANCE LIMITED

Statement of financial position

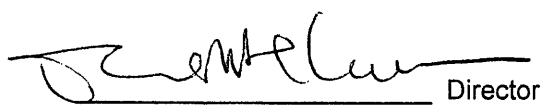
As at June 30, 2012

(expressed in Canadian dollars)


	Notes	2012	2011
Assets			
Cash and cash equivalents	4	\$ 1,172,582	\$ 388,800
Investments	5	28,957,178	29,522,187
Provision for losses recoverable	7	2,544,000	-
Accounts receivable and prepayments	6	44,808,336	229,586
		<u>\$ 77,482,096</u>	<u>\$ 30,140,573</u>
Liabilities			
Provisions for losses and loss adjustment expenses	7	\$ 43,943,000	\$ 7,876,000
Claims payable		-	17,924
Accounts payable and accrued expenses	8	1,086,214	54,387
		<u>45,029,214</u>	<u>7,948,311</u>
Shareholders' equity			
Share capital	9	3,315,200	3,315,200
Retained earnings	10	28,610,412	18,398,132
Accumulated other comprehensive income		527,270	478,930
		<u>32,452,882</u>	<u>22,192,262</u>
		<u>\$ 77,482,096</u>	<u>\$ 30,140,573</u>

The accompanying notes form an integral part of these financial statements.

Approved by the Board on November 22, 2012



Paul B Altman Director



Trevor A. Carmichael Director

COLCHESTER REINSURANCE LIMITED

Statement of changes in equity

For the year ended June 30, 2012

(expressed in Canadian dollars)

	Share capital \$	Accumulated other comprehensive income \$	Retained earnings \$	Total \$
Balance – 30 June 2010	3,315,200	571,040	16,215,230	20,101,470
Total comprehensive income	-	(92,110)	2,182,902	2,090,792
Balance – 30 June 2011	3,315,200	478,930	18,398,132	22,192,262
Total comprehensive income	-	48,340	10,212,280	10,260,620
Balance – 30 June 2012	3,315,200	527,270	28,610,412	32,452,882

The accompanying notes form an integral part of these financial statements

COLCHESTER REINSURANCE LIMITED

Statement of income and comprehensive income

For the year ended June 30, 2012

(expressed in Canadian dollars)

	Notes	2012	2011
Revenue			
Reinsurance premiums written and earned		\$ 47,986,427	\$ 2,558,813
Retrocession premiums ceded		<u>(3,857,575)</u>	<u>(1,050,000)</u>
		44,128,852	1,508,813
Net investment income	5	<u>774,783</u>	<u>893,731</u>
		<u>44,903,635</u>	<u>2,402,544</u>
Expenses			
Losses and loss adjustment expenses		857,966	1,039,811
Change in provision for losses and loss adjustment expenses		33,523,000	(1,046,000)
Operating expenses	11	<u>300,269</u>	<u>215,485</u>
		<u>34,681,235</u>	<u>209,296</u>
Income for the year before taxation		10,222,400	2,193,248
Taxation		<u>10,120</u>	<u>10,346</u>
Income for the year after taxation		<u>10,212,280</u>	<u>2,182,902</u>
Other comprehensive income			
Unrealised gains and losses on available-for-sale investments arising during the year		(22,940)	(194,235)
Reclassification in net income of gains and losses realised on available-for-sale investments during the year	5	<u>71,280</u>	<u>102,125</u>
		<u>48,340</u>	<u>(92,110)</u>
Total comprehensive income		<u>\$ 10,260,620</u>	<u>\$ 2,090,792</u>

The accompanying notes form an integral part of these financial statements.

COLCHESTER REINSURANCE LIMITED

Statement of cash flows

For the year ended June 30, 2012

(expressed in Canadian dollars)

	Notes	2012	2011
Operating activities			
Income for the year before taxation		\$ 10,222,400	\$ 2,193,248
Add items not using cash:			
(Gain) loss on sale of bonds	5	(71,280)	(102,125)
Amortisation of premium on bonds		<u>239,188</u>	<u>167,419</u>
		10,390,308	2,258,542
Changes in non-cash balances:			
Accounts receivable and prepayments		(44,578,750)	(41,588)
Provisions for losses and loss adjustment expenses		33,523,000	(1,046,000)
Claims payable		(17,924)	14,811
Accounts payable and accrued expenses		<u>1,031,827</u>	<u>6,589</u>
Cash generated from operations		348,461	1,192,354
Taxes paid		<u>(10,120)</u>	<u>(10,346)</u>
Net cash from operating activities		<u>338,341</u>	<u>1,182,008</u>
Investing activities			
Purchase of investments		(14,806,485)	(7,250,430)
Proceeds on sale of investments	5	<u>15,251,926</u>	<u>6,253,255</u>
Net cash from (used in) investing activities		<u>445,441</u>	<u>(997,175)</u>
Change in cash and cash equivalents, for the year		783,782	184,833
Cash and cash equivalents, beginning of year		<u>388,800</u>	<u>203,967</u>
Cash and cash equivalents, end of year	4	\$ <u>1,172,582</u>	\$ <u>388,800</u>

The accompanying notes form an integral part of these financial statements.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2012

(expressed in Canadian dollars)

1. Operations

Colchester Reinsurance Limited ("the Company") was incorporated under the Companies Act of Barbados on June 22, 1990 and is a licensed insurer under the Exempt Insurance Act, 1983. The registered office of the Company is located at Chancery House, High Street, Bridgetown, Barbados. The principal activity of the Company is the reinsurance of the Canadian Lawyers Liability Assurance Society ("CLLAS"), which in turn provides lawyers' professional liability insurance.

Beginning July 1, 2011, the Company assumed proportional reinsurance of 25% of the layer \$49,000,000 in excess of \$1,000,000 insured by CLLAS. Colchester retrocedes 100% of its proportional retention in the layer \$45,000,000 in excess of \$5,000,000. In addition the Company also assumes on an aggregate basis 100% of the layer \$22,000,000 in excess of \$17,500,000 of the net proportional losses of CLLAS and Colchester combined. The Company then retrocedes 96.25% of \$20,000,000 in excess of \$17,500,000 on the combined basis.

From July 1, 2006 to June 30, 2011 the Company had provided annual aggregate stop-loss reinsurance protection excess of annual aggregate retentions after reflection of proportional reinsurance as follows:

- a) \$10,000,000 annual aggregate excess of \$15,000,000 annual aggregate and
- b) \$15,000,000 annual aggregate excess of \$25,000,000 annual aggregate (including (a) above).

The Company protected itself through retrocessional arrangements. For the year from July 1, 2009 this coverage was for \$15,000,000 annual aggregate excess of \$25,000,000 annual aggregate. Previously this coverage had been maintained for \$20,000,000 annual aggregate excess of \$20,000,000 annual aggregate from July 1, 2002 to June 30, 2009.

On June 30, 2012 the Company entered a Loss Portfolio Transfer arrangement with CLLAS accepting the outstanding claims obligations written by CLLAS between July 1, 1987 and June 30, 2012. These obligations were estimated at \$32,600,000 at the time of transfer.

2. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of financial statements as issued by the International Accounting Standards Board (IASB), including IFRS 1, First-time Adoption of International Financial Reporting Standards. Subject to certain transition elections disclosed in Note 17(a), the Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 17 (b) discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's financial statements for the year ended June 30, 2011. Note 17 discloses IFRS information that is material to an understanding of these financial statements.

The policies applied in these financial statements are based on IFRS issued and outstanding as of November 22, 2012, the date the Board of Directors approved the statements. The directors have a reasonable expectation that the Company has adequate resources to continue in operation existence for the foreseeable future. Therefore, the Company continues to adopt the going concern basis in preparing its financial statements.

The financial statements have been prepared on a historical cost basis, unless stated otherwise in the significant accounting policies. Exceptions to the historical cost basis include certain financial instruments which are measured at fair value.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2012

(expressed in Canadian dollars)

3. Significant accounting policies

Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimate relates to the provision of losses and loss adjustment expenses.

Provisions for losses and loss adjustment expenses

The provisions for losses and loss adjustment expenses include estimated claims outstanding and reported with an amount for future development of claims reported and an amount for losses incurred but not reported at the end of the financial year. The Company reports provisions for losses on a discounted basis.

These amounts are necessarily based on estimates of future trends in claims severity and other factors which could vary as the claims are settled. The ultimate liability may be more or less than the estimated amounts. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the provisions are adequate. The estimates are periodically reviewed by an actuary and any necessary adjustments to this liability are reflected in current operations.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing at the date of the financial statements. Revenue and expenses denominated in foreign currencies are translated into Canadian dollars using prevailing monthly exchange rates. Realised and unrealised gains and losses on foreign currency positions are included in the statement of income and comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Cash and cash equivalents

Cash and cash equivalents include cash at bank, term deposits and treasury bills with original maturities of three months or less. All such balances are stated at cost which approximates fair value.

Financial instruments

Financial assets

Financial assets are recognised in the financial statements when the Company becomes a party to the contractual provisions of the instruments. The Company's financial assets have been classified as "loans and receivables" and "available for sale".

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2012

(expressed in Canadian dollars)

3. Significant accounting policies (continued)

Financial instruments (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including cash and cash equivalents and accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income on loans and receivables is recognized by applying the effective interest rate, and is included in the statement of income.

Available-for-sale financial assets

Available-for-sale instruments are non-derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The company's investments which comprise fixed income securities are classified as available-for-sale. These are measured at fair value with the fair value of the investments being determined by reference to published price quotations in active markets. Any changes in fair values are recorded, net of income taxes, in Accumulated Other Comprehensive Income ("AOCI") until the financial asset is disposed of or has become other than temporarily impaired. When the asset is disposed of, or has become impaired, the accumulated fair value adjustments recognized in AOCI are transferred to the statement of income and, accordingly, a corresponding adjustment (net of income taxes) is made to AOCI. Dividends and interest income are recorded in investment income on the accrual basis.

Impairment of financial assets

Financial assets are considered to be impaired and impairment losses recognised when there is objective evidence that one or more events that occurred after the initial recognition of the financial assets has impacted the estimated future cash flows of the financial asset and the impact can be reliably estimated.

Impairment of financial assets classified as loans and receivables

If there is objective evidence that an impairment loss has occurred on a financial asset classified as "loans and receivables", the amount of the loss is measured as the difference between the assets carrying value and the present value of estimated future cash flows discounted at the financial asset's effective interest rate. The amount of the loss is recognised in the statement of comprehensive income. If in a subsequent period, the amount of the losses decreases and the decrease can be related objectively to an event occurring after the impairment was recognised; the amount of the reversal is recognised in profit or loss. The reversal will not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment never been recognised.

Impairment of financial assets classified as available-for-sale

The Company regularly reviews its portfolio of securities for impairment. In order to determine whether negative revaluations on investment securities correctly represent impairment, all investment securities for which the market value has been significantly below cost price or below cost price for a considerable period of time, are individually reviewed. A distinction is made between negative revaluations due to general market fluctuations and those due to issuer specific developments.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2012

(expressed in Canadian dollars)

3. Significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets classified as available-for-sale (continued)

The impairment review focuses on issuer specific developments regarding financial condition and future prospects of the issuer, taking into account the intent and ability to hold the securities under the Company's long-term investment strategy.

A provision for impairment for debt securities is established when there is objective evidence that the investment is impaired and the impairment is other than temporary. When this occurs, gains or losses previously recognized in accumulated other comprehensive income are reclassified to profit or loss in the period. Once an impairment loss is recorded to income, the loss can only be reversed for fixed income securities to the extent a subsequent increase in fair value can be objectively correlated to an event occurring after the loss was recognized. Following impairment loss recognition, these assets will continue to be recorded at fair value with changes in fair value recorded to AOCI and tested for further impairment quarterly. Interest is no longer accrued and previous interest accruals are reversed.

Financial liabilities

The Company's financial liabilities consist of accounts payable and accrued expenses and are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Transaction costs

Transaction costs are netted against the carrying value of the asset and are then recognised over the expected life of the instrument using the effective interest method. The Company uses the effective interest method to recognise interest income or expense which includes transaction cost, premiums or discounts earned or incurred for financial instruments.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability on initial recognition. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Taxation

The Company follows the liability method of accounting for income taxes. Under this method, future income tax liabilities and future income tax assets are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recorded in the financial statements if realisation is considered more likely than not.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2012

(expressed in Canadian dollars)

3. Significant accounting policies (continued)

Taxation (continued)

Under the Exempt Insurance Act of Barbados, the Company's taxable income is subject to Barbados tax at 0% during the first fifteen years of operation and thereafter at 8% on the first BDS\$250,000 of taxable income, and at 0% in respect of all amounts in excess of BDS\$250,000.

Related parties

Transactions between the Company and other entities are considered related party transactions if one of the entities has the ability, directly or indirectly, to control the other or to exercise significant influence over the other in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence. Related party transactions have been measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Reinsurance

Reinsurance does not discharge the primary liability of the Company. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk of the reinsurers to minimise its exposure to significant losses from their insolvency. The Company believes that it has made appropriate provision for any such losses, and therefore, no material credit risk exists. The provision for losses and loss adjustment expenses and change in the provision are recorded gross and a provision for recoveries from the retrocession included as an asset.

Recognition of premium income and expense

Premiums written/ceded are earned/expensed evenly over the terms of the related agreements.

New and amended standards adopted by the Company

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after July 1 2011 that would be expected to have a material impact on the Company.

New standards, amendments and interpretations issued but not effective for the entity for the financial year beginning July 1, 2011 and not early adopted are as follows:

IFRS 9	Financial Instruments	Effective 1 January 2015
IFRS 13	Fair Value Measurement	Effective 1 January 2013
IAS 1	Presentation of Financial Statements – Amendments to revise the way other comprehensive income is presented	Effective 1 July 2012
IAS 1	Presentation of Financial Statements – Amendments resulting from annual improvements	Effective 1 January 2013
IAS 12	Income taxes – Limited scope amendments (recovery of underlying assets)	Effective 1 January 2012
IAS 32	Financial Instruments: Presentation – Amendments resulting from annual improvements	Effective 1 January 2013
IAS 32	Financial Instruments: Presentation – Amendments relating to the offsetting of assets and liabilities	Effective 1 January 2014

The Company has not yet fully evaluated the impact of the above on future financial statements.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2012

(expressed in Canadian dollars)

4. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	2012	2011
Cash at bank	\$ 173,692	\$ 388,800
Treasury bill	<u>998,890</u>	<u>-</u>
	<u>\$ 1,172,582</u>	<u>\$ 388,800</u>

Cash of \$123,889 (2011 - \$343,043) is held in trust to collateralise the amounts recoverable from the Company related to the business ceded to it. No interest was received on cash at bank during the year. See Note 5.

5. Investments

	2012		2011	
	Amortised cost	Fair value	Amortised cost	Fair value
Fixed income securities				
Bonds	\$ <u>28,429,908</u>	\$ <u>28,957,178</u>	\$ <u>29,043,255</u>	\$ <u>29,522,187</u>

The fair value of the investments held is based on the quoted market value of the available-for-sale investments as of that date.

Fixed income securities – interest rate

Fixed income securities have yield-to-maturity rates ranging from 0.478% to 3.936% (2011 – 0.675% to 5.157%).

Fixed income securities – maturities

The amortised cost and fair value of marketable securities held are shown by contractual maturity.

	2012		2011	
	Amortised cost	Fair value	Amortised cost	Fair value
Within one year	\$ 7,013,467	\$ 7,087,270	\$ 5,073,253	\$ 5,128,840
From one year to five years	<u>21,416,441</u>	<u>21,869,908</u>	<u>23,970,002</u>	<u>24,393,347</u>
	<u>\$ 28,429,908</u>	<u>\$ 28,957,178</u>	<u>\$ 29,043,255</u>	<u>\$ 29,522,187</u>

All investments in fixed income securities have a minimum credit rating of 'Aa1' or 'AA-', are denominated in Canadian dollars and have a maximum term to maturity of five years.

Proceeds from sales of investments in bonds during the year amounted to \$15,251,926 (2011 - \$6,253,255). Gains of \$71,280 (2011 – gains of \$102,125) were realized on those sales.

Major categories of net investment income are summarised below:

	2012	2011
Interest on cash equivalents and bonds	\$ 1,004,769	\$ 1,017,558
Gain (loss) on sale of bonds	71,280	102,125
Amortisation of bonds	(239,188)	(167,419)
Investment manager's fees	<u>(62,078)</u>	<u>(58,533)</u>
	<u>\$ 774,783</u>	<u>\$ 893,731</u>

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2012

(expressed in Canadian dollars)

5. Investments (continued)

Pledged assets

The bonds and some of the cash balances are part of a custodial account maintained in accordance with the provisions of the reinsurance agreement whereby the Company is required to maintain certain deposits and/or investments for the benefit of the insured in respect of provisions for losses and loss adjustment expenses.

6. Accounts receivable and prepayments

Accounts receivable and prepayments consist of the following:

	2012	2011
Insurance balances (refer to note 16)	\$ 44,628,431	\$ -
Interest	174,863	224,507
Prepaid expense	<u>5,042</u>	<u>5,079</u>
	<u>\$ 44,808,336</u>	<u>\$ 229,586</u>

Accounts receivable are not impaired and not past due and are deemed collectible.

7. Provisions for losses and loss adjustment expenses

a) Nature of the provision for losses and loss adjustment expenses

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

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

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

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2012

(expressed in Canadian dollars)

7. Provisions for losses and loss adjustment expenses (continued)

b) Activity in the provision for losses and loss adjustment expenses is summarized as follows:

	2012	2011
Provision for losses and loss adjustment expenses, beginning of the year		
Gross	\$ 7,876,000	\$ 8,922,000
Reinsurance ceded	-	-
Net provisions, beginning of year	7,876,000	8,922,000
Net incurred losses and loss adjustment expenses		
Provision for current year claims made	8,066,000	1,798,000
Increase (decrease) in provision for prior year claims made	28,858,967	(1,804,189)
Increase (decrease) in provision due to discount rate change	-	-
Total net incurred	36,924,967	(6,189)
Net payable attributable to		
Current year claims made	-	-
Prior years' claims made	857,967	1,039,811
Total net payments	857,967	1,039,811
Gross provision of losses and loss adjustment expenses, end of year	43,943,000	7,876,000
Reinsurance ceded, end of year	2,544,000	-
Net provision of losses and loss adjustment expenses, end of year	\$ 41,399,000	\$ 7,876,000

The significant increase in the provision for prior year claims made, as shown in the table above, is due to the claims assumed as a result of the acceptance of the loss portfolio transfer outlined in note 1.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2012

(expressed in Canadian dollars)

7. Provisions for losses and loss adjustment expenses (continued)

c) Provision for losses and loss adjustment expenses

The fair value of losses and loss adjustment expenses, gross and recoverable from reinsurers, is not practicable to determine with sufficient reliability. Under accepted actuarial practice in Canada, the appropriate value of the claims liabilities is the discounted value of such liabilities plus the provision for adverse deviation ("PFAD").

June 30, 2012

	Undiscounted	Discounted at 1.25%	Provisions for adverse deviation	Value per accepted actuarial practice
	\$	\$	\$	\$
Provision for losses and loss adjustment expenses				
Gross	41,788,000	39,557,000	4,386,000	43,943,000
Recoverable from reinsurers	2,558,000	2,390,000	154,000	2,544,000
Net	39,230,000	37,167,000	4,232,000	41,399,000

June 30, 2011

	Undiscounted	Discounted at 2.0%	Provisions for adverse deviation	Value per accepted actuarial practice
	\$	\$	\$	\$
Provision for losses and loss adjustment expenses				
Gross	7,650,000	7,025,000	851,000	7,876,000
Recoverable from reinsurers	-	-	-	-
Net	7,650,000	7,025,000	851,000	7,876,000

Claims development tables

The provision for unpaid claims and adjustment expenses is an estimate subject to variability and the variability could be material in the near term. The variability arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Variability can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, significant changes in the severity or frequency of claims from historical trends, the timing of claim payments and future rates of investment return.

The estimation of claim development involves assessing the future behaviour of claims taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, and the characteristics of the line of business from which the claim arises. In general, the longer the term required for the settlement of a group of claims the more variable the estimates will be. Methods of estimation have been used which the Company believes produce reasonable results given current information.

The following table shows the development of claims over a period of time. The table shows how the estimates of total claims for each accident year develop over time as more information becomes known regarding individual claims. Each column tracks the claims relating to a particular "accident year" which is the year in which such claims were reported. The rows reflect the estimates in subsequent years for each accident year's claims.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2012

(expressed in Canadian dollars)

7. Provisions for losses and loss adjustment expenses (continued)

Analysis of claims development – net and gross

Five years	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	Total
	\$	\$	\$	\$	\$	\$
Estimate of ultimates:						
End of year	952,914	916,009	1,552,295	1,776,540	5,373,515	-
One year later	798,247	781,900	1,306,528	8,725,088	-	-
Two years later	600,419	548,413	9,442,890	-	-	-
Three years later	395,491	4,093,747	-	-	-	-
Four years later	3,407,590	-	-	-	-	-
Current estimate of ultimates	3,407,590	4,093,747	9,442,890	8,725,088	5,373,515	31,042,830
Cumulative payments	-	-	-	-	-	-
Net Liability	3,407,590	4,093,747	9,442,890	8,725,088	5,373,515	31,042,830
Total All Years						
Five Year Net Liability						31,042,830
Liability in respect of prior years						8,187,106
Effect of discounting and PFAD						2,169,064
Unallocated loss adjustment expenses						-
Liability Recoverable from Reinsurers						2,544,000
Gross Liability in Statement of Financial Position						43,943,000

Claims accepted by way of the portfolio transfer arrangement dated June 30, 2012 have been classified according to the accident year as reported by the original insurer.

8. Accounts payable and accrued expenses

Accounts payable and accrued expenses consist of the following:

	2012	2011
Insurance balances (see note 16)	\$ 1,000,000	\$ -
Accrued expenses	<u>86,214</u>	<u>54,387</u>
	<u>\$ 1,086,214</u>	<u>\$ 54,387</u>

9. Share capital

Authorised

Common shares – no par value Unlimited

Class A preference shares – no par value Unlimited

The transfer of such shares is subject to certain restrictions.

	2012	2011
Issued and outstanding		
Common – 1200 shares (2011 – 1,200 shares)	\$ 1,200	\$ 1,200
Class A preference – 16,570 shares (2011 – 16,570 shares)	<u>3,314,000</u>	<u>3,314,000</u>
	<u>\$ 3,315,200</u>	<u>\$ 3,315,200</u>

The holders of the common shares are entitled to one vote per common share held at all shareholder meetings except where there is a meeting of holders of a class of shares other than common shares. Common shareholders are entitled to receive dividends in respect of their common shareholding and receive the remaining property of the Company upon dissolution.

Class A preference shares may be issued only to a common shareholder, may be issued in one or more series and shall rank in priority to the common shares with respect to dividends and return of capital. Each series shall rank on parity with the Class A preference shares of every other series.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2012

(expressed in Canadian dollars)

9. Share capital (continued)

Entitlement to dividends shall be as declared by the directors from distributable retained earnings. The holders of any series of Class A preference shares are not entitled to vote at meetings of the shareholders. The Class A preference shares shall be redeemable by the Company at a price per share equal to \$1.

There were no repurchases of common shares or redemptions of preference shares during the year ended June 30, 2012 (2011 – redemption consideration was \$Nil). No preference or common shares were issued during the year ended June 30, 2012 (2011 - \$Nil).

10. Retained earnings

Accumulated retained earnings attributable to each underwriting period are appropriated into distributable and undistributable retained earnings. These allocations are based upon continuing actuarial reviews and take into account anticipated future claim fluctuations. The first underwriting period terminated on June 30, 1992 with each underwriting period thereafter consisting of each successive period of five consecutive fiscal years of the Company. At the close of the accounts of each underwriting period, which may be five years later or as determined by the directors, any undistributable retained earnings remaining for that period will be transferred to distributable retained earnings.

11. Operating expenses

Operating expenses are comprised of the following:

	2012	2011
Brokerage fees	\$ 81,250	\$ 50,000
Actuarial fees	75,224	38,290
Management fees	72,765	72,765
Bank and L.O.C charges	25,040	23,348
Audit fees	21,040	17,478
Secretarial Fees	7,730	4,261
Directors and officers insurance expense	7,708	-
Directors fees	6,120	5,757
Communication expenses	1,592	1,380
Travel	1,184	1,438
Stationary	539	768
Meeting expenses	77	-
	<u>\$ 300,269</u>	<u>\$ 215,485</u>

The directors fees of \$6,120 (2011 - \$5,757) represent related party transactions.

12. Margin of solvency

Section 24 of the Exempt Insurance Act of Barbados ("the Act") requires the Company to maintain levels of solvency determined in accordance with certain stipulated criteria. For the year ended June 30, 2012, these requirements have been met. At June 30, 2012 the amounts qualifying for the purposes of the solvency calculation amounted to \$32,447,841 (2011 - \$22,187,183).

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2012

(expressed in Canadian dollars)

12. Margin of solvency (continued)

At July 1, 2012 the minimum required margin of solvency, computed in accordance with the Act, is \$1,024,810 (July 1, 2011 - \$301,763).

13. Financial instruments

The financial instruments of the Company are cash and cash equivalents, investments, accounts receivable and accounts payable and accrued expenses.

Fair value

Fair value is the amount for which an asset would be exchanged or a liability settled between knowledgeable willing parties in an arms-length transaction. A market price where an active market (such as a recognised stock exchange) exists, is the best evidence of the fair value of a financial instrument.

Classification of financial instruments

The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety.

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. Quoted price for these investments are not adjusted even in situations where a large position and a sale could reasonably impact the quoted price.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

The following table summarizes information relating to the Company's financial instruments as at June 30, 2012 and June 30, 2011:

Class of Financial Instruments	Location on Statement of financial position	Accounting designation	Related income or expense account on Statement of income	Carrying amount and fair value of asset (liability) as at:		Fair value measurement hierarchy
				June 30, 2012	June 30, 2011	
Investments	Investments	AFS	Gains and losses on foreign exchange are included in foreign exchange loss (gain). Mark-to-market adjustments are recognized as other comprehensive income (loss). Other gains or losses are recognized as net investment income.	\$ 28,957,178	\$ 29,522,187	Level 1

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2012

(expressed in Canadian dollars)

13. Financial instruments (continued)

Classification of financial instruments (continued)

During the year, there were no transfers among the levels.

Accounting designations used in the above table:

AFS – Designated by the Company as “Available for sale” upon initial recognition. Financial assets and liabilities designated as “Available for sale” are carried at fair value on the Statement of financial position with gains and losses associated with fair value adjustments recognized in other comprehensive income.

Determination of fair values

The carrying values of cash and cash equivalents, receivables and payables approximate their fair values due to their short maturities. The carrying value of investments is determined by reference to published price quotations in active markets.

14. Management of insurance and financial risk

The Company is exposed to insurance and financial risk, as follows:

Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount and timing of the resulting claim payment. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The principal risk that the Company faces under its insurance contracts is that the actual claims payments exceed the carrying amount of the insurance liabilities and are settled sooner than anticipated.

This could occur because the frequency or severity of the claims is greater than estimated. Since insurance events are random, the actual number and amount of claims will vary from year to year from the estimate.

Concentrations of risk

The Company underwrites professional liability risks for a limited number of Canadian law firms. As a result there is concentration of risk by geographic location and type of risk. The Company structures its insurance and reinsurance arrangements to mitigate the risk of higher frequency and severity of claims.

Financial risk

The Company is exposed to financial risk through its financial assets and liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from the insurance contracts. The most important components of this financial risk are credit risk, market risk (foreign exchange risk and interest rate risk) and liquidity risk. The following describes these risks and how the Company manages each of the risks.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2012

(expressed in Canadian dollars)

14. Management of insurance and financial risk (continued)

Credit risk

The Company's exposure to credit risk arises from the possibility that counterparties may default on their obligations to the Company. The amount of the Company's maximum exposure to credit risk is indicated by the carrying value of its financial assets. The Company places its cash deposits and investment portfolio with international financial institutions with high credit ratings. In addition, the Company's investment guidelines are to hold investments in different industry and geographical groups, each with a minimum of AA- (Standard & Poors, or "S&P") for fixed income securities and A-1 (S&P) for short term investments.

The total assets bearing credit risk are as follows:

	2012	2011
Cash and cash equivalents (Note 4)	\$ 1,172,582	\$ 388,800
Investments – fixed income (Note 5)	28,957,178	29,522,187
Accounts receivable and prepayments (Note 6)	<u>44,808,335</u>	<u>229,586</u>
	<u>\$ 74,938,095</u>	<u>\$ 30,140,573</u>

The investment portfolio is managed following prudent standards and there are issuer, industry group and country limitations. Canada, United States and Supranational Credits are exempted from the country limitation. At the reporting date 96.65% of the securities held were Canadian issues and hence the portfolio is particularly susceptible to occurrences specific to Canada.

Foreign exchange risk

The majority of the Company's significant transactions are denominated in Canadian dollars and therefore the Company is not exposed to any significant foreign exchange risk.

Interest rate risk

The Company's exposure to interest rate risk is as disclosed in Note 4. Management believes that this risk is managed through effective matching of portfolio investments with liability attributes. The Company monitors the sensitivity of interest rate movements by analyzing investment returns on a regular basis and discussing market trends with the investment managers.

As of June 30, 2012 a 1% change in interest rates would have had the effect of decreasing the fair value of investments by \$547,614 (2011 - \$574,714).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. An insufficient secondary market for the sale of investments may prevent the liquidation or limit the funds that can be generated from the sales of these investments. This risk is mitigated by investing in high quality securities, as disclosed in Note 4 to the financial statements. The Company does not anticipate any significant liquidity concerns in funding liabilities when due.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2012

(expressed in Canadian dollars)

14. Management of insurance and financial risk (continued)

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

	June 30, 2012		
	Within one year \$	One year to five years \$	Over five years \$
Provision for loss and loss adjustment expenses	5,152,000	20,781,000	18,010,000
Accounts payable and accrued expenses	1,086,214	-	-
	6,238,214	20,781,000	18,010,000

	June 30, 2011		
	Within one year \$	Two years to five years \$	Over five years \$
Provision for loss and loss adjustment expenses	1,477,000	4,487,000	1,912,000
Claims Payable	17,924	-	-
Accounts payable and accrued expenses	54,387	-	-
	1,549,311	4,487,000	1,912,000

15. Capital management

The Company's capital comprises share capital and retained earnings. The Board's policy is to maintain a strong capital base by routinely monitoring its capital adequacy from a Barbados solvency requirement and other insurance standards for capital adequacy. In addition, the investment guidelines serve to properly minimize investment risk with a goal of maintaining the capital base.

The reasons for maintaining the strong capital base are to enable the Company to absorb losses due to under-pricing of the insurance product; to absorb an unexpected decline in the value of the Company's assets; to provide a buffer for the potential undervaluation of the Company's unpaid claim liabilities and to provide a mechanism for financing the growth of the Company.

The Company is incorporated under the Barbados Companies Act and operates under the provisions of the Exempt Insurance Act of Barbados, 1983. Under these Acts the Company is required to comply with certain minimum capital and solvency criteria. The Company was in compliance with all external regulatory requirements during the current and previous financial years.

The Company's overall strategy remains unchanged from 2011.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2012

(expressed in Canadian dollars)

16. Subsequent event

At the statement of financial position date, insurance balances included \$44,260,000 in respect of a loss portfolio transfer arrangement entered into on June 30, 2012. This amount was settled subsequent to the year end. An adverse development reinsurance agreement was also entered into subsequent to the statement of financial position date to limit the aggregate losses related to the loss portfolio transfer arrangement referenced earlier. The reinsurance agreement will settle 7.5% of total losses in excess of \$41,700,000 up to a maximum of \$100,000,000. The insurance balances outstanding at the year end in respect of this agreement total \$1,000,000.

17. First time adoption of international financial reporting standards

For periods up to and including the year ended June 30, 2011, the Company prepared its financial statements in accordance with Canadian GAAP. These financial statements for the year ended June 30, 2012 are the first the Company has prepared in accordance with IFRS.

IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, requires comparative financial information to be provided in accordance with IFRS. As a result, the first date at which the Company has applied IFRS was July 1, 2010 (the transition date to IFRS). In preparing the opening IFRS Statement of financial position at the transition date, the Company applied the same accounting policies in its opening IFRS Statement of financial position at July 1, 2010 and throughout all periods presented as if these policies had always been in effect.

The quantitative impacts of elections, exemptions, and policy choices under IFRS are summarized in this note as follows:

- a) Transition elections;
- b) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS.

a) Transition elections

IFRS Exemption Options

IFRS 1 allows first-time adopters in certain cases to depart from the full retrospective application requirements of IFRS. The Company has made the following elections in its financial statements at the transition date:

Insurance contract disclosures

The Company has elected to apply the transitional provisions of IFRS 4, and disclose only five years of data in its claims development table, as permitted by IFRS 4 in the year of adoption of IFRS. The disclosures will be increased in each succeeding year, until the full ten years of information is included.

The remaining voluntary exemptions included in IFRS 1 were not applicable to the Company.

IFRS Mandatory Exceptions

IFRS 1 also required the Company to apply the following exceptions to retrospective application of IFRS as at the transition date:

Estimates

Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any differences in accounting policies and standards.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2012

(expressed in Canadian dollars)

17. First time adoption of international financial reporting standards (continued)

a) Transition elections (continued)

Other exceptions in IFRS 1 that have not been applied as they are not relevant to the Company are as follows:

- derecognition of financial assets and financial liabilities; and
- hedge accounting.

b) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS

The Company has examined all applicable IFRSs and determined that there are no changes resulting from the implementation of IFRS.

Best's Credit Rating and Report Updates for CRC REINSURANCE LIMITED

Best's Rating of A- (Excellent) Financial Size Category of VIII (\$100 Million to \$250 Million)

Rating Category (Excellent): Assigned to companies that have, in our opinion, an excellent ability to meet their ongoing insurance obligations. A.M. Best assigns each letter rated (A++ through D) insurance company a **Financial Size Category (FSC)**, which is designed to provide a convenient indicator of the size of a company based on reported policyholders' surplus and conditional or reserve funds.

The objective of **Best's Credit Rating System** is to provide an opinion of an insurer's financial strength and ability to meet ongoing obligations to policyholders. Our opinions are derived from the evaluation of a company's balance sheet strength, operating performance and business profile as compared to Best's quantitative and qualitative standards. View our [Best's Credit Rating Methodology](#) for more information.

While Best's Credit Ratings reflect our **opinion** of a company's financial strength and ability to meet its ongoing obligations to policyholders, they are **not a warranty**, nor are they a recommendation of a specific policy form, contract, rate or claim practice. View our [entire notice](#) for complete details.

The rating symbols "A++", "A+", "A", "A-", "B++", and "B+" are registered certification marks of the A.M. Best Company, Inc.

Note: The above information reflects the most recent Best's Credit Rating for this company, which may have been released subsequent to the creation of the following AMB Credit Report - Insurance Professional.

AMB Credit Report - Insurance Professional provides detailed business overview, extensive financial data and analytical commentary, product and geographic information, company history, as well as the rationale supporting the financial strength rating assigned by A.M. Best. These reports are updated on a regular basis based on input and analysis performed throughout the year.

Report Revision Date - 07/11/2012 *

The **Report Revision Date** * represents the last significant material change made to this report. Other non-material changes may have been made to this report subsequent to this date, but are not reflected in the report revision date. The AMB Credit Report - Insurance Professional below was created based on the following dates.

Rating and Commentary ¹	Financial ²	General Information ³
Best's Credit Rating: 05/03/2012	Time Period: Annual - 2011	Corporate Structure: N/A
Rating Rationale: 05/03/2012	Last Updated: 08/08/2012	States Licensed: N/A
Report Commentary: 07/11/2012	Status: Quality Cross Checked	Officers and Directors: 09/16/2011

***Note:** The **Rating and Commentary** ¹ date outlines the most recent updates to the Company's Rating, Rationale, and Report Commentary for key rating and business changes. Report commentary may include significant changes to Business Review, Financial Performance/Earnings, Capitalization, Investment/Liquidity, or Reinsurance sections of the report. The **Financial** ² date reflects the current status of the financial tables found within the body of the Report, including whether the data was loaded as received or had been run through our quality control cross-check process. The **General Information** ³ date covers key areas that may have changed such as corporate structure, states licensed or officers and

directors.

AMB Credit Report - Insurance Professional for CRC REINSURANCE LIMITED

Operating Company Non-Life

Ultimate Parent: Fairfax Financial Holdings Limited

**Caribbean Corporate Services Limited, Worthing Corporate Centre, Worthing, Christ Church
BB 150008, Barbados**

Tel: 441-299-4981

Fax: 441-292-4720

AMB#: 086437

Ultimate Parent#: 058364

Report Revision Date: 07/11/2012

BEST'S CREDIT RATINGS

Best's Financial Strength Rating: A-

Best's Issuer Credit Rating: a-

Outlook: Stable

Outlook: Stable

Best's Financial Size Category: VIII

RATING RATIONALE

Rating Rationale: The ratings reflect CRC's adequate risk-adjusted capitalization, favorable historical long-term operating performance and the implicit and explicit support provided by Fairfax Financial Holdings, Limited (Fairfax). Partially offsetting these positive rating attributes are the continued underwriting losses posted by CRC, the company's business concentration as a reinsurer with its Canadian affiliates, and the exposure to global property shock losses through its reinsurance arrangement with Advent that operates through Lloyd's Syndicates 780 and 3330, also an affiliate. CRC is exposed to the ongoing competitive pricing environment as well as weather-related losses affecting these operating companies. The outlooks reflect A.M. Best's expectation that risk-adjusted capital levels will remain supportive of the ratings and that future operating performance will improve as the company reduces its exposure to global catastrophe risks and loss reserve balances are adequate.

CRC's underwriting performance in recent years is reflective of soft market conditions and difficult weather conditions globally. In addition, CRC's loss reserve development has been variable over the years and has cumulatively been deficient over the last ten years. The investment portfolio has remained conservative with the majority of assets invested in Canadian government bonds and cash and marketable securities.

Although A.M. Best believes CRC is well positioned at its current rating levels, factors that could lead to negative rating actions include operating performance falling short of A.M. Best's expectations, driven by either underwriting or investment results, or a decline in risk-adjusted capitalization that no longer supports the current ratings.

FIVE YEAR RATING HISTORY

<u>Date</u>	BEST'S	
	<u>FSR</u>	<u>ICR</u>
05/03/12	A-	a-
02/09/11	A	a
10/15/09	A	a
04/29/09	A	a
08/24/07	A	a

BUSINESS PROFILE

The company's premium volume has declined significantly over the past few years as Fairfax's need for the underlying affiliated quota share contracts has changed. CRC began to assume reinsurance from the Northbridge companies following the acquisition of Northbridge General and Northbridge Personal Insurance Company, previously known as Lombard General and Lombard Personal Insurance Company, respectively, of which CRC was an affiliate, in 1995 by Fairfax. The quota share provided a financial tax benefit to the group, which expired in 2010. Originally the quota share was 50% on all liability lines written by Northbridge General and over time included two other affiliates. Currently the quota-share is 10% on all lines with Northbridge General, Northbridge Personal Insurance and Zenith. CRC also provides a quota share on the catastrophe business written by Syndicate 780, which became 100% owned by Fairfax in 2011. This treaty will expire in 2012 and originally was designed to offer Syndicate 780 a means to continue writing business following devastating catastrophe losses in 2008.

Pricing is determined by Fairfax actuaries while all underwriting decisions are ultimately reviewed and signed off by Fairfax's vice-president international operations and CRC's president. All treaties are approved by the CRC Board.

The most significant catastrophe risk to CRC is a British Columbia earthquake emanating from Northbridge General. The Northbridge subsidiaries cede no U.S. exposure to CRC.

RISK MANAGEMENT

The group participates in risk management at the Fairfax group level under the direction of a Chief Risk Officer. Risks are reviewed on a quarterly basis with risk managers at the subsidiary level. This practice allows the company to share information, resources and best practices with the other operating entities. The group monitors and estimates each of its anticipated risks as a percentage of capital.

At the company level, the business risks relating to the operating, underwriting and regulatory environments are addressed through various means. Company and Fairfax level actuaries, as well as external auditor review the loss reserves.

Regulatory and Accounting Environment: CRC (Bermuda) Reinsurance Limited was incorporated under the laws of Bermuda on December 29, 1994, and was registered as an insurer under The Insurance Act 1978 (Bermuda), amendments thereto and related regulations. In 2011, the company was re-domesticated to Barbados. The company is a wholly owned subsidiary of Fairfax Financial Holdings Limited (Fairfax), a company incorporated in Canada.

OPERATING PERFORMANCE

Operating Results: The company's returns have been volatile over the past five years due to variable underwriting performance and unrealized and realized losses recorded as income. The company's underwriting results are driven by two main quota share contracts with affiliates, Syndicate 780 and Northbridge General. Syndicate 780 has suffered from large catastrophe losses on its global participations while the Northbridge business has old liability reserves which have consistently developed unfavorably, as well as a very competitive operating environment and frequent weather related losses. Investment results have been dampened by the company's larger than average investments in cash and short-term assets as well as unrealized losses on the higher than average investments in common stock investments in 2011 and derivative contracts. The company's results will benefit in the near term as its quota share with Syndicate 780 expires and the loss reserve development on Northbridge General reaches its ultimate.

Underwriting Results: CRC's underwriting performance over the past few years has been adversely effected as the Northbridge companies, which make-up the vast majority of CRC's business, face soft market conditions, higher than average weather related losses and significant strengthening of prior years' loss reserves and Syndicate 780 experiences large catastrophe losses. Expressed in Canadian dollars and reported utilizing IFRS, underwriting losses have been \$51.2million, \$19.2 million, \$35.9 million in 2011, 2010 and 2009, respectively. Included in the current year's underwriting loss is \$5 million in favorable development of prior years' loss reserves mainly relating to accident year 2010. While \$14.6 million of adverse development was incurred in 2010 calendar year. CRC's loss reserve history has been variable and has been overall deficient, on a cumulative basis, since 1999.

Investment Results: Interest and dividend income has been consistent over the past few years while net gains on investments has been variable. In 2011 realized gains on the sale of a large portion of the company's bond portfolio were offset by unrealized losses recorded on the company's common stocks and derivative investments. In 2010, these derivative investments were held at an unrealized gain.

BALANCE SHEET STRENGTH

Capitalization: Risk adjusted capital levels at the company fell during 2011, as a result of a further deterioration in underwriting and investment performance. Capitalization is expected to improve in 2012 given reduction in premium relating to the Syndicate 780 quota share and the expectation that the reduction in adverse development incurred in 2011 is a sustainable trend as the company has significantly less development on these reserves since 2009.

Net premium volumes at CRC have fluctuated over the past five years, reflecting soft market conditions and a change in the Northbridge companies' quota share from 50% (for CY 2004 and earlier) to 20% beginning in 2005, to 10% in 2011. 2012 premium is expected to be down further as the Syndicate 780 quota share expires. Premiums increased in 2009, reflecting the addition of the Syndicate 780 contract.

Other than the issues related to development of Northbridge companies' loss reserves, the company has no significant legacy issues, as there was no significant exposure to asbestos or other mass torts or workers' compensation in the underlying books of business at the Northbridge companies. CRC has about \$350 million of loss reserves on its books relating to the old liability reserves from the Northbridge companies.

The company has shifted its asset base during 2011 with 37% of assets invested in bonds, down from 58.1% in 2010. The bonds are primarily Canadian government; however, 20% of the balance are rated BBB and lower. Common stocks comprised 26% of invested assets, and include \$198 million up from \$72.9 million in publicly traded stocks, as well as approximately \$28.3 million in publicly traded affiliates (Ridley) and another \$33 million in privately held affiliates, including Advent and Northbridge. The non-affiliated equity investments are hedged by total return swaps on the S&P 500 index

Liquidity: CRC maintains an excellent liquidity position with a large percentage of its investment portfolio in cash, short-term investments and equities. CRC benefits from its position as a wholly owned subsidiary of Fairfax, which maintains substantial cash and liquid assets.

Summarized Accounts as of December 31, 2011

Data reflected within all tables of this report has been compiled from the financial statements of this company (Source: Company Financial Statement).

US \$ per Local Currency Unit .9807 = 1 Canadian Dollar (CAD)

ASSETS

	12/31/2011 CAD(000)	12/31/2011 % of total	12/31/2011 USD(000)
Cash and equivalents	79,888	11.0	78,346
Long term fixed maturity investments	233,476	32.2	228,970
Equity investments	198,354	27.4	194,526
Short term investments	94,464	13.0	92,641
Other investments	35,559	4.9	34,873
Invested assets	561,853	77.6	551,009
Receivables	41,200	5.7	40,405
Reinsurance recoverable	116	0.0	114
Deferred policy acquisition cost	13,007	1.8	12,756
Equity in unconsolidated subsidiary	28,264	3.9	27,719
Total assets	724,328	100.0	710,348

LIABILITIES & SURPLUS

	12/31/2011 CAD(000)	12/31/2011 % of total	12/31/2011 USD(000)
Property / Casualty reserves	487,242	67.3	477,838
Unearned premium reserves	54,507	7.5	53,455
Total policy reserves	541,749	74.8	531,293
Other liabilities	647	0.1	635
Total liabilities	542,396	74.9	531,928

Equity - common stock	169	0.0	166
Paid-in capital	69,817	9.6	68,470
Retained earnings	111,946	15.5	109,785
	<hr/>	<hr/>	<hr/>
Total equity	181,932	25.1	178,421
	<hr/>	<hr/>	<hr/>
Total liabilities & equity	724,328	100.0	710,348

STATEMENT OF INCOME

	12/31/2011 CAD(000)	12/31/2011 USD(000)
Reins assumed	<hr/> 109,436	<hr/> 107,324
Gross premiums written	109,436	107,324
Reins ceded	<hr/> 3,800	<hr/> 3,727
Net premiums written	105,636	103,597
Change in unearned premiums	<hr/> -39,731	<hr/> -38,964
Net premiums earned	145,367	142,561
Net investment income	17,011	16,683
Net realized gains/(losses)	35,350	34,668
Net unrealized gains/(losses)	<hr/> -50,636	<hr/> -49,659
Total revenue	147,092	144,253
Benefits & reserves	163,200	160,050
Operating expenses	<hr/> 33,943	<hr/> 33,288
Total benefits & expenses	197,143	193,338
Earnings before interest & taxes (EBIT)	<hr/> -50,051	<hr/> -49,085
Pre-tax income/(loss) from continuing operations	-50,051	-49,085
	<hr/>	<hr/>
Net income/(loss) before minority interest	-50,051	-49,085
	<hr/>	<hr/>
Net income/(loss) from continuing operations	-50,051	-49,085
	<hr/>	<hr/>
Net income/(loss)	-50,051	-49,085

STATEMENT OF CHANGES IN EQUITY

12/31/2011 CAD(000)	12/31/2011 USD(000)
------------------------	------------------------

Common shares, beginning balance	169	166
Common shares, ending balance	169	166
Paid-in capital - Beg bal	69,817	68,470
Paid-in capital - End bal	69,817	68,470
Retained earnings, beginning balance	161,997	158,870
Retained earnings, net income	-50,051	-49,085
Retained earnings, ending balance	111,946	109,785
Total shareholder equity	181,932	178,421

HISTORY

The company was incorporated under the laws of Bermuda on December 29, 1994, and was registered as an insurer under the Insurance Act 1978 (Bermuda).

MANAGEMENT

The company is a wholly owned subsidiary of Fairfax Financial Holdings Limited. Fairfax is a Canadian-based financial services holding company that is publicly traded on the Toronto Stock Exchange and is engaged in property and casualty insurance and reinsurance and investment management. Its insurance business is written through 12 subsidiaries. These insurers underwrite a wide range of property and casualty insurance and reinsurance worldwide.

OFFICERS

Chairman: Ronald Schokking

President: Jean Cloutier

Vice President: Janice Burke

Vice President: Sam Chan

Vice President: Bradley Martin

Controller: Paul Mulvin

DIRECTORS

Alister O'B.
Campbell
Jean Cloutier
William P. A.
Douglas

Colin D. Murray
Ronald Schokking

BALANCE SHEET ITEMS

	CAD (000) <u>2011</u>	CAD (000) <u>2010</u>	CAD (000) <u>2009</u>	CAD (000) <u>2008</u>	CAD (000) <u>2007</u>
Invested assets	561,853	678,179	588,331	502,190	593,926
Total assets	724,328	802,951	781,550	762,039	751,684

Total liabilities	542,396	570,968	575,358	528,640	526,528
Total equity	181,932	231,983	206,192	233,399	225,156
Total capital	181,932	231,983	206,192	233,399	225,156

INCOME STATEMENT ITEMS

	CAD (000) <u>2011</u>	CAD (000) <u>2010</u>	CAD (000) <u>2009</u>	CAD (000) <u>2008</u>	CAD (000) <u>2007</u>
Gross premiums written	109,436	192,212	232,851	168,324	213,208
Net premiums written	105,636	192,212	232,851	168,416	213,296
Net investment income	17,011	19,994	18,533	23,317	22,663
Net realized gains/(losses)	35,350	17,416	-16,460	30,288	-12,810
Net income/(loss)	-50,051	25,791	-37,319	34,563	21,345

LIQUIDITY RATIOS (%)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total investments to total reserves	118.5	127.8	122.4	132.7	136.3
Liquid assets to total liabilities	111.8	121.9	116.4	126.8	126.8
Total investments to total liabilities	118.3	127.8	122.3	132.6	134.7
Bonds to total reserves	43.1	84.8	79.7	66.2	96.6

PROFITABILITY RATIOS (%)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Loss ratio	112.3	82.7	89.2	81.3	66.2
Expense ratio	23.4	26.9	26.5	31.6	28.5
Combined ratio	135.6	109.6	115.7	112.9	94.7
Investment income ratio	11.7	10.0	8.1	13.7	10.4
Return on assets	-6.6	3.3	-4.8	4.6	3.0
Return on revenues	-34.4	12.9	-16.3	20.4	9.8
Return on equity	-24.2	11.8	-17.0	15.1	11.1

LEVERAGE & DEBT RATIOS (%)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net premiums written to equity	58.1	82.9	112.9	72.2	94.7
Cash and equivalents to total assets	24.1	17.3	17.7	34.1	15.3

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Best's Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

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financial obligation for a specific purpose or purchaser.

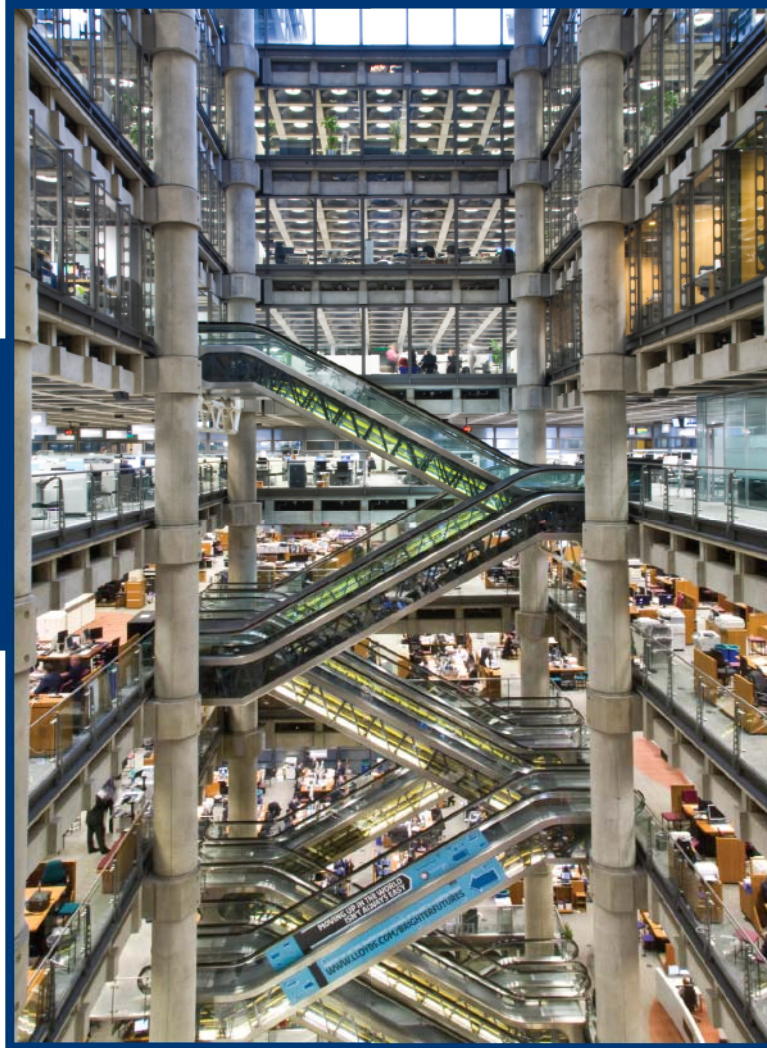
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AMB Credit Report - Insurance Professional BCR01242013



Best's Rating of
LLOYD'S
2012

www.ambest.com

Lloyd's
August 2012

One Lime Street
London EC3M 7HA
United Kingdom

Web: www.lloyds.com
AMB#: 85202
AIIN#: AA-1122000

Best's Financial Strength Rating

Based on A.M. Best's opinion of the financial strength of Lloyd's, the Lloyd's market is assigned a Best's Financial Strength Rating of A (Excellent). The market is assigned the Financial Size Category of Class XV.

Rating Rationale

A.M. Best's rating of Lloyd's reflects its strong capitalisation, resilient operating performance and excellent global business profile.

Strong capitalisation – Lloyd's capitalisation is expected to remain strong into 2013, underpinned by a stable central capital base. Central assets for solvency purposes rose over 2% in 2011 to GBP 3,095 million and are likely to remain close to this level throughout 2012. The exposure of central resources to insolvent members continues to diminish as run-off liabilities decline. In addition, Lloyd's robust, risk-based approach to setting member-level capital, as well as its close monitoring of syndicates' performance and catastrophe exposure, should reduce the risk of material drawdowns on the central fund. Moreover, A.M. Best believes that Lloyd's internal capital model, which is intended to be used to determine its solvency capital ratio under Solvency II, enhances Lloyd's understanding of the likelihood and potential magnitude of claims being made upon central assets from future member insolvencies.

Good financial flexibility – Financial flexibility is enhanced by the diversity of capital providers, which include corporate and non-corporate investors. Although a number of traditional Lloyd's businesses have established other underwriting platforms in locations such as Bermuda, the United States and Switzerland, their commitment to the market remains strong. In addition, Lloyd's continues to attract international businesses, drawn by its capital-efficient structure and global licences.

Although the Solvency II regulatory regime poses a threat to Lloyd's unique capital efficiencies, pending approval of the Lloyd's internal capital model (LIM), a smooth transition to the new regime seems likely. Preparations for Solvency II are well advanced at both the Corporation of Lloyd's and managing agents, and in spite of a very tight timetable, development of the LIM was completed on schedule in readiness for submission to the Financial Services Authority's approval process at the end of July 2012. Lloyd's continues to work toward completion of all development work this year, even though implementation of Solvency II has been deferred to 2014.

Resilient operating performance – In 2011, the Lloyd's market recorded a pretax loss of GBP 516 million, in contrast to the profit of GBP 2,195 million reported in 2010. Although this appears to be a weak performance overall, it represents a good result given the number and magnitude of the year's catastrophe events, which continued the catalogue of natural disasters started in 2010 and included further flooding and Cyclone Yasi in Australia, earthquakes in New Zealand and Japan, tornadoes in the United States and floods in Thailand. While the results were supported by a significant release from prior-year reserves, the ongoing low interest rate environment meant that the overall investment return of 1.9% was insufficient to offset the underwriting losses completely.

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Assuming a more normal year for natural catastrophes after the severely catastrophe-affected years of 2010 and 2011, Lloyd's is expected to produce a good profit in 2012, supported by prior-year reserve releases and investment income. An improvement in the combined ratio to approximately 95% from 106% in 2011 is anticipated so as to give an outcome more in keeping with Lloyd's recent history of good results.

Excellent global business profile – Lloyd's benefits from an excellent position in the global insurance and reinsurance markets. The collective size of the market and its unique capital structure enable syndicates to compete effectively with large international insurance groups under the well-recognised Lloyd's brand.

Continued strong operating performance and capitalisation could lead to positive rating actions, while an unexpectedly weak performance or significant erosion of capital would put downward pressure on the rating.

Published by A.M. Best Company

Credit Report

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SR-2012-200

Business Review

Lloyd's occupies an excellent position in the global general insurance and reinsurance markets as a specialist writer of property and casualty risks. Its competitive strength derives from its reputation for innovative and flexible underwriting, supported by the pool of underwriting expertise in London. Additionally, the subscription market, which is a key feature of Lloyd's, has proved attractive to insurance buyers as it has the advantage of spreading risk across different counterparties.

The collective size of the market allows Lloyd's syndicates, which operate as individual businesses, to compete effectively with major international groups under the well-recognised Lloyd's brand and with the support of the Central Fund. Over the past decade especially, it has withstood strong competition from Bermuda and other international markets and enhanced its business profile by the resilience of its operating performance and capitalisation in difficult economic conditions. Furthermore, although a number of traditional Lloyd's businesses have established alternative underwriting platforms, they have remained committed to the Lloyd's market.

Lloyd's is a leading player in its core marine, energy, aviation and specialty markets, and is a significant writer of catastrophe and reinsurance business. Direct business continues to form the larger proportion of Lloyd's overall underwriting portfolio, with insurance representing 62% of gross premium in 2011 and reinsurance accounting for the balance. **Exhibit 1** shows Lloyd's calendar-year premium in 2010 and 2011, split by the principal classes of business. The market's overall gross written premium (GWP) increased by 4% in 2011 to GBP 23,477 million. As in 2010, movements in average rates of exchange were not a significant part of the year-on-year increase.

Exhibit 1
Calendar Year Gross Written Premium by Main Business Class (2010-2011)
(GBP Millions)

	2010	2011	% Change
Reinsurance	8,388	8,813	5.1%
Property	4,908	4,965	1.2%
Casualty	4,397	4,245	-3.5%
Marine	1,671	1,968	17.8%
Energy	1,419	1,523	7.3%
Motor	1,103	1,187	7.6%
Aviation	642	708	10.3%
Life	63	67	6.3%
Total From Syndicate Operations	22,591	23,476	3.9%
Other*	1	1	
Total Calendar Year Premium Income	22,592	23,477	3.9%

Note: Figures include brokerage and commission.

* Transactions between syndicates and the Society and insurance operations of the Society.

Source: Lloyd's Annual Report 2011

Excluding reinsurance to close syndicates, there were 87 syndicates at both 1 January 2011 and 1 January 2012. One new syndicate entered the market during 2011, and four special-purpose syndicates, including one capitalised by China Reinsurance (Group) Corporation, were launched on 1 January 2012, while three syndicates merged into others for the 2012 year of account and two ceased.

All classes except casualty contributed to the growth in GWP in 2011. Reinsurance premiums rose 5%, supported by rate increases in areas exposed to the natural catastrophes of 2010. In 2011, although the United States enjoyed a third consecutive year without a major hurricane making landfall, tornadoes and other severe storms, including the remnant of Hurricane Irene, added to the major catastrophe losses from across the globe, particularly further earthquakes in New Zealand, the Japanese earthquake

and tsunamis, and floods in Thailand. Whilst these losses have led to a broader hardening of reinsurance premium rates than the 2010 losses, capital in the reinsurance market remains at or near its peak level, and a general increase in rates remains elusive.

Surplus capacity in the casualty market also continued to put rates under pressure during 2011. With soft market conditions and a challenging economic environment affecting the financial services sector in particular, underwriters reduced line sizes or ceased to write certain business lines altogether. As a result, casualty premiums decreased by 3% in 2011.

Whilst surplus capacity continued to be an aspect of both the marine and energy markets in 2011, premium growth was achieved in most marine classes, including political risks and trade credit, following increased demand within the oil and telecommunications sectors. The energy market also achieved premium growth, through rate rises in the offshore liability sector in particular, driven by the Deepwater Horizon disaster in 2010.

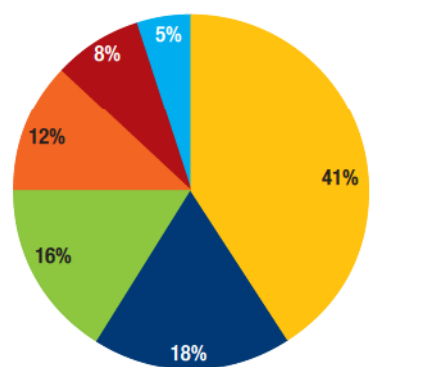
With increases above general inflation, rates in the U.K. motor market continued to improve. Claims inflation, however, remains at a high level, driven by the significant increase in the frequency and severity of bodily injury claims. Claims farming by accident lawyers and claims management companies, the use of credit hire organisations and fraud continue to boost the cost of claims.

Lloyd's is a leading player in the global aviation market, writing across all the main business classes, including airline, aerospace, general aviation and space, with airline hull and liability being the largest line. There continues to be significant over-capacity in the market, with the result that a soft rating environment persists. Rate reductions are increasingly evident, with premium volumes across the industry broadly static, in spite of increases in airline fleet values and passenger numbers.

The territorial scope of business written at Lloyd's and the market's worldwide access to business remain positive rating factors. Through its global infrastructure and network of licences, Lloyd's provides syndicates with access to a wide international client base. Although the existing geographical bias toward North America and the United Kingdom is likely to be maintained, Lloyd's is committed to expanding its global reach. In 2011, these mature markets accounted for 41% and 18% respectively of Lloyd's GWP, but with European business remaining steady at 16%, the proportion of business written in Central Asia and Asia Pacific, Central and South America and the rest of the world together increased by four percentage points to 25% of GWP (see **Exhibit 2**). Lloyd's has identified India, Turkey, Mexico and Russia as markets it needs to make more progress in penetrating in order to be seen as a truly global insurer.

In April 2008, following legislative changes, Lloyd's became the first admitted reinsurer in Brazil and opened a representative office in Rio de Janeiro a year later.

Exhibit 2
Gross Premium by Territory (2011)



Source: Lloyd's Annual Report 2011

In May 2010, Lloyd's was granted a licence to write direct business in China, alongside the reinsurance business for which it already had a licence. After more than a year's work on making the new direct licence operational, which involved converting Lloyd's Reinsurance Co. (China) Ltd. into a direct insurance company, Lloyd's Insurance Co. (China) Ltd., and building the required infrastructure, the first direct policy was written in September 2011.

Lloyd's U.S.-domiciled business consists primarily of reinsurance and surplus lines (see **Exhibit 3**). Lloyd's participation in admitted U.S. business (i.e., direct business excluding surplus lines) is relatively modest. Lloyd's has admitted licences in Illinois, Kentucky and the U.S. Virgin Islands and also writes direct, non-surplus lines business in lines exempt from surplus lines laws (principally marine, aviation and transport risks). Lloyd's single-state licences were initially secured for historical reasons and are not widely exploited by syndicates. Almost half of surplus lines business written by Lloyd's syndicates is via coverholders. This distribution channel is also important in Canada, where Lloyd's writes primarily direct business, with reinsurance accounting for a much smaller share. In order to comply with new local regulations, all Canadian business is now written in Canada.

Exhibit 3
U.S. Profile of Lloyd's (2007-2011)
 (USD Millions)

	2007	2008	2009	2010	2011	Compound Annual Growth Rate
Lloyd's Surplus Lines Premiums	6,360	6,062	6,090	5,789	5,790	-2%
Total U.S. Surplus Lines Premiums	36,637	34,365	32,952	31,716	31,140	-4%
Lloyd's Share of U.S. Surplus Lines Premiums	17%	18%	18%	18%	19%	
Lloyd's U.S. Direct Business (Excluding Surplus Lines)	1,207	1,232	1,247	1,207	1,227	0%
Lloyd's U.S. Reinsurance	4,939	5,019	5,508	5,055	5,048	1%
Lloyd's Total U.S. Situs Business	12,506	12,313	12,845	12,052	12,065	-1%

Source: Lloyd's, A.M. Best Co. and National Association of Insurance Commissioners

Europe is a region where Lloyd's has identified opportunities for syndicates to increase their share of niche business, particularly small, specialist risks. It is the market's third-largest segment at 16% of premiums, but the fact that this proportion has been constant for several years reflects the competitiveness of the European market, which is already well served by established companies. Lloyd's main focus is on France and Germany in northern Europe and Italy and Spain in southern Europe, although options for direct licences in Turkey are being explored with the Turkish regulator. In order to compete in Europe, Lloyd's syndicates need to focus on niche lines where they can add value compared with the local market.

The distribution of Lloyd's business is dominated by brokers, which play an active part in the placement of risks and in providing access to regional markets. Almost half of the premiums placed at Lloyd's come via the three largest global brokers. However, Lloyd's has recognised that as regional insurance centres continue to grow, threatening the flow of business into London, it must invest time and resources in the development of relationships with smaller, local brokers.

A related area, where Lloyd's also has a strategy to facilitate access to the market, is that of coverholders, who write business on behalf of syndicates under the terms of a bind-

ing authority. They are important in bringing regional business to Lloyd's and providing the market with access to small and medium-sized risks. In order to facilitate expansion through this distribution channel, audit procedures have been streamlined, and reporting standards for premiums and claims have been introduced.

Business Environment

General Market Conditions

Even without a major hurricane making landfall in the United States, 2011 continued the catalogue of natural disasters started in 2010, beginning with further flooding and Cyclone Yasi in Australia, more earthquakes in New Zealand, the Japanese earthquake and tsunami, tornadoes in the United States and culminating with floods in Thailand. Yet, as with the losses in 2010, the losses from these events were not sufficient to have a material impact on insurers' capital. Therefore at the beginning of 2012, general market conditions were only a little better than those prevailing at the start of 2011, with excess capacity and a generally difficult rating environment overall, albeit with a strong improvement in catastrophe-affected areas of business. At the same time, there are few signs of recovery in the global economy, and weak conditions remain in the more developed economies in particular, reducing the demand for some lines of insurance and continuing the prospect of increased recession-related claims.

In marked contrast to the early months of both 2010 and 2011, there have been no major catastrophe events so far in 2012, although there have been large losses, including the loss of the Costa Concordia cruise ship in Italy and destructive wildfires in Colorado. The wildfire losses, following on from several storm losses across the United States, are likely to maintain the hardening of U.S. property rates that was achieved in 2011 through severe weather losses and, to a lesser extent, the introduction of the RMS v11 U.S. windstorm catastrophe model. However, there are indications that the mid-year renewal business in 2012 is continuing the trend of rate increases being driven by loss activity, with flat or lower rates in non-catastrophe affected areas.

Casualty rates generally remained under pressure in 2011, although in some classes the decline in rates slowed, and in a few there was some hardening of rates. The 2002-2006 years, when pricing and terms and conditions were good, are running off well, allowing insurers to make releases from reserves. However, the level of releases is diminishing as more recent years require reserve strengthening, with the financial crisis beginning to have an impact on loss experience. With surplus capacity remaining and comparatively little support from investment income, underwriting discipline is required more than ever in 2012 if this class is to remain profitable.

Operational Change at Lloyd's

Lloyd's continues to make good progress in reforming key operational processes. A number of reform projects have been successfully completed, including the use of the Accounting & Settlement (A&S) repository and the second phase of the electronic claims file project. However, Lloyd's recognises that work must continue to ensure that it maintains and builds on its competitive position in the international insurance market. Operational reform is therefore expected to remain an important focus of the Corporation, with priority projects for 2012 being Tax & Regulatory Reporting, The Exchange and the Market Operations Review.

The Tax & Regulatory Reporting programme is a project that follows on from the successful completion of the Information and Reporting project. Its objective is to ensure

that the collection, processing and management of the minimum data needed for tax and regulatory reporting is carried out in the most efficient, flexible and transparent manner.

The Exchange is a messaging hub service that allows users to transfer risk information using ACORD standard electronic messages. The initial pilot started in May 2009, and during 2010 all managing agents were connected, as were 28 brokers, representing approximately 85% of Lloyd's premium income, and 22 companies from the International Underwriting Association (IUA). After a trial run for direct marine hull, cargo, liability and war policy endorsements, involving 22 brokers and more than 52,000 messages, it was extended to specie, property and professional indemnity endorsements from July 2011. All endorsements for all classes of business went live in March 2012, and from July 2012 all new and renewal contracts led by a Lloyd's underwriter include a clause that formally requires any endorsements to be processed via The Exchange.

The Market Operations Review is a joint Lloyd's and Lloyd's Market Association programme to design and agree an approach toward the future processing model being devised by the London Market Group. The objective is to streamline current back-office processes and technology.

Regulatory and Accounting Environment

Regulatory oversight of the Society of Lloyd's and its managing agents continues to be the responsibility of the United Kingdom's Financial Services Authority (FSA). However, the plans announced by the U.K. government in June 2010 to abolish the FSA are taking shape. The Bank of England is to have regulatory oversight of the solvency position of banks and insurers through its subsidiary, the Prudential Regulatory Authority (PRA), which is expected to be created by the end of 2012, while the consumer protection work currently carried out by the FSA will be taken over by a new agency, the Financial Conduct Authority (FCA).

The Bank of England and the FSA issued a paper in June 2011, "Our approach to insurance supervision," that set out how the PRA will approach the supervision of insurers. With regard to Lloyd's, the paper explains that the PRA will be the prudential supervisor of the Society of Lloyd's and managing agents that operate within the Lloyd's market. In supervising the Lloyd's market, the PRA will have regard to two principles: first, that the Lloyd's market should be supervised to the same standards as the non-Lloyd's insurance market, and second, that the practice of supervision and the application of rules over the various entities that make up the Lloyd's market should take place primarily at the level in the market where risk is managed. To achieve this, the PRA will supervise the Lloyd's market at two levels – the Society of Lloyd's and the managing agents. In due course, the PRA, FCA and the Society of Lloyd's will enter into new co-operation arrangements to ensure that the new regulators' interfaces with Lloyd's market discipline functions and its oversight of the market as franchisor are suitably clear. The PRA-FCA Memorandum of Understanding (through which the two authorities will coordinate their supervision of a regulated entity) will cover issues relating to the supervision of Lloyd's.

Aside from the replacement of the FSA by the PRA and FCA, the principal regulatory challenge facing Lloyd's, as with other insurers in the European Economic Area (EEA), is the implementation of Solvency II. The proposed regulatory and capital regime, which is to come into force on 1 January 2014 (provided there is no further delay), is an attempt to bring a harmonised, principles-based approach to insurance legislation

within the EEA. It will apply to the “association of underwriters known as Lloyd’s” as a collective entity. Neither Solvency II nor existing insurance directives make provision for the authorisation as insurers of Lloyd’s members or syndicates on their own behalf.

In view of its position at the centre of the association of underwriters, the Corporation of Lloyd’s has been active in seeking to ensure that all syndicates meet the Solvency II requirements. This work has consumed a significant amount of resources both at the Corporation and at individual managing agents, and there is a risk that costs will continue to rise if implementation is further delayed. Lloyd’s has accordingly striven to adhere to the previous implementation date of 1 January 2013.

To help managing agents achieve readiness for Solvency II, Lloyd’s conducted a dry run exercise for agents, which started in early 2010, and in 2011 introduced self-assessment templates, covering areas such as governance, statistical quality standards, and reporting and disclosure, to help agents check their progress toward the requirements. At the end of 2011, each agent was required to submit a Final Application Pack (FAP) as a formal application to use its internal model for the calculation of regulatory and member-level capital requirements. The FAP also confirmed the agent’s status of compliance with all relevant Solvency II requirements, as supported by documents within the FAP, including evidence templates, a validation report and numerical output from the agent’s internal model.

A key element in Lloyd’s preparations for Solvency II is its own internal model, of which the individual syndicate models form an integral part. The building phase of the Lloyd’s Internal Model (LIM) started in the first quarter of 2010, on a different software platform from the model used for calculating the Society’s Individual Capital Assessment (ICA). Even with the submission date deferred from April 2012 to July 2012, the timetable for building the LIM was very tight. The first stages of the model’s development were completed on schedule by the end of 2010, and a full return of syndicate-level solvency capital requirements (SCR), needed for calibrating the LIM so as to be able to calculate the market’s SCR, was made in October 2011. Development of the LIM was completed on schedule in April 2012, and the LIM was immediately put to use to produce management information for use in Lloyd’s Executive Risk Committee’s meeting papers.

Method of Accounting

Lloyd’s method of accounting remains complex, although financial information comparable to standard insurance companies has been presented since 2005, following the introduction of annual accounting. The annual report includes pro forma financial statements (the financial results of Lloyd’s and its members taken together) and Society of Lloyd’s financial statements, for which the Society has adopted International Financial Reporting Standards (IFRS). The traditional Lloyd’s underwriting year of account information is no longer presented.

The pro forma financial statements (PFFS) include the aggregate accounts, based on syndicate accounts compiled in accordance with U.K. generally accepted accounting principles (GAAP), members’ funds at Lloyd’s (FAL) and the statements for the Society of Lloyd’s. In order to ensure that the accounts are presented on the same basis as other insurers, certain adjustments are made to Lloyd’s capital and investment return (there is a notional investment return on FAL included in the non-technical account). The sum of the individual audited syndicate accounts is presented in the aggregate statements, the replacement for Lloyd’s traditional three-year accounts. The Society statements present the central resources of Lloyd’s (e.g., the Central Fund). While the PFFS includes Lloyd’s

central resources, the presentation is in U.K. GAAP as opposed to IFRS, which is used for the Society statements.

With certain exceptions, managing agents are required to prepare underwriting year accounts on a three-year funded basis as well as annual accounts for each syndicate in accordance with U.K. GAAP. The syndicate underwriting year accounts largely resemble Lloyd's traditional three-year accounts, which were used for Lloyd's accounts until 2005. This method of accounting is appropriate for the annual venture structure under which third-party capital providers can join and leave syndicates each year. If all the members agree or if there is no underwriting year being closed, then these accounts are not required. However, as underwriting year accounts are required for members' tax purposes, this is only likely to occur in practice on single-member corporate syndicates.

To bring the tax treatment of Lloyd's corporate members' reserves into line with the treatment for general insurers, a form of claims equalisation reserve (CER) was introduced in 2009. This tax adjustment for Lloyd's members had no impact on reserving for accounting purposes or for capital setting. However, the regulatory requirement that general insurers have to maintain CERs is to be removed as a result of the implementation of the Solvency II Directive. With effect from the date that the Solvency II capital requirements come into force, built-up CERs held by both general insurers and Lloyd's corporate members will basically be taxed over a six-year period.

Financial Performance

Assuming a more normal year for natural catastrophes after the severely catastrophe-affected years of 2010 and 2011, Lloyd's is expected to produce a good profit in 2012, supported by prior-year reserve releases and investment income. An improvement in the combined ratio to approximately 95% from 106% in 2011 is anticipated.

In contrast to the early months of both 2010 and 2011, there were no major catastrophe events in the first half of 2012, although there were large losses, including the loss of the Costa Concordia cruise ship in Italy, tornadoes and other storms across the United States and destructive wildfires in Colorado. Given the nature of the business written by Lloyd's, the final result for 2012 will depend on the frequency and severity of catastrophe losses in the remainder of the year, particularly with regard to the U.S. hurricane season.

The catastrophe events of 2011 have led to significant rate rises for property business in directly affected areas. There is also evidence that a hardening of U.S. property rates, achieved in 2011 following severe weather losses, is being maintained. However, the material improvement in pricing has not spread to other territories or business lines (although rate deterioration appears to have slowed), and a strong, broad-based hard market is unlikely to materialise unless there is a significant reduction in capacity. This would appear to be unlikely in the short term, as current economic conditions and a lack of alternative investment opportunities mean that capital continues to be attracted to the insurance industry.

In the casualty sector, surplus capacity continues to put downward pressure on pricing and profit margins, although certain underperforming classes are showing stability or even hardening in rates. Moreover, the ongoing weak economic conditions and the potential for inflation increase the likelihood that casualty claims

costs will exceed insurers' initial expectations. A significant proportion of claims activity relates to the U.S. subprime banking crisis and global economic downturn that followed, but the extent of Lloyd's exposure to such claims, principally through professional indemnity and directors' and officers' insurance, remains unclear. This uncertainty is likely to be prolonged by the current European debt crisis, which could potentially become another banking crisis with further negative repercussions for the global economy.

Prior-year reserve movements are expected to make a positive contribution to the market's earnings in 2012 and beyond, but the scope for large releases is diminishing. A.M. Best believes reserve adequacy for the years 2002 to 2006 remains good, but future redundancies are likely to be lower than in the recent past as these years reach maturity. In addition, market conditions have deteriorated since 2007, particularly for casualty business, and significant redundancies from these years are unlikely to emerge.

Investment income is likely to be modest for the market overall in 2012, reflecting the prevailing low interest rate environment. Earnings from syndicates' premium trust funds, which make the largest contribution to Lloyd's overall investment income, are likely to be lower than in 2011. However, the potential for substantial investment losses is moderated by the conservative investment strategy pursued by the majority of syndicates. Central Fund assets are invested mainly in high-quality, fixed-interest securities, but riskier assets are held that are likely to contribute a more volatile element to the investment return.

The general outlook for 2012 continues to be affected by the uncertain impact of weak economic conditions, and ongoing concerns over the ability of some countries to finance their debt have only added to that uncertainty. Overall, the Lloyd's market has little exposure to the sovereign debt of peripheral European countries. Although exposure to corporate bonds issued in these countries, or to bonds issued by European banks with material exposure to this sovereign debt, has not been monitored centrally by Lloyd's, exposure to all Euro-denominated securities amounted to less than 7% of total invested assets at year-end 2011.

Performance in 2011

The Lloyd's market recorded a pretax loss of GBP 516 million in 2011 (2010: profit of GBP 2,195 million), which, although a weak performance overall, represents a good result given the number and magnitude of the year's catastrophe events and the low interest rate environment (see **Exhibit 4**).

Lloyd's underwriting performance for the year was comparable to that of U.S. property and casualty writers and U.S. and Bermudian reinsurers but marginally weaker than that of European reinsurers. In 2007 and 2009, when catastrophe losses were relatively low, the Lloyd's market outperformed its peers (see **Exhibit 5**).

As in 2010, earnings in 2011 were reduced by above-average catastrophe losses, in spite of the absence of significant U.S. hurricane losses. Due to the nature of business written and a geographical bias toward the United States, a low level of hurricane losses usually means that the Lloyd's market produces very strong results, as demonstrated by combined ratios of 85% or below in 2007 and 2009. However, both 2010 and 2011 highlighted the market's exposure to catastrophes of a different nature, and results were materially affected in 2011 by losses from the Australian floods, earthquakes in Japan

Exhibit 4

Summary of Results (2007-2011)

From pro forma financial statements.
(GBP Millions)

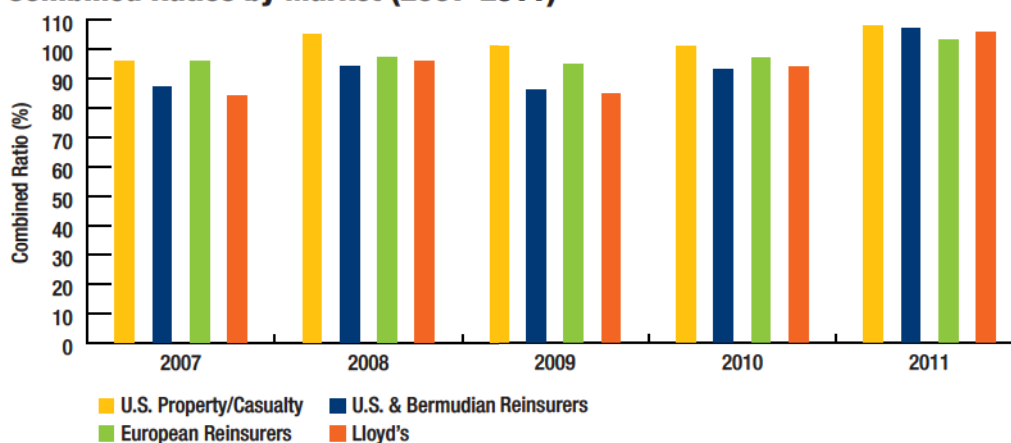
	2007	2008	2009	2010	2011
Gross Written Premium	16,366	17,985	21,973	22,592	23,477
Net Written Premium	13,256	14,217	17,218	17,656	18,472
Net Earned Premium	13,097	13,796	16,725	17,111	18,100
Net Incurred Claims	6,547	8,464	8,624	10,029	12,900
Net Operating Expenses	4,566	4,987	5,712	6,167	6,418
Underwriting Result	1,984	345	2,389	915	-1,218
Other Expenses	-145	597	-290	22	-253
Investment Return	2,007	957	1,769	1,258	955
Profit on Ordinary Activities	3,846	1,899	3,868	2,195	-516
Loss Ratio	50%	61%	52%	59%	71%
Expense Ratio	34%	35%	33%	35%	35%
A.M. Best Combined Ratio	84%	96%	85%	94%	106%
Investment Income Ratio	15%	7%	11%	7%	5%
Operating Ratio	69%	89%	74%	86%	101%

Source: Lloyd's Annual Report, A.M. Best Co.

and New Zealand, tornadoes and Hurricane Irene in the United States and flooding in Thailand. Consequently, catastrophes and other large losses added 26 percentage points to the market's 2011 combined ratio, compared with 13 percentage points in 2010. In 2009, a year regarded as having a benign catastrophe experience, large losses added only 2 percentage points to the combined ratio.

For the seventh successive year, the underwriting result in 2011 benefited from an overall release from prior-year reserves. The release of GBP 1,173 million (2010: GBP 1,016 million), which included an exchange loss of GBP 10 million (2010: gain of GBP 138 million), reduced the year's combined ratio by 6.5 percentage points. All classes developed favour-

Exhibit 5

Combined Ratios by Market (2007-2011)

Sources:

U.S. Property/Casualty: Regulatory filing records for all companies in the U.S. property/casualty market that are interactively rated by A.M. Best Co.

U.S. & Bermudian Reinsurers: 21 publicly traded companies.

European Reinsurers: The five largest reinsurance companies in the European market, based on reinsurance premiums written.

Lloyd's: Lloyd's Annual Report

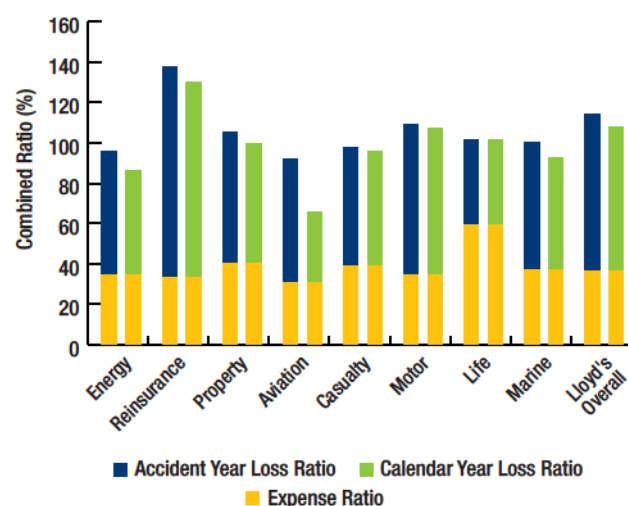
ably in 2011, although within classes there was some strengthening of reserves, most notably for non-U.S. medical malpractice, driven by the Italian book of business. Accordingly, the contribution to the release from casualty business was again significantly lower than in the previous year, reducing the sector's combined ratio by only 1.8 percentage points, compared with 4.5 percentage points in 2010. Following several years of material reserve strengthening, claims reserves for casualty business written between 1997 and 2001 have been stable since 2006. In 2010, the overall reserve release was achieved in spite of reserve strengthening of GBP 370 million for motor business.

Lloyd's operating expense ratio (expressed as a percentage of net written premiums) in 2011 was 35%, in line with 2010. The most significant part of operating expenses is acquisition costs, which increased by 5.5% to GBP 5 billion, compared with a 3.9% increase in gross written premiums. The other main element is administrative or management expenses, which remained at the same level of GBP 1.5 billion as in 2010. This stability in management expenses, after a 13% increase in 2010, may be an indication that the cost of Solvency II preparation has peaked, now that most of the work is done in readiness for the previous expected implementation date of 1 January 2013. Included in administrative or management expenses is managing agent profit commission of GBP 167 million, down from GBP 278 million in 2010, reflecting the lower accruals in respect of the weaker performing 2010 year of account.

An overall investment return of 1.9% (2010: 2.6%) was achieved, equivalent to investment income of GBP 955 million (2010: GBP 1,258 million). This modest return reflects the low interest rate environment, as most of the market's investments are placed in low-risk assets, with a high proportion in cash and highly rated, fixed-income securities.

Investment income from syndicates' premium trust funds, which form the largest part of invested assets, decreased to GBP 791 million in 2011 (2010: GBP 914 million) and equated to an investment return of 2.4%. Although some syndicates invest a proportion of their premium trust funds in higher risk assets such as equities and hedge funds, most syndicate portfolios comprise short-dated, high-quality, fixed-income securities.

Exhibit 6
Combined Ratios by Business Class (2011)



Source: Lloyd's

The return on central assets in 2011 was significantly higher than that on premium trust funds at 3.9% (2010: 5.6%). Central assets are actively managed by Lloyd's, which pursues a higher risk investment strategy than that generally taken by syndicates investing their premium trust funds, reflecting the longer investment time horizon for these assets. The notional return on members' FAL fell to 0.5% from 1.5% in 2010, reflecting the high proportion of cash and cash equivalents held within members' capital.

Exhibit 6 shows the class of business breakdown for Lloyd's performance based on the aggregate accounts. The three ratios shown for each class are the accident-year loss ratio; the calendar-year loss ratio, which is the accident-year loss ratio adjusted for prior-year reserve movements;

and the expense ratio. The expense ratio is added to each of the loss ratios to give the accident-year combined ratio and the calendar-year combined ratio. The chart shows prior-year reserve releases reduced the combined ratio for each business class except life, where there was no impact.

The motor class of business reported a loss in 2011, on both an accident and calendar-year basis, as claims inflation due to an increase in the frequency and severity of bodily injury claims in particular continued to outpace rate increases. Unlike in 2010, when prior-year reserve strengthening of GBP 370 million pushed the calendar-year combined ratio up 36.7 percentage points to over 150%, reserves stabilised during 2011, and a small release reduced the combined ratio by 1.7 percentage points.

The series of natural catastrophes in the Asia-Pacific region during 2011 produced the highest level of catastrophe claims experienced by the Lloyd's market. The number and magnitude of these losses had a major impact on the reinsurance class, driving the accident-year combined ratio to 138%. On a calendar-year basis, the combined ratio was reduced by 8 percentage points to 130% by the release of catastrophe risk loadings, given the stable development of claims from previous major events.

The property sector, like the reinsurance sector, was significantly affected by losses from the year's natural disasters, which pushed the accident-year combined ratio to 106%. Reserves continued to develop favourably, lowering the ratio by 6 percentage points to marginally over 100% on a calendar-year basis.

The energy sector was hit by a series of major claims in both the downstream and upstream energy markets, including the Horizon oil sands upgrader fire in Alberta and Maersk's Gryphon Alpha loss in the North Sea. An accident-year combined ratio of 97% was reported, but reserve releases reduced the combined ratio by 10 percentage points, maintaining the trend of positive reserve movements in recent years.

Aviation business performed better on an accident-year basis than for many years, with significantly lower airline claims. There were, however, three large satellite losses and the Reno Air Race disaster in the United States, but in spite of these the accident-year combined ratio improved by 8 percentage points to 91%. Positive reserve movements once again made a strong contribution to earnings, giving an excellent calendar-year combined ratio of 65%. Unsurprisingly, capacity in the sector has remained high and rates are weak as a result.

For marine business, a combined ratio of 102% on an accident-year basis reduced to 94% after prior-year movements. The accident-year result was affected by large claims from the Japanese earthquake and tsunami, Thai floods and the loss of the MV Rena container ship off New Zealand.

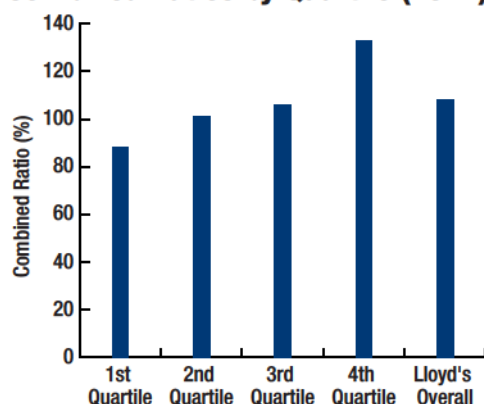
Surplus capacity was evident in most casualty lines in 2011, increasing pressure on prices and margins, with the result that overall gross written premium for the class decreased by 3%. With a significant proportion of claims activity coming from financial institutions business in relation to the U.S. subprime banking crisis and global economic downturn, an accident-year combined ratio of 98% was reported. The ratio improved to 96% for the calendar year after a positive but much reduced level of prior-year reserve movements, as releases from older years are being offset by strengthening on more recent years. In the current soft market, reserving for casualty business has attracted particular attention from Lloyd's Performance Management Directorate (PMD), which has concerns as to the ade-

quacy of reserves established in recent years, especially in respect of claims arising from the financial crisis and subsequent recession.

The overall performance of the Lloyd's market represents the aggregate performance of its separate trading businesses. It therefore includes outstanding performance from Lloyd's better businesses, offset by weaker results at the other end of the scale. To this extent, Lloyd's performance is not directly comparable to that of other insurers, because it has not been actively managed centrally in the way that the performance of an insurance company is. The PMD has a definite role in agreeing business plans and

monitoring performance through a variety of monthly, quarterly and annual reports and returns, but Lloyd's continues to be a market of competing businesses, each with its own separate decision-making processes. **Exhibit 7** shows the quartile split of the Lloyd's combined ratio based upon cumulative net earned premium. In 2011, the strongest performing quartile produced an average combined ratio of 88%, as compared with 133% produced by the weakest performing quartile. This spread in syndicates' performance reflects factors such as relative exposure to U.S. or non-U.S. risks, reinsurance protection available and differing levels of prior-year reserve releases.

Exhibit 7
Combined Ratios by Quartile (2011)



Source: Lloyd's

Open Year Performance

Under Lloyd's three-year accounting policy, the 2009 year of account closed with a good profit of GBP 3.1 billion (2008: GBP 1.6 billion), as 2009 was a comparatively benign year for catastrophes but the year of account was affected by significant losses from the Chilean earthquake and Deepwater Horizon oil rig disaster in early 2010. Lloyd's estimate for the 2010 year of account, which is based on the amalgamation of individual syndicate forecasts from managing agents, is a loss of GBP 0.6 billion, the year of account having been hit hard by catastrophe losses, including the earthquakes in Chile, Japan and New Zealand and floods in Australia, insofar as they attach to the 2010 year of account. At the 15-month stage, the forecast for the 2011 year of account, which has been materially affected by one of the most costly catastrophe years in history, was a loss of GBP 0.3 billion.

Exhibit 8 shows the development in Lloyd's loss ratios (including paid and outstanding claims net of brokerage) for recent years of account until their closure under Lloyd's three-year accounting policy.

Lloyd's Forecasts

Exhibit 9 shows the progression in Lloyd's forecasts on a three-year basis, together with the ultimate result achieved after 36 months (for all years up to 2009). With effect from the 2009 year of account, Lloyd's no longer publishes syndicate forecasts at the 12-month stage, so the 12-month position for the 2009 to 2011 years of account is not shown.

The chart shows that for most closed years, managing agents underestimated the profit finally achieved, generally as a result of favourable reserve development on ear-

Exhibit 8

Global Net Incurred Loss Ratios (2002-2011)

Quarter	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1	0.7%	0.7%	1.1%	2.1%	0.8%	1.1%	0.0%	0.8%	0.7%	1.0%
2	2.5%	2.6%	3.0%	4.3%	2.5%	3.4%	2.2%	3.0%	3.7%	4.1%
3	7.3%	6.1%	9.8%	14.0%	6.3%	8.1%	8.1%	7.4%	9.4%	10.1%
4	15.9%	12.1%	21.6%	36.9%	12.6%	15.4%	21.9%	14.9%	17.9%	20.0%
5	25.1%	19.1%	30.9%	47.2%	19.4%	24.0%	32.3%	22.7%	27.9%	29.4%
6	32.7%	24.6%	39.3%	57.3%	26.3%	32.4%	40.7%	33.0%	42.2%	
7	39.6%	30.1%	46.1%	65.7%	32.6%	39.3%	48.1%	39.4%	52.5%	
8	45.4%	34.4%	55.4%	70.6%	37.5%	47.8%	53.8%	43.9%	59.1%	
9	48.8%	36.8%	59.0%	72.5%	40.4%	51.7%	58.0%	46.5%	62.8%	
10	51.8%	38.9%	61.4%	74.8%	42.8%	54.0%	61.0%	48.6%		
11	54.0%	40.3%	62.7%	76.9%	44.3%	56.4%	63.3%	49.9%		
12	55.3%	40.2%	63.5%	78.5%	45.8%	58.3%	66.0%	50.7%		

Note: Denominator is estimated 12th quarter net premium (net of brokerage).

Net incurred loss ratios exclude IBNR provisions.

Source: Lloyd's

lier years. The estimate for the 2010 year of account has worsened and then improved over time, reflecting the difficulties encountered in producing reliable assessments of the losses from the series of catastrophe events affecting this year of account. The forecasts for 2011 are likely to follow a similar pattern, given the number and complexity of the natural catastrophes that fall into this year of account, particularly the New Zealand earthquakes and Thai floods.

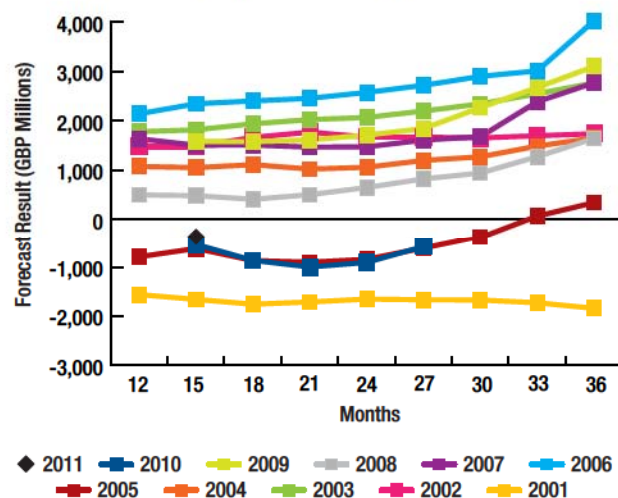
Society of Lloyd's

The Society of Lloyd's produces consolidated accounts in respect of Lloyd's activities aside from the underwriting market's activities covered by the aggregate accounts. The purpose of the Society is to facilitate the underwriting of insurance business by Lloyd's members, to protect members' interests in this context and to maintain Lloyd's Central Fund.

Although the Society is a non-profit organisation, it produced a surplus after tax in 2011 of GBP 89 million, a reduction from the surplus of GBP 323 million in 2010 but the sixth successive surplus to be reported. The decrease was primarily attributable to a reduction in income to the Central Fund of GBP 216 million, of which GBP 210 million related to lower recoveries in respect of undertakings given by the Central Fund, as 2010 benefited from a number of open years in run-off closing with a profit. The remaining GBP 6 million was a reduction in members' contributions to the Central Fund, with fewer new corporate members paying the increased rate of 2% for their first three years of operation. Other movements of note between 2010 and 2011 were a reduction in the Society's invest-

Exhibit 9

Global Forecasts (2001-2011)



Note: Forecasts are in respect of pure year performance except for certain syndicates that have included prior year forecasts in the Syndicate Quarterly Returns.

Source: Lloyd's

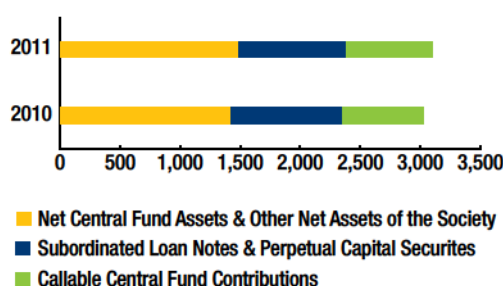
ment income from GBP 132 million to GBP 91 million, reflecting declining yields on bond portfolios and losses in some equity portfolios, and an additional contribution to the Lloyd's Pension Fund of GBP 20 million.

Capitalisation

A.M. Best believes that Lloyd's maintains an excellent level of risk-adjusted capitalisation and that there is sufficient tolerance for the market to withstand a significant stress scenario without threatening its solvency. This assessment takes into account capital resources available at member level and centrally, the fungibility constraints on member-level capital, and the likelihood and potential impact of future drawdowns on central assets by Lloyd's members.

Exhibit 10
Central Assets for Solvency
(2010-2011)

(GBP Millions)



Source: Lloyd's Annual Report 2011

The Lloyd's market is expected to maintain this excellent level of capitalisation in 2012 and into 2013. Central assets for solvency purposes rose by 2% in 2011 to GBP 3,095 million and are expected to remain stable in 2012 (see **Exhibit 10**).

Over the same 12-month period, members' funds at Lloyd's (FAL) increased to GBP 15,171 million from GBP 13,832 million and will continue to move in line with syndicates' underlying business risks.

Lloyd's has a robust risk-based process in place for setting member-level capital. For 2012, a 35% economic capital uplift was applied to each member's regulatory capital requirement. Lloyd's will take a similar approach to capital setting for 2013. However, syndicates' Solvency Capital Requirements (SCRs) will be used instead of their Individual Capital Assessments (ICAs), even though Solvency II will not yet have replaced Individual Capital Adequacy Standards (ICAS) as the insurance industry's regulatory regime in the United Kingdom. SCRs will be calibrated to correspond to a 99.5% value at risk (VaR) confidence level, and for 2013 capital-setting purposes will be provided on a one-year-to-ultimate basis.

In preparation for the introduction of Solvency II, Lloyd's has developed a stochastic internal capital model (LIM), which if approved by the FSA will be used to determine the market's SCR. The LIM has been calibrated using the SCRs of individual syndicates and captures Lloyd's unique capital structure, recognising that funds at Lloyd's are not fungible between members. In A.M. Best's opinion, the LIM has enhanced the corporation's understanding of the likelihood and potential magnitude of claims being made upon central assets following the erosion of individual members' FAL at all return periods or by existing insolvent members.

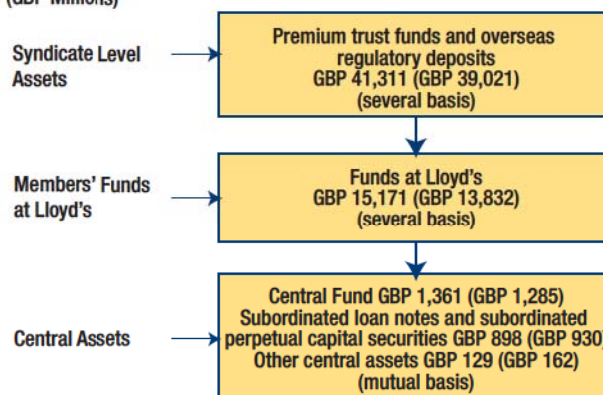
Overall Capitalisation

Any assessment of Lloyd's capital strength is complicated by the compartmentalisation of capital at member level (see **Exhibit 11**).

The first two links in the "Chain of Security" (the Premium Trust Funds and Funds at Lloyd's) are on a several rather than joint basis, meaning that any member need

only meet its share of claims. However, the third and final link in the chain, Lloyd's central assets, is available, at the discretion of the Council of Lloyd's, to meet liabilities to policyholders that any member is unable to meet in full. This third link comprises the Central Fund and the net assets of the Corporation of Lloyd's, strengthened by subordinated debt and other subordinated perpetual securities. These central assets can be supplemented by funds called from members of up to 3% of their overall premium limits. It is the existence of this partially mutualising third link, and the liquid Central Fund in particular, that is the basis for a market-level rating.

Exhibit 11 Chain of Security (GBP Millions)



Note: Figures are shown as at 31 December 2011 (31 December 2010).
Source: Lloyd's Annual Report 2011

The protection provided for Lloyd's policyholders by central assets is likely to remain excellent. In 2011, there was a small upward movement in the level of central assets available to meet members' unpaid cash calls to GBP 2,388 million (excluding the subordinated debt liability and the callable layer) from GBP 2,377 million. Member contributions of GBP 95 million assisted an increase in the Central Fund, but this was partly offset by a reduction in other central assets. The contribution of recoveries in respect of undertakings given by the Central Fund was modest in comparison with 2010, when a number of underwriting years in run-off reported a profit on closure.

In the medium term, the members' Central Fund contribution rate is expected to be unchanged at 0.5% of gross written premiums. With aggregate premiums likely to remain in excess of GBP 20,000 million, annual contributions to central assets of approximately GBP 100 million should support the stability of the Central Fund for the foreseeable future.

The potential impact of future drawdowns on the Central Fund from existing insolvent members continues to diminish as run-off liabilities decline. As at year-end 2011 the aggregate gross reserve on run-off years of account was GBP 0.9 billion, down from GBP 7.0 billion as at year-end 2005. Over the same six-year period, the number of years of account open beyond 36 months fell to seven from 102.

Six of the 10 years of account that were in run-off at year-end 2010 closed in 2011. However, three syndicates were unable to close their 2009 years of account at year-end 2011, bringing the total run-off years to seven. Of these three syndicates, two principally wrote motor business and, in common with other U.K. motor insurers, were affected by deterioration in prior-year reserves. The third syndicate was affected by significant losses from international catastrophes in 2011 and was placed into run-off in the fourth quarter of the year by its capital providers.

Members' aggregate solvency shortfalls fell to GBP 115 million during 2011 from GBP 123 million in 2010. However, the deficit remained above the 2009 level (GBP 59 million). The

increase in 2010 was principally due to specific problems experienced by a small number of members, including reserving issues for motor business. The receipt of funds from one of these members supported a drop in the solvency shortfall in 2011. As at year-end 2011, solvency deficits were covered 26.9 times by central assets (2010: 24.6 times).

A.M. Best believes increased oversight of syndicates by Lloyd's, supported by the Performance Management Directorate (PMD), has reduced the likelihood of future insolvencies. The PMD monitors performance across the market and ensures adherence to minimum standards. In addition, the Directorate challenges and approves the syndicate business plans upon which member capital requirements are based.

The Corporation of Lloyd's is responsible for setting capital both centrally and at member level. For 2013, member-level capital will continue to be set through a risk-based process. However, managing agents will be required to use syndicates' SCRs rather than ICAs to determine each managed syndicate's capital needs, even though the Solvency II regulatory framework will not yet have come into effect. This process has been agreed with the FSA.

For Solvency II purposes, SCRs will be calibrated to correspond to a 99.5% value at risk (VaR) confidence level over a one-year period. This differs from the ultimate loss position that is currently required by Lloyd's for the calculation of syndicate ICAs. However, managing agents will be required to continue to produce a one-year-to-ultimate number for syndicates at the same 99.5% VaR confidence level for the purpose of calculating member-level capital.

For 2012 capital-setting purposes, Lloyd's continued to apply a 35% economic uplift to each member's ICA. This uplift was based on Lloyd's own assessment of its capital needs, taking into account other business objectives, including maintenance of its brand, commercial position and financial strength rating.

For 2013, the economic capital uplift will be maintained at the same absolute value as that used for 2012 final mid-year capital setting, rather than an amount based on a percentage of the member's SCR. Adjustments will be made if there is a material change in the member's risk profile.

The different basis for calculating syndicates' SCRs and Solvency II technical provisions, as compared with ICAs and technical provisions for GAAP accounts, may alter Lloyd's capital requirements for individual members. However, the level of aggregate member capital

is unlikely to be affected by the change. For 2014 and beyond, Lloyd's is expected to continue to set member capital by applying a flat-rate uplift to regulatory capital, with the size of the uplift likely to be adjusted to meet the Corporation's unchanged financial targets.

Lloyd's net resources (see **Exhibit 12**) as at year-end 2011 represented 103% (2010: 108%) of net written premium income. The decline in this ratio is primarily due to lower members' balances at year-end 2011 than at 2010. Members' balances represent the net profit or loss to be distrib-

Exhibit 12
Total Net Aggregate Resources
(2010-2011)
(GBP Millions)

	2010	2011
Funds at Lloyd's	13,832	15,171
Members' Balances	2,912	1,555
Net Central Fund Assets	1,285	1,361
Subordinated Debt	514	509
Subordinated Perpetual Capital Securities	416	389
Net Assets of the Corporation	162	129
Total Net Resources	19,121	19,114

Source: Lloyd's Annual Report 2011

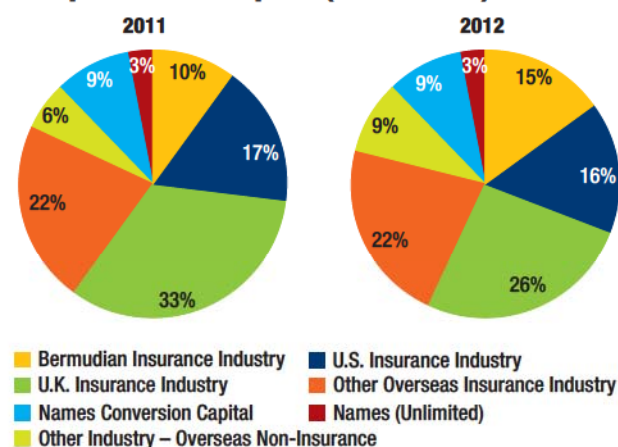
uted to or collected from members (on behalf of the syndicates they support). Balances which are in excess of the members' capital requirements are paid out during the second quarter of the year. Excluding members' balances, the ratio is 95% compared with 92% for 2010.

Financial Flexibility

The capital to support underwriting at Lloyd's is supplied by members on an annual basis, and an important factor in A.M. Best's analysis of the market is its ability to retain and attract the capital required for continued trading. The quality of the insurance industry members of Lloyd's remains a source of strength for the market. Lloyd's capital-efficient structure and global licences continue to attract international investment, particularly from other insurers, and the diversity of capital providers enhances its financial flexibility.

The composition of Lloyd's capital in 2011 and 2012 is shown in **Exhibit 13**. For 2012, the U.K. insurance industry remains the largest investor group, representing 26% of the market's overall capacity, followed by the overseas insurance industry (excluding Bermudian and U.S. companies), which represents 22%. Bermudian insurance companies and U.S. insurance companies currently have similar shares at 15% and 16% respectively. Private individuals (Names underwriting with either limited or unlimited liability) continue to make a significant contribution at 12% of capacity. A key driver for the composition of the corporately owned capacity is merger and acquisition activity, as the acquisition of a U.K. corporate member by a Bermudian group, for example, would change the designation of the capacity involved.

Exhibit 13
Composition of Capital (2011-2012)



Note: Capital providers shown as a percentage of overall capacity.
Source: Lloyd's

Most members underwrite with limited liability, and are under no obligation to provide additional funds once their FAL are exhausted. However, members that wish to continue to underwrite new business at Lloyd's will only be allowed to do so if they provide additional funds as required to support their outstanding underwriting obligations.

The market continues to attract new capital, although the number of approved new entrants has reduced as market conditions have deteriorated. Lloyd's has a rigorous process in place to assess and monitor new entrants, which in A.M. Best's opinion is likely to protect overall market performance and ultimately central capital. The process is managed by Lloyd's Relationship Management team, in conjunction with a multidisciplinary team including senior management from the PMD. All new entrant applications must be approved by the Franchise Board. Key issues that are taken into account include the applicant's preparedness for Solvency II; ability to execute its business plan in current market conditions; and having a business plan that is complementary to Lloyd's existing business.

Corporate members underwriting on new syndicates are required to contribute to

the Central Fund at a higher rate for their first three years of operations at Lloyd's (the rate for 2012 is 2%). The capital requirement for new syndicates is also higher. Initial capital requirements are set using Lloyd's internal capital model, which includes a 20% new syndicate loading.

Solvency II

A smooth transition to the Solvency II regulatory regime, including the approval of a Solvency II compliant internal capital model, is crucial if Lloyd's is to retain the capital efficiencies it currently offers its members. The calibration of the standard formula under Solvency II has yet to be finalised, but the last Quantitative Impact Study (QIS5) provided some insight into the capital burden that may result if internal capital model approval is not achieved.

Preparations for Solvency II at both the Corporation and at managing agents are well advanced. In 2011 and the first half of 2012, considerable progress was made in the development of Lloyd's internal capital model. The LIM has now been built, calibrated and validated, and model output is being used to support Lloyd's oversight and management of the market. Lloyd's application to the FSA for internal model approval was submitted at the end of July and, if approved, the LIM will be used to determine Lloyd's regulatory capital requirement under Solvency II.

The model captures Lloyd's unique capital structure and takes into account the fact that funds at Lloyd's are member specific, whereas central assets, subject to Lloyd's approval, are available to meet any member's insurance liabilities. In an approach agreed with the FSA, Lloyd's SCR will be calculated for Solvency II purposes as the total capital consumed at a 99.5% VaR confidence level over a one-year period, with separate figures calculated for consumption of FAL and consumption of central assets.

Letters of Credit

In addition to calculating capital consumed at member level and centrally, the model also tests whether the Lloyd's market will have sufficient Tier 1 capital overall to meet its regulatory capital requirement at the 1:200 return period.

Under Solvency II, it is expected that letters of credit (LOCs) in the form that they are provided as FAL will be ranked as Tier 2 capital, and that at least 50% of the SCR must be met by Tier 1 capital. Although LOCs accounted for just over 50% of FAL at year-end 2011, FAL are and will continue to be set at a level higher than required regulatory capital. Lloyd's internal analysis indicates that Tier 1 capital will be sufficient to cover at least 50% of its capital requirement at the 1:200 return period, assuming that capital tiering will be implemented at Society level, as agreed in principle by the FSA.

Under more extreme adverse loss scenarios, a shortfall in the market's overall Tier 1 capital could result. Lloyd's has a number of options to address this potential situation, including requiring that members replace LOCs with Tier 1 capital, or by converting LOCs to cash. Although the conversion of LOCs to cash would immediately increase the market's Tier 1 capital, it would leave the affected members with short-term bank debt to refinance.

The market for issuing LOCs for Lloyd's has remained active over the past two years, and LOCs remain available, albeit at higher prices than before 2008. The 10 largest issuers accounted for approximately 88% of LOCs at the end of 2011. Lloyd's has a

robust control framework in place to monitor the counterparty risk, and all issuers are rated A or above.

Catastrophe Exposure

The catastrophe modelling work carried out centrally by Lloyd's continues to enhance its ability to assess the market's exposure to large losses and hence increase confidence in overall risk-based capital strength. In particular, the Lloyd's Catastrophe Model (LCM) allows Lloyd's to better monitor and assess market-level catastrophe risk on a probabilistic basis. The model has been refined throughout 2011 and 2012 and forms an integral part of the LIM.

The LCM provides Lloyd's with a complete view of catastrophe risk across return periods and, in A.M. Best's opinion, has improved its ability to monitor the market's aggregate catastrophe exposure against a defined risk appetite. The model, which uses syndicate catastrophe model output, is also used to inform the member capital-setting process.

Lloyd's Realistic Disaster Scenarios (RDSs) continue to play a critical role in exposure management at Lloyd's, both as benchmark stress tests validating LCM output and as a source of data. The scenarios are defined in detail annually by Lloyd's and are used to evaluate aggregate market exposures as well as the exposure of each syndicate to certain major events. Syndicate-level scenarios are prepared by each managing agent, reflecting the particular characteristics of the business each syndicate writes.

Reserve Quality

Lloyd's underwriting performance is expected to be supported by reserve releases for an eighth successive year in 2012, although their contribution to earnings is likely to be lower than in recent years. The scope for further positive development on the 2002 to 2006 years is diminishing as outstanding claims reduce, while surpluses for business written in more recent accident years, when market conditions were less favourable for casualty business, are likely to be modest. Beyond 2012, reserve redundancies are expected to be smaller, reflecting recent pressure on terms and conditions. Furthermore, the potential effect of the economic downturn on claims frequency and claims inflation increases the uncertainty as to reserve adequacy for many lines of business.

Although the market's exposure to large, U.S.-based financial institutions has declined since 2000, uncertainty as to the magnitude of losses directly related to the subprime crisis and the broader financial crisis persists. The complex nature of products in banks' loan portfolios has increased the reporting tail for these losses; in addition, there are concerns regarding financial institutions' exposure to the sovereign debt issued by peripheral European countries. The development of these claims continues to be regularly monitored by the Market Reserving department in conjunction with the PMD, which ensures that a syndicate's reserving methodology is realistic.

Despite concerns relating to casualty business, material adverse development is not anticipated. A.M. Best believes that lessons have been learnt from the deterioration experienced in respect of U.S. casualty business written in soft market conditions between 1997 and 2001, and that Lloyd's has since improved its reserving procedures and methodologies. Additionally, all syndicates' reserves are subject to independent actuarial sign-off, and this process is monitored by the Lloyd's Actuary.

In 2011, Lloyd's technical results benefited from a GBP 1,173 million prior-year reserve release, which improved the calendar-year combined ratio by 6.5 percentage points, compared with GBP 1,016 million and 5.9 percentage points in 2010. The surplus was higher than in 2010 principally because of the absence of reserve strengthening for motor business, which added 2 percentage points to the 2010 combined ratio. In 2011, releases were made from all classes of business, although for most classes the impact of positive prior-year development on the combined ratio was lower.

Positive reserve development reduced property, marine, energy and reinsurance combined ratios by between 6 and 10 percentage points, with the largest releases coming from more recent accident years. For these classes, the 2009 year of account, which was characterised by a low level of catastrophe and other large losses, continued to develop favourably. The major loss events affecting the 2010 calendar year, including the earthquakes in Chile and New Zealand and the Deepwater Horizon disaster, developed within expectations overall, with a decline in the estimate for Chile more than offsetting small increases for the New Zealand earthquake in September and Deepwater Horizon.

The aviation class benefited from the most significant improvement of its combined ratio from prior-year development at 26.5 percentage points, reflecting the continuation of benign claims experience for this catastrophe-exposed class of business.

In the casualty sector, the positive contribution of reserve surpluses fell, lowering the sector's combined ratio by 1.8 percentage points, compared with 4.5 in 2010 and 8.3 in 2009. Reserves established for business written between 2002 and 2006 continued to develop favourably, although the level of releases from these older years was lower than in 2010. Strengthening was again required on some more recent years of account.

Motor reserves stabilised in 2011, following reserve strengthening in 2009 and 2010 due to claims inflation in relation to the frequency and severity of personal injury awards and increasing credit hire costs. In 2010, prior-year movements increased the sector's combined ratio by 36.7 percentage points (2009: 3.9 points), with the largest increases required for the 2009 year of account. In spite of a small release in 2011, considerable uncertainty remains regarding claims inflation, particularly in respect of bodily injury claims.

In 2011, the main reserving challenge was posed by large catastrophe events, including the earthquakes in New Zealand, the earthquake and tsunami in Japan, flooding in Australia and Thailand, and tornadoes in the United States. Reserving for these events has proved complicated, due among other factors to delays in gaining access to loss-affected areas and uncertainty regarding contingent business interruption losses. A number of syndicates have had to strengthen their initial reserves. However, as at the end of the first quarter of 2012, the market's overall losses were within the estimates published by Lloyd's in May 2011 of GBP 2,380 million for New Zealand, Australia and Japan, and in February 2012 of GBP 1,400 million for Thailand.

Syndicates in run-off have historically been the principal source of reserve deterioration for Lloyd's. However, Lloyd's exposure to the liabilities of existing insolvent members has significantly reduced, principally due to better management of run-off years. In 2010, an ongoing focus on promoting efficiency and finding a means to close syndicates (largely through third-party reinsurance to close) supported a fall in the number of syndicate years of account in run-off to 10 from 22 in the previous year. In 2011 this

reduced to seven, as six of the 10 years in run-off at year-end 2010 closed and three new years were added.

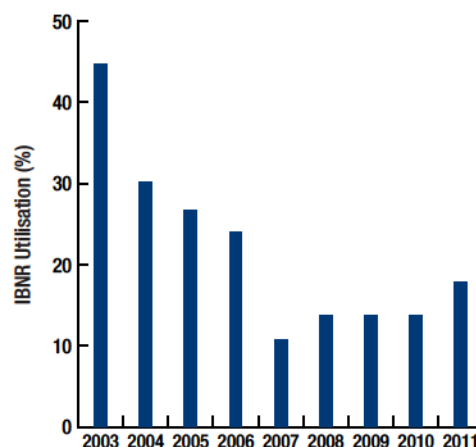
The improving trend in the technical performance of this business reversed in 2011, with run-off years generating an underwriting loss of GBP 90 million (2010: profit of GBP 108 million). The 2010 result benefited from the closure of the better performing years of a number of large run-off syndicates. In 2011, there were fewer syndicates in run-off, but their results continued to develop negatively.

Exhibit 14 shows the trend in utilisation of net incurred but not reported (IBNR) reserves as a percentage of the overall IBNR amount in the period 2003-2011. The graph shows that the favourable trend in IBNR utilisation since 2003 reversed in 2011, with IBNR utilisation increasing to just below 20%.

1992 and Prior Reserving: Equitas

Lloyd's exposure to uncertainty arising from adverse development of the 1992 and prior years' reserves was further reduced by the High Court order in June 2009 approving the statutory transfer of 1992 and prior non-life business of members and former members of Lloyd's to Equitas Insurance Ltd., a new company in the Equitas group.

Exhibit 14
Net Year-End IBNR Utilisation
(2003-2011)



Source: Lloyd's

This transfer was the final phase of a two-phase process, and with its completion policyholders benefit from a total of USD 7 billion of reinsurance cover from National Indemnity Co. (NIC), a subsidiary of Berkshire Hathaway Inc., over and above Equitas' 31 March 2006 carried reserves of USD 8.7 billion. The transfer has provided finality in respect of Lloyd's members and former members for their 1992 and prior years' non-life liabilities under English law and the law of every other state within the European Economic Area, although some uncertainty exists as to the recognition of the transfer in overseas jurisdictions.

Liquidity

In A.M. Best's opinion, Lloyd's is likely to maintain good overall liquidity in 2012. Managing agents are responsible for the investment of syndicate premium trust funds, although Lloyd's monitors liquidity levels at individual syndicates as part of its capital adequacy review. Overall, these funds exhibit a high level of liquidity, as most syndicate investment portfolios tend to consist primarily of cash and high-quality, fixed-income securities of relatively short duration. The value of premium trust funds and overseas deposits increased to GBP 41,311 million in 2011 from GBP 39,021 million in 2010.

Lloyd's also monitors projected liquidity for its central assets, which are tailored to meet the disbursement requirements of the Central Fund and the Corporation of

Lloyd's (including its debt obligations). The Central Fund, corporation assets and subordinated debt increased to GBP 2,388 million in 2011 (2010: GBP 2,377 million). Growth of the Central Fund was attributable to member contributions (0.5% of gross written premiums).

Members' FAL increased to GBP 15,171 million (2010: GBP 13,832 million). FAL are provided either by letters of credit (LOCs) (2011: 53%) or by readily realisable assets held in trust. LOCs remain widely available, and syndicates are generally able to renew LOCs where required.

Although unstable conditions in the financial markets raise questions about whether Lloyd's would be able to draw on its LOCs quickly following a large catastrophe, A.M. Best believes Lloyd's exposure to a liquidity issue from this source is low. The Corporation continues to closely monitor LOC issuers and its overall exposure to individual issuers. If an issuer were to fall below its minimum standards, members using that issuer would be required to obtain an LOC from a different issuer or provide assets instead in order to continue underwriting.

Liquidity is affected by Lloyd's requirement to hold trust funds in certain regions to support its underwriting operations. Lloyd's continues to work with its advisers and U.S. regulators to reduce the gross funding requirements in respect of insurance liabilities in the United States.

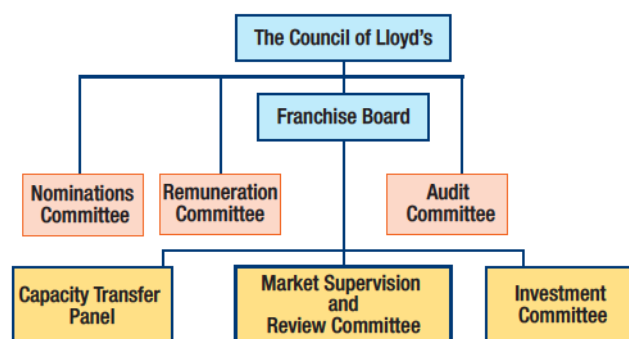
Management

A.M. Best believes that Lloyd's has a strong governance structure in place and a multi-layered approach to enterprise risk management (ERM), which enables it to monitor and control risk within the underwriting market. At the core of Lloyd's governance structure is the Franchise Board, the members of which are appointed by the Council of Lloyd's and are drawn from both within and outside the Lloyd's market. The main purpose of the Franchise Board is to oversee trading activities within the Lloyd's market from a commercial perspective, although this does not extend to active management of Lloyd's overall business mix.

In A.M. Best's opinion, the franchise concept is a constructive approach by Lloyd's to maintaining good market performance and protecting the Central Fund. Lloyd's monitors its syndicates closely and, through different functional departments within the Corporation, remains abreast of the leading trends that can have an impact on future performance. It undertakes targeted reviews to address potential market issues and continues to enhance the workings of the franchise structure.

The oversight of market participants is supported by the activities of the Performance Management Directorate (PMD), which is responsible for approving syndicates' business plans and monitoring per-

Exhibit 15
Governance Structure



Source: Lloyd's Annual Report 2011

formance, both against each syndicate's original plan and against actual results for similar types of business written by other syndicates. The directorate continues to improve its data and analysis tools, most recently through the introduction of the Performance Management Data Return.

The franchise structure gives Lloyd's a clear focus on its downside risk. Detailed performance analysis, sophisticated capital modelling, a clear strategy for claims and reinsurance recoveries, coordination of risk management across the franchise, and management of open years and syndicate run-offs are all drawn together to control risk and exposure. This approach allows the Franchise Board to respond quickly to potential issues that may affect the entire market.

The resilience of Lloyd's financial performance in years of above-average catastrophe activity, including 2011, provides some evidence of the effectiveness of the Franchise Board's activities. The effectiveness of this governance structure will continue to be tested as highly competitive market conditions persist, particularly for non-catastrophe exposed lines of business. In A.M. Best's opinion, Lloyd's is right to see maintaining market discipline as a top priority for 2012. However, it is recognised that the Franchise Board objective of managing market performance across the cycle is made more difficult by the fact that Lloyd's is a market of competing businesses, each with its own independent management structure, many of which report to large, external industry parent companies with their own commercial objectives.

During 2010 and early 2011, Lloyd's implemented its new risk management framework, which is designed to manage risks arising from the market and the Corporation itself. Reporting to the Franchise Board is the Executive Risk Committee (ERC), responsible for the identification and management of Lloyd's key risk issues, which include such issues as the insurance cycle, the economic climate and regulatory development. The ERC has three subcommittees, the Syndicate Risk Committee (SRC), the Financial Risk Committee (FRC) and the Corporation Risk Committee (CRC). While enterprise risk management at syndicate level is the responsibility of individual managing agents, the SRC uses a risk-based approach to assess to what extent the agents themselves need to be monitored by the Corporation. The FRC considers risks from any of the three Lloyd's funds (Central Fund, Premium Trust Funds, Funds at Lloyd's) or affecting the aggregate chain of security, while the CRC considers all non-financial risk within the Corporation, including the operational and reputational risk associated with overseas offices and market modernisation.

As part of the new risk management framework, Lloyd's has put in place an enhanced stress/scenario testing process. This process is designed to consider four types of scenario or event – stress testing, scenario analysis, reverse stress testing and operational risk capital setting. All types of risk can be addressed, including emerging risks, and the iterative process, which involves relevant risk committees and teams from each Lloyd's directorate, identifies the actions to be taken and reported to the ERC and Franchise Board.

Within the risk management framework is a risk appetite framework, with two series of risk appetite statements and metrics in place, one for the Corporation and one for the market. Each statement is a clear articulation of acceptable risk levels in respect of a particular risk area, and the metrics are quantitative measures which allow Lloyd's to assess adherence to the statements. In each case, the relevant risk committee and Corporation director are identified.

Lloyd's recognises that one of the greatest risks to the Central Fund is the market's exposure to catastrophes. During 2010, the Lloyd's Catastrophe Model (LCM) was introduced, allowing Lloyd's to monitor and assess market-level catastrophe risk on a probabilistic basis. In 2011, Lloyd's developed a formula to define its catastrophe risk appetite for the first time, in terms of a willingness to lose a percentage of available funds at the 1 in 250 return period for the most material peril.

In A.M. Best's opinion, Lloyd's risk management framework is likely to provide an effective mechanism to meet the challenge of Lloyd's unique structure. Lloyd's recognises that the structure of the market makes it difficult to enforce risk management throughout the different businesses involved. However, although the degree of oversight is set by a risk-based approach, the performance of all agents and syndicates is kept under review, from approval of business plans to monitoring compliance with Lloyd's minimum standards in relation to underwriting, claims and risk management.

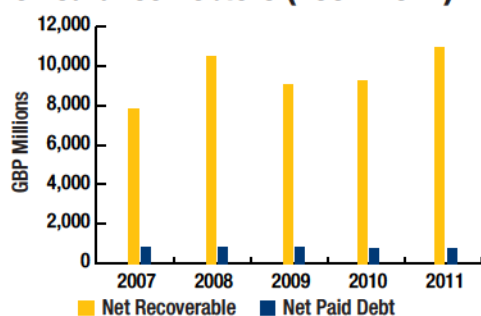
Reinsurance

Lloyd's continues to monitor its reinsurance exposure through a range of submitted returns, complemented by monitoring of Realistic Disaster Scenarios (RDS) for individual syndicates. The security required by managing agents for their syndicate reinsurance programmes is reviewed on a regular basis in order to address any issues which have the potential to impact the financial strength of the overall market. In particular, total outstanding reinsurance recoverables, counterparty concentration risk and the purchasing trends of individual syndicates are all closely monitored.

Lloyd's reinsurance ceded was stable at approximately 18% in 2011 (excluding rein-

surance placed within Lloyd's). The PMD's ongoing focus on syndicate business plans and their reinsurance dependence is expected to support continued stability in this ratio in 2012. The Lloyd's reinsurance panel remains well diversified, with the top 10 reinsurance groups accounting for 44% of total reinsurance recoverables in 2011 (2010: 47%).

Exhibit 16
Reinsurance Debtors (2007-2011)



Source: Lloyd's

Exhibit 16 shows the development in Lloyd's net recoverables and total net paid debt. The increase in the total net reinsurance recoverables to GBP 10.9 billion as at year-end 2011 from GBP 9.2 billion in 2010 reflected higher catastrophe losses during 2011.

Appendix 1

Gross Written Premium by Syndicate (2011)

(GBP Millions)

Syndicate	Managing Agent	Gross Written Premium	Syndicate	Managing Agent	Gross Written Premium
0033	Hiscox Syndicates Ltd	786	2007	Novae Syndicates Ltd	624
0044	Sagicor at Lloyd's Ltd	6	2008	Shelbourne Syndicate Services Ltd	64
0218	Equity Syndicate Management Ltd	545	2010	Cathedral Underwriting Ltd	279
0260	Canopus Managing Agents Ltd	40	2012	Arch Underwriting at Lloyd's Ltd	142
0308	R. J. Kiln & Co. Ltd	24	2015	Whittington Capital Management Ltd	25
0318	Beaufort Underwriting Agency Ltd	157	2121	Argenta Syndicate Management Ltd	222
0382	Hardy (Underwriting Agencies) Ltd	289	2232	Capita Managing Agency Ltd	56
0386	QBE Underwriting Ltd	443	2243	Starr Managing Agents Ltd	59
0435	Faraday Underwriting Ltd	288	2255	Capita Managing Agency Ltd	57
0457	Munich Re Underwriting Ltd	465	2318	Beaufort Underwriting Agency Ltd	1
0510	R. J. Kiln & Co. Ltd	950	2468	Marketform Managing Agency Ltd	179
0557	R. J. Kiln & Co. Ltd	33	2488	ACE Underwriting Agencies Ltd	371
0570	Atrium Underwriters Ltd	144	2525	Whittington Capital Management Ltd	34
0609	Atrium Underwriters Ltd	238	2526	Whittington Capital Management Ltd	49
0623	Beazley Furlonge Ltd	217	2623	Beazley Furlonge Ltd	922
0727	S.A. Meacock & Company Ltd	83	2791	Managing Agency Partners Ltd	242
0779	Jubilee Managing Agency Ltd	26	2987	Brit Syndicates Ltd	940
0780	Advent Underwriting Ltd	204	2999	QBE Underwriting Ltd	1,117
0807	R. J. Kiln & Co. Ltd	138	3000	Markel Syndicate Management Ltd	352
0958	Omega Underwriting Agents Ltd	266	3002	Catlin Underwriting Agencies Ltd	6
1084	Chaucer Syndicates Ltd	884	3010	Cathedral Underwriting Ltd	24
1110	Argenta Syndicate Management Ltd	45	3210	Mitsui Sumitomo Insurance Underwriting at Lloyd's Ltd	258
1176	Chaucer Syndicates Ltd	26	3334	Sportscover Underwriting Ltd	63
1183	Talbot Underwriting Ltd	632	3500	Riverstone Managing Agency Ltd	73
1200	Argo Managing Agency Ltd	337	3622	Beazley Furlonge Ltd	9
1206	Sagicor at Lloyd's Ltd	280	3623	Beazley Furlonge Ltd	111
1209	XL London Market Ltd	328	3624	Hiscox Syndicates Ltd	190
1221	Navigators Underwriting Agency Ltd	200	4000	Pembroke Managing Agency Ltd	183
1225	AEGIS Managing Agency Ltd	330	4020	Ark Syndicate Management Ltd	312
1274	Antares Managing Agency Ltd	175	4141	HCC Underwriting Agency Ltd	105
1301	Chaucer Syndicates Ltd	91	4242	Chaucer Syndicates Ltd	67
1318	Beaufort Underwriting Agency Ltd	23	4444	Canopus Managing Agents Ltd	614
1400	Alterra at Lloyd's Ltd	167	4472	Liberty Syndicate Management Ltd	1,080
1414	Ascot Underwriting Ltd	563	4711	Aspen Managing Agency Ltd	227
1458	Renaissance Re Syndicate Management Ltd	70	5000	Travelers Syndicate Management Ltd	331
1861	Flagstone Syndicate Management Ltd	116	5151	Montpelier Underwriting Agencies Ltd	145
1880	R. J. Kiln & Co. Ltd	231	5678	RITC Syndicate Management Ltd	2
1882	Chubb Managing Agent Ltd	78	5820	Jubilee Managing Agency Ltd	113
1897	R&Q Managing Agency Ltd	22	6103	Managing Agency Partners Ltd	19
1910	Whittington Capital Management Ltd	64	6104	Hiscox Syndicates Ltd	31
1919	Starr Managing Agents Ltd	322	6105	Ark Syndicate Management Ltd	8
1945	Whittington Capital Management Ltd	5	6106	Amlin Underwriting Ltd	40
1955	Barbican Managing Agency Ltd	199	6107	Beazley Furlonge Ltd	11
1965	Argenta Syndicate Management Ltd	55	1218	Newline Underwriting Management Ltd	121
1967	Whittington Capital Management Ltd	92	All Other Syndicates and Inter-Syndicate RITC Adjustment		-195
1969	Flagstone Syndicate Management Ltd	88			
2001	Amlin Underwriting Ltd	1,303			
2003	Catlin Underwriting Agencies Ltd	1,726			
			Total		23,477

Source: Lloyd's Annual Report 2011

Appendix 2

Managing Agents at 31 December 2011

(GBP Millions)

Managing Agent	Gross Written Premiums	Managing Agent	Gross Written Premiums
Catlin Underwriting Agencies Ltd	1,732	Omega Underwriting Agents Ltd	266
QBE Underwriting Ltd	1,560	Managing Agency Partners Ltd	261
R. J. Kiln & Co. Ltd	1,376	Mitsui Sumitomo Insurance Underwriting at Lloyd's Ltd	258
Amlin Underwriting Ltd	1,343	Aspen Managing Agency Ltd	227
Beazley Furlonge Ltd	1,270	Advent Underwriting Ltd	204
Liberty Syndicate Management Ltd	1,080	Flagstone Syndicate Management Ltd	204
Chaucer Syndicates Ltd	1,068	Navigators Underwriting Agency Ltd	200
Hiscox Syndicates Ltd	1,007	Barbican Managing Agency Ltd	199
Brit Syndicates Ltd	940	Pembroke Managing Agency Ltd	183
Canopus Managing Agents Ltd	654	Beaufort Underwriting Agency Ltd	181
Talbot Underwriting Ltd	632	Marketform Managing Agency Ltd	179
Novae Syndicates Ltd	624	Antares Managing Agency Ltd	175
Ascot Underwriting Ltd	563	Alterra at Lloyd's Ltd	167
Equity Syndicate Management Ltd	545	Montpelier Underwriting Agencies Ltd	145
Munich Re Underwriting Ltd	465	Arch Underwriting at Lloyd's Ltd	142
Atrium Underwriters Ltd	382	Jubilee Managing Agency Ltd	139
Starr Managing Agents Ltd	381	Newline Underwriting Management Ltd	121
ACE Underwriting Agencies Ltd	371	Capita Managing Agency Ltd	113
Markel Syndicate Management Ltd	352	HCC Underwriting Agency Ltd	105
Argo Managing Agency Ltd	337	S.A. Meacock & Company Ltd	83
Travelers Syndicate Management Ltd	331	Chubb Managing Agent Ltd	78
AEGIS Managing Agency Ltd	330	Riverstone Managing Agency Ltd	73
XL London Market Ltd	328	Renaissance Re Syndicate Management Ltd	70
Argenta Syndicate Management Ltd	322	Shelbourne Syndicate Services Ltd	64
Ark Syndicate Management Ltd	320	Sportscover Underwriting Ltd	63
Cathedral Underwriting Ltd	303	R&Q Managing Agency Ltd	22
Hardy (Underwriting Agencies) Ltd	289	RITC Syndicate Management Ltd	2
Faraday Underwriting Ltd	288	All other syndicates and inter-syndicate RITC adjustment	-195
Sagicor at Lloyd's Ltd	286	Total	23,477
Whittington Capital Management Ltd	269		

Source: Lloyd's Annual Report 2011

Appendix 3

Overview of Premium Limits and Membership (1993-2011)

Year of Account	Individual Gross Premium Limit (GBP Millions)	Individual % of Total	Corporate Gross Premium Limit (GBP Millions)	Corporate % of Total	Total Gross Premium Limit (GBP Millions)	Number of Active Members		
						Individual	Corporate	Total
1993	8,729	100%			8,729	19,377		19,377
1994	9,282	85%	1,595	15%	10,877	17,370	95	17,465
1995	7,808	77%	2,359	23%	10,167	14,573	140	14,713
1996	6,941	70%	3,044	30%	9,985	12,683	162	12,845
1997	5,806	56%	4,530	44%	10,336	9,872	202	10,074
1998	4,035	40%	6,128	60%	10,163	6,765	436	7,201
1999	2,682	27%	7,190	73%	9,872	4,458	667	5,125
2000	1,994	20%	8,123	80%	10,117	3,270	854	4,124
2001	1,794	16%	9,462	84%	11,256	2,823	896	3,719
2002	1,760	13%	11,473	87%	13,233	2,445	838	3,283
2003	1,837	12%	13,022	88%	14,859	2,177	768	2,945
2004	1,855	12%	13,224	88%	15,079	2,029	754	2,783
2005	1,433	10%	12,383	90%	13,816	1,604	708	2,312
2006	1,425	9%	13,580	91%	15,005	1,478	717	2,195
2007	1,083	7%	15,350	93%	16,433	1,106	1,020	2,126
2008	915	6%	15,191	94%	16,106	897	1,162	2,059
2009	822	5%	17,314	95%	18,136	765	1,241	2,006
2010	848	4%	22,174	96%	23,022	691	1,445	2,136
2011	757	3%	22,540	97%	23,297	631	1,530	2,161

1. Only active members are shown. Members who are not underwriting but remain on the electoral register are not included in the figures.

Source: Statistics Relating to Lloyd's 2012 Edition

Appendix 4

Pro Forma Financial Statements (2007-2011)

(GBP Millions)

	2011	2010	2009	2008	2007
Gross Premiums Written	23,477	22,592	21,973	17,985	16,366
Reinsurance Ceded	5,005	4,936	4,755	3,768	3,110
Net Premiums Written	18,472	17,656	17,218	14,217	13,256
Increase/(Decrease) in Gross UPR	-473	-517	-807	-558	-237
Reinsurers Share in UPR	101	-28	314	137	78
Earned Premiums	18,100	17,111	16,725	13,796	13,097
Other Technical Income					
Total Underwriting Income	18,100	17,111	16,725	13,796	13,097
Net Claims Paid	9,816	8,814	9,075	7,578	6,226
Net increase/(Decr) in Claims Provision	3,084	1,215	-451	886	321
Net Claims Incurred	12,900	10,029	8,624	8,464	6,547
Management Expenses	1,468	1,475	1,304	1,267	1,117
Acquisition Expenses	4,950	4,692	4,408	3,720	3,449
Net Operating Expenses	6,418	6,167	5,712	4,987	4,566
Other Technical Expenses	19	-228	69	-853	-115
Total Underwriting Expenses	6,437	5,939	5,781	4,134	4,451
Balance on Technical Account	-1,237	1,143	2,320	1,198	2,099
Net Investment Income	1,035	1,324	1,833	1,032	2,096
Other Expenses	-314	-272	-285	-331	-349
Profit/(Loss) Before Tax	-516	2,195	3,868	1,899	3,846
Other Recognised Gains and Losses	-46	68	-34	619	106
Total Recognised Gains and Losses	-562	2,263	3,834	2,518	3,952

Source: Lloyd's Annual Report



Founded in 1899, A.M. Best Company is the world's oldest and most authoritative insurance rating and information source. For more information, visit www.ambest.com.

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Best's Credit Rating and Report Updates for SWISS REINSURANCE COMPANY LIMITED

Best's Rating of A+ (Superior) Financial Size Category of XV (\$2 Billion or greater)

Rating Category (Superior): Assigned to companies that have, in our opinion, a superior ability to meet their ongoing insurance obligations. A.M. Best assigns each letter rated (A++ through D) insurance company a **Financial Size Category (FSC)**, which is designed to provide a convenient indicator of the size of a company based on reported policyholders' surplus and conditional or reserve funds.

The objective of **Best's Credit Rating System** is to provide an opinion of an insurer's financial strength and ability to meet ongoing obligations to policyholders. Our opinions are derived from the evaluation of a company's balance sheet strength, operating performance and business profile as compared to Best's quantitative and qualitative standards. View our [Best's Credit Rating Methodology](#) for more information.

While Best's Credit Ratings reflect our **opinion** of a company's financial strength and ability to meet its ongoing obligations to policyholders, they are **not a warranty**, nor are they a recommendation of a specific policy form, contract, rate or claim practice. View our [entire notice](#) for complete details.

The rating symbols "A++", "A+", "A", "A-", "B++", and "B+" are registered certification marks of the A.M. Best Company, Inc.

Note: The above information reflects the most recent Best's Credit Rating for this company, which may have been released subsequent to the creation of the following AMB Credit Report - Insurance Professional.

AMB Credit Report - Insurance Professional provides detailed business overview, extensive financial data and analytical commentary, product and geographic information, company history, as well as the rationale supporting the financial strength rating assigned by A.M. Best. These reports are updated on a regular basis based on input and analysis performed throughout the year.

Report Revision Date - 01/23/2013 *

The **Report Revision Date** * represents the last significant material change made to this report. Other non-material changes may have been made to this report subsequent to this date, but are not reflected in the report revision date. The AMB Credit Report - Insurance Professional below was created based on the following dates.

Rating and Commentary ¹	Financial ²	General Information ³
Best's Credit Rating: 01/23/2013	Time Period: Annual - 2011	Corporate Structure: 02/03/2012
Rating Rationale: 01/23/2013	Last Updated: 06/06/2012	States Licensed: N/A
Report Commentary: 01/23/2013	Status: Quality Cross Checked	Officers and Directors: 04/10/2012

***Note:** The **Rating and Commentary** ¹ date outlines the most recent updates to the Company's Rating, Rationale, and Report Commentary for key rating and business changes. Report commentary may include significant changes to Business Review, Financial Performance/Earnings, Capitalization, Investment/Liquidity, or Reinsurance sections of the report. The **Financial** ² date reflects the current status of the financial tables found within the body of the Report, including whether the data was loaded as received or had been run through our quality control cross-check process. The **General Information** ³ date covers key areas that may have changed such as corporate structure, states licensed or officers and

directors.

AMB Credit Report - Insurance Professional for SWISS REINSURANCE COMPANY LIMITED

Operating Company Composite

Ultimate Parent: Swiss Re Ltd

Mythenquai 50/60, 8022 Zurich, Switzerland

Web: <http://www.swissre.com/>

Tel: 41-43-285-2121

Fax: 41-43-285-2999

AMB#: 085009

AIIN#: AA-1460146

Ultimate Parent#: 058595

Publicly Traded Corporation: Swiss Reinsurance Company Ltd.

SIX: RUKN

Report Revision Date: 01/23/2013

BEST'S CREDIT RATINGS

Best's Financial Strength Rating: A+

Outlook: Stable

Best's Issuer Credit Rating: aa-

Outlook: Stable

Best's Financial Size Category: XV

RATING RATIONALE

The following text is derived from the consolidated report of Swiss Reinsurance Company Limited.

Rating Rationale: The ratings reflect Swiss Reinsurance Company Ltd.'s (Swiss Re) sustained, consistently robust risk-adjusted capitalization; strong core operating results; superior business profile as a globally diversified provider of reinsurance products and effective risk management systems. Somewhat offsetting these positive rating attributes is the continued impact of the soft market conditions on opportunities in the property/casualty global reinsurance market. The outlooks are stable.

Swiss Re continues to maintain a dominant position in its chosen markets and benefits from a global franchise with a large selection of products along with a dominant worldwide distribution system. The company has established sound client relationships with some of the largest companies in the world while offering larger lines and capacity. The company's market presence is fully supported by its superior risk-based capitalization and risk management capabilities.

Operating results through the first nine months of 2012 for the Property & Casualty reinsurance business segment reflected the low level of catastrophes with a combined ratio of 78.1%, while primary insurance segment, Corporate Solutions, performed better than breakeven with a combined ratio of 94.0%. The Life & Health reinsurance segment performed well with a benefit ratio of 75.8%. During the fourth quarter of 2012, Swiss Re reported a Hurricane Sandy net loss estimate of \$900

million. Despite this loss, the company is anticipated to report profitable results for the year ending December 31, 2012.

Over the past several years, Swiss Re has consistently maintained superior levels of risk-based capitalization benefitting from its diverse books of business and efficient capital management program. Additionally, Swiss Re maintains minimal levels of exposure to sovereign risk emanating from Europe's more troubled economies along with minimal exposure to European banks.

A.M. Best considers Swiss Re's risk management program to be very effective. The company dedicates a significant level of personnel on a worldwide basis to monitor risk in all operating segments as part of its formal risk management program. Swiss Re also makes extensive use of its proprietary capital model to analyze various stress scenarios on its entire operation as well as on individual business segments.

Positive rating actions could occur if over the next several years, Swiss Re's operating performance and risk-adjusted capitalization significantly and consistently exceed its peer group of global reinsurers.

Negative rating actions could occur if Swiss Re's operating performance and risk-adjusted capitalization consistently fall below A.M. Best's expectations for its current rating level by a significant margin for a prolonged period.

FIVE YEAR RATING HISTORY

<u>Date</u>	BEST'S	
	<u>FSR</u>	<u>ICR</u>
01/23/13	A+	aa-
12/20/11	A+	aa-
12/15/10	A	a+
12/14/09	A	a+
02/27/09	A	a+
02/05/09	A+ u	aa- u
12/19/08	A+	aa-
03/20/08	A+	aa

BUSINESS PROFILE

The following text is derived from the consolidated report of Swiss Reinsurance Company Limited.

Swiss Re is a leading and highly diversified global reinsurer. The company operates through 79 offices in more than 25 countries. The Group provides reinsurance, insurance and financial services throughout the world through three business segments. The business segments are Reinsurance, Corporate Solutions and Admin Re. Corporate Solutions as the name of Swiss Re's insurance related business while Admin Re focuses on closed books of inforce life and health insurance business either through acquisitions or reinsurance.

Swiss Re is a leader in the insurance-linked securitizations (ILS) market. In 2011, ILS activity continued to rebound as capital markets improved and concern was reduced regarding counterparty credit risk.

Europe remains Swiss Re's largest geographical area accounting for approximately 39% of premiums while Asia generated approximately 15% of net earned premiums. However, Swiss Re sees significant growth potential in this area which could compensate for a decline of premiums due to clients' growing appetite for a higher net retention and pressure on prices in the U.S. and Europe.

PROPERTY & CASUALTY:

Swiss Re's largest book of business remains Property & Casualty. At 31 December 2011, traditional property and traditional casualty comprised approximately 44% and 32% of net Property & Casualty earned premiums, respectively. Specialty business, which includes primary insurance and accident insurance, accounted for approximately 21% of net Property & Casualty earned premiums.

In January 2008, Swiss Re entered into a significant quota share arrangement by ceding a 20% share in new and renewed Property & Casualty business to Berkshire Hathaway. The agreement provides for a ceding commission that covers ongoing acquisition costs and a further fixed 14%. Overall, the agreement provides Swiss Re with both downside protection and upside flexibility, enabling the company to further advance its capital management. Depending on the future development of the cycle, Swiss Re anticipates a positive impact on both return on equity and earnings per share.

LIFE & HEALTH:

Swiss Re offers a comprehensive portfolio of products and services in the Life & Health segment globally. In Europe, where the group maintains a strong market position, Swiss Re's specific areas of growth are focused on life protection products linked to loans and mortgages, products sold through banks and other financial institutions, and leading the market towards enhancing the segmentation of insured lives. The group also offers solutions and services for closed blocks of business or run-off portfolios through its Admin Re unit. In the U.S., Swiss Re continued to reclaim market share while life reinsurance cession rates generally decreased.

In emerging markets, in particular Taiwan, China and India, Swiss Re anticipates a large potential for life business and medical insurance and expects increasing life reinsurance demand over the medium term. Swiss Re's superior expertise in developing life reinsurance solutions provides a competitive advantage in these markets. Rapid growth in new lines of business, such as longevity and variable annuity solutions, will offer further opportunities for attractive capital returns. The Admin Re segment is expected to continue to develop strongly, as primary insurers seek capital-and-cost-efficient solutions for managing closed blocks of business.

OPERATING PERFORMANCE

The following text is derived from the consolidated report of Swiss Reinsurance Company Limited.

Operating Results: Through December 31, 2011 core underwriting results have been enhanced with investment related gains as the group continues to generate an overall level of profitability. Despite the extraordinary accumulation of natural catastrophe events in 2011, Swiss Re reported net income after tax of USD 2.6 billion at 31 December 2011. Overall profitability is expected to continue as capital markets recover. This is in contrast to 2008 when the group experienced significant losses primarily due to unprecedented investment losses and further write-downs in its structured credit default swap portfolio. As a result, net loss after tax for 2008 was CHF 864 million, compared to net income of CHF 4.16 billion in 2007.

For 2011, Swiss Re's Property & Casualty underwriting was just below breakeven despite the effects of multiple worldwide catastrophes during the year including the Japanese earthquake and tsunami. These losses were almost offset by takedowns of prior year loss reserves and by strong investment income results. In 2010 Swiss Re's Property & Casualty underwriting remained profitable despite losses from the Chilean earthquake, Trans Ocean oil leak and New Zealand quake. These results were further enhanced by profitable life operations and investment income.

The group's overall operating performance since 2008 excluding asset charges has been solid. However, on a total return basis, charges related to mark-to-market losses on hedges on corporate bonds that flow through the income statement continue to affect the group's overall earnings.

Underwriting Results: Swiss Re's underwriting results have been solid over the past three years. In particular, property/casualty combined ratios measured 101.6%, 93.9% and 88.3% in years 2011, 2010, and 2009 respectively.

Swiss Re's operating results for the Property & Casualty segment were slightly below breakeven in 2011 at 101.6%. This result included the multiple worldwide catastrophes during the year including the Japan earthquake and tsunami, New Zealand quake and Thailand floods. In 2010, Swiss Re's Property & Casualty underwriting remained profitable despite losses from the Chilean earthquake, Trans Ocean oil leak and New Zealand quake resulting in a combined ratio of 93.9% for the year.

Swiss Re's 2009 underwriting results benefited from a reduction of natural catastrophe losses and overall favorable loss cost trends in most property/casualty business lines. Swiss Re's Property & Casualty underwriting remained profitable in 2008 despite higher hurricane-related and man-made losses and deterioration of its credit insurance portfolio. Life & Health benefit ratio improved slightly due to improved mortality and morbidity experience and the net positive effect of commutations of certain personal accident treaties in the Health business.

Life & Health net premiums earned were CHF 11.1 billion in 2008, compared to CHF 12.7 billion. The decrease of 12% was primarily due to lower in-force and new business volumes in Europe, lower volumes in the U.S. and foreign exchange movements. The decline in Admin Re income was driven by the run-off nature of the portfolio and the sale of the new business operations of Tomorrow (the rebranded GE Life UK) to LV+ (formerly known as Liverpool Victoria) in December 2007. Through September 2009, the underlying premium trend was flat as compared to the prior period, however reported numbers did reflect a slight decline due to foreign exchange.

For 2009, Life & Health benefit ratio, calculated as claims divided by premiums earned, both of which exclude unit-linked and with-profit business, improved to 80.5% as of September 30, 2009 from 91.5% in the prior year due to improved mortality and morbidity experience and the net positive effect of commutations of certain personal accident treaties in the Health business.

Investment Results: Net investment income for the year ended December 31, 2011 totaled \$4.7 billion representing a slight increase from the prior year period. The positive investment results in 2011 and 2010 are a direct result of the initiatives Swiss Re undertook in 2009 to de-risk its investment portfolio. Consequently, both short-term investments and cash increased as a percentage of the overall portfolio. Net realized investment losses totaled \$1.2 billion as of December 31, 2011 as compared to a gain of \$2.2 billion for the prior period.

Swiss Re continues to focus on the quality of its balance sheet. The company has emphasized a high quality and well diversified investment portfolio with over 50% in cash, short-term deposits, treasury

bills or government-backed instruments. In addition, the company reduced its exposure to corporate credit through hedging. The traded equity portfolio was also further reduced through disposals and hedging. These measures, although effective from an economic standpoint and protect Swiss Re from the risk of significant increases in default rates, reduce investment returns.

BALANCE SHEET STRENGTH

The following text is derived from the consolidated report of Swiss Reinsurance Company Limited.

Capitalization: As of December 31, 2011 Swiss Re's risk-adjusted capitalization remains strong for its rating level, although its total capitalization includes a significant component of subordinated debt. Swiss Re has focused its attention on the quality of its balance sheet. The company and its affiliates have significantly reduced exposure to equity investments, increased hedging on corporate credit investments starting in July 2008, and purchased CDS protection as a proxy hedge for its structured product investment portfolio. These strategic actions resulted in reduction in required capital for investment risk. In February of 2009, Swiss Re's capital position was bolstered by a CHF 3.0 investment from Berkshire Hathaway Inc. in the form of convertible perpetual capital investment (CPCI). On November 3, 2010 Swiss Re announced the early repurchase of the CPCI.

Between December 31, 2007 and December 31, 2008, Swiss Re's shareholders' equity dropped by 36% to CHF 20.5 billion. This was mainly due to credit spread widening resulting in net unrealized losses of CHF 5.5 billion; foreign currency movements of CHF -2.3 billion; share buy backs of CHF 2 billion; dividends of CHF 1.3 billion paid to shareholders during the year; and net loss during the year which includes CHF 4.7 billion net unrealized capital loss. As part of the CHF 4.7 billion net realized capital loss, Swiss Re incurred an additional loss of CHF 1.5 billion in mark-to-market adjustment for its exposure to two structured CDS transactions. The decrease in shareholders' equity was partially offset by the conversion of a mandatory convertible bond in December 2008 improving shareholders' equity by CHF 1.0 billion. As of September 30, 2010, the group's capitalization has rebounded to \$30 billion resulting from recovery of unrealized losses and strong operating earnings.

Swiss Re's financial flexibility remains superior and it has open access to liquidity sources, if necessary. In December 2008, Swiss Re arranged a USD 1.5 billion long term letter of credit (LOC) facility with JP Morgan Chase Bank to position itself for significant opportunities that may emerge from the current unprecedented turmoil in the capital markets and to respond to increasing demands from its clients for reinsurance solutions, both in Property & Casualty and Life & Health. Maturing in 2028, the LOC facility has a life of 20 years, with a price reset feature after the first 10 years. This facility replaces and expands the existing arrangements Swiss Re currently has in place in order to meet U.S. regulatory requirements for its life business. In 2007, the company issued a GBP 500 million subordinated perpetual loan to refinance a maturing CHF 871 million loan. Two additional subordinated perpetual loans (AUD 300 million and AUD 450 million) were also issued in 2007 as part of the company's capital management actions. A.M. Best has given hybrid equity a capital credit of up to 20% of total adjusted capital.

Loss Reserves: Swiss Re's reserving position is now more stable than in the past, although the company is still reporting some prior year adverse developments, in particular for workers compensation in the U.S. Nevertheless, Swiss Re's overall claims development on prior years was broadly neutral for the past few years. Adverse developments related to 2001 and prior underwriting years were balanced by the underwriting years 2002 to 2006, which continue to develop very favorably.

Reserves for A&E claims in the U.S. were increased during 2007, but have since remained relatively stable. Experience on workers' compensation line of business continues to develop negatively, and industry statistics are showing a longer development pattern. The company revised its reserves accordingly during the second half of 2007. In 2008, reserve strengthening was made for the workers' compensation business in the U.S. There was no reserve development in the liability and motor business unlike in 2007 when adverse development occurred in product liability business and medical malpractice claims.

Summarized Accounts as of December 31, 2011

Data reflected within all tables of this report has been compiled from the financial statements of this company (Source: Company Financial Statement).

US \$ per Local Currency Unit 1.0643 = 1 Swiss Franc (CHF)

STATEMENT OF INCOME

	12/31/2011 CHF(000)	12/31/2011 USD(000)
Combined technical account:		
Gross premiums written	13,850,000	14,740,555
Reinsurance ceded	4,696,000	4,997,953
Net premiums written	9,154,000	9,742,602
Increase/(decrease) in gross unearned premiums	1,244,000	1,323,989
Increase/(decrease) in reinsurers share unearned premiums	915,000	973,835
Net premiums earned	8,825,000	9,392,448
Other technical income	271,000	288,425
Total revenue	9,096,000	9,680,873
Net claims paid	10,402,000	11,070,849
Net increase/(decrease) in claims provision	-432,000	-459,778
Net claims incurred	9,970,000	10,611,071
Net increase/(decrease) in long term business provision	-4,538,000	-4,829,793
Management expenses	914,000	972,770
Acquisition expenses	867,000	922,748
Net operating expenses	1,781,000	1,895,518
Total underwriting expenses	7,213,000	7,676,796
Balance on combined technical account	1,883,000	2,004,077
Non-technical account:		
Net investment income	2,669,000	2,840,617
Realised capital gains/(losses)	1,320,000	1,404,876
Unrealised capital gains/(losses)	-6,053,000	-6,442,208
Other income/(expense)	-261,000	-277,782
Profit/(loss) before tax	-442,000	-470,421

Taxation	171,000	181,995
Profit/(loss) after tax	-613,000	-652,416
Increase/(decrease) in the equalisation provision	-550,000	-585,365
Retained Profit/(loss) for the financial year	-63,000	-67,051
Retained Profit/(loss) carried forward	-63,000	-67,051

MOVEMENT IN CAPITAL & SURPLUS

	12/31/2011 CHF(000)	12/31/2011 USD(000)
Capital & surplus brought forward	18,757,000	19,963,075
Profit or loss for the year	-63,000	-67,051
Dividend to shareholders	-943,000	-1,003,635
Total change in capital & surplus	-1,006,000	-1,070,686
Capital & surplus carried forward	17,751,000	18,892,389

ASSETS

	12/31/2011 CHF(000)	12/31/2011 % of total	12/31/2011 USD(000)
Cash & deposits with credit institutions	7,253,000	7.6	7,719,368
Bonds & other fixed interest securities	17,179,000	18.1	18,283,610
Shares & other variable interest instruments	1,708,000	1.8	1,817,824
Liquid assets	26,140,000	27.5	27,820,802
Mortgages & loans	714,000	0.8	759,910
Real Estate	1,095,000	1.2	1,165,409
Inter-company investments	22,552,000	23.8	24,002,094
Other investments	2,644,000	2.8	2,814,009
Total investments	53,145,000	56.0	56,562,224
Reinsurers' share of technical reserves - unearned premiums	2,144,000	2.3	2,281,859
Reinsurers' share of technical reserves - claims	6,735,000	7.1	7,168,061
Reinsurers' share of technical reserves - life	2,095,000	2.2	2,229,709
Total reinsurers share of technical reserves	10,974,000	11.6	11,679,628
Deposits with ceding companies	11,385,000	12.0	12,117,056
Insurance/reinsurance debtors	5,865,000	6.2	6,242,120
Inter-company debtors	4,636,000	4.9	4,934,095
Other debtors	2,981,000	3.1	3,172,678

Total debtors	13,482,000	14.2	14,348,893
Fixed assets	696,000	0.7	740,753
Prepayments & accrued income	765,000	0.8	814,190
Other assets	4,448,000	4.7	4,734,006
Total assets	94,895,000	100.0	100,996,749

LIABILITIES

	12/31/2011 CHF(000)	12/31/2011 % of total	12/31/2011 USD(000)
Capital	37,000	0.0	39,379
Paid-up capital	37,000	0.0	39,379
Non-distributable reserves	10,393,000	11.0	11,061,270
Other reserves	7,334,000	7.7	7,805,576
Retained earnings	50,000	0.1	53,215
Current year net income	-63,000	-0.1	-67,051
Capital & surplus	17,751,000	18.7	18,892,389
Gross provision for unearned premiums	5,146,000	5.4	5,476,888
Gross provision for outstanding claims	33,773,000	35.6	35,944,604
Gross provision for long term business - life	9,987,000	10.5	10,629,164
Total gross technical reserves	48,906,000	51.5	52,050,656
Long term borrowings	7,030,000	7.4	7,482,029
External borrowings	7,030,000	7.4	7,482,029
Deposits received from reinsurers	4,029,000	4.2	4,288,065
Insurance/reinsurance creditors	2,686,000	2.8	2,858,710
Total creditors	2,686,000	2.8	2,858,710
Accruals & deferred income	185,000	0.2	196,896
Other liabilities	14,308,000	15.1	15,228,004
Total liabilities & surplus	94,895,000	100.0	100,996,749

HISTORY

As a leading and highly diversified global reinsurer, Swiss Re offers financial services products that enable risk-taking essential to enterprise and progress.

Swiss Re was founded in Zurich, Switzerland in 1863. The group operates through offices in more than 20 countries and provides its expertise and services to clients throughout the world. Swiss Re's traditional reinsurance products and related services for property and casualty, as well as the life and

health business are complemented by insurance-based corporate finance solutions and supplementary services for comprehensive risk management.

Swiss Re has a long-standing commitment to corporate responsibility. Swiss Re believes that these areas of the company's business are particularly important to fulfill this commitment: corporate governance regime, efforts to implement sustainability considerations in its business and the company's activities as a good corporate citizen. These three areas form the pillars of Swiss Re's corporate responsibility framework.

MANAGEMENT

Swiss Re's Board of Directors has delegated the conduct of business operations to the Executive Committee and the Executive Board. The Executive Committee comprises the CEO and the Heads of Global Functions. It is responsible for managing and coordinating the group's operations. The Executive Board comprises the members of the Executive Committee and further senior executives. It supports the Executive Committee as a sounding forum and reviews the group's strategy and business policies as well as the group plan.

Members of the Executive Committee and the Executive Board are appointed by the Board of Directors upon recommendation of the CEO and after consultation with the Compensation Committee.

Michel Liés, CEO has overall responsibility over the Executive Committee. Mr. Liés joined the Life department of Swiss Re in Zurich in 1978. In 1994 he transferred to the non-life sector and was appointed Head of Southern Europe / Latin America in 1997. Mr. Liés became a member of the Executive Board in 1998 and was appointed CEO on 1 February 2012.

OFFICERS

CEO: Michel M. Lies
COO: Thomas Wellauer
CFO: George Quinn

Chief Investment Officer: David J. Blumer
Chief Underwriting Officer: Matthias Weber
Chief Risk Officer: David Cole

DIRECTORS

Jakob Baer
 Rajna Gibson Brandon
 Raymund Breu
 Mathis Cabiallavetta (Vice Chairman)
 Raymond K. F. Ch'ien
 John R. Coomber

C. Robert Henrikson
 Walter B. Kielholz (Chairman)
 Malcolm D. Knight
 Hans Ulrich Maerki
 Carlos E. Represas
 Jean-Pierre Roth

BALANCE SHEET ITEMS

	CHF (000) 2011	CHF (000) 2010	CHF (000) 2009	CHF (000) 2008	CHF (000) 2007
Liquid assets	26,140,000	31,655,000	30,769,000	25,411,000	35,859,000
Total investments	53,145,000	57,334,000	55,493,000	51,146,000	56,511,000

Total assets	94,895,000	103,652,000	105,253,000	107,538,000	111,530,000
Total gross technical reserves	48,906,000	51,510,000	53,050,000	63,938,000	71,407,000
Net technical reserves	37,932,000	43,045,000	45,905,000	59,667,000	64,971,000
Total liabilities	77,144,000	84,345,000	85,983,000	89,909,000	91,999,000
Capital & surplus	17,751,000	19,307,000	19,270,000	17,629,000	19,531,000

INCOME STATEMENT ITEMS

	CHF (000) <u>2011</u>	CHF (000) <u>2010</u>	CHF (000) <u>2009</u>	CHF (000) <u>2008</u>	CHF (000) <u>2007</u>
Gross premiums written	13,850,000	15,541,000	13,776,000	23,899,000	23,788,000
Net premiums written	9,154,000	12,055,000	10,162,000	20,067,000	19,682,000
Balance on technical account(s)	1,883,000	447,000	1,483,000	676,000	1,062,000
Profit/(loss) before tax	-442,000	569,000	1,327,000	275,000	2,245,000
Profit/(loss) after tax	-613,000	380,000	1,070,000	15,000	1,997,000

LIQUIDITY RATIOS (%)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total debtors to total assets	14.2	12.4	21.1	26.4	22.2
Liquid assets to net technical reserves	68.9	73.5	67.0	42.6	55.2
Liquid assets to total liabilities	33.9	37.5	35.8	28.3	39.0
Total investments to total liabilities	68.9	68.0	64.5	56.9	61.4

LEVERAGE RATIOS (%)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net premiums written to capital & surplus	51.6	62.4	52.7	113.8	100.8
Net technical reserves to capital & surplus	213.7	223.0	238.2	338.5	332.7
Gross premiums written to capital & surplus	78.0	80.5	71.5	135.6	121.8
Gross technical reserves to capital & surplus	275.5	266.8	275.3	362.7	365.6
Total debtors to capital & surplus	76.0	66.7	115.5	161.0	126.6
Total liabilities to capital & surplus	434.6	436.9	446.2	510.0	471.0

PROFITABILITY RATIOS (%)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Return on net premiums written	-6.7	3.2	10.5	0.1	10.1
Return on total assets	-0.6	0.4	1.0	0.0	1.9
Return on capital & surplus	-3.3	2.0	5.8	0.1	10.5

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Best's Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Debt/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price

volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the accuracy or reliability of the information. Any and all ratings, opinions and information contained herein are provided "as is," without any express or implied warranty.

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AMB Credit Report - Insurance Professional BCR01242013

Best's Credit Rating and Report Updates for TRANSATLANTIC REINSURANCE COMPANY

Best's Rating of A (Excellent) Financial Size Category of XV (\$2 Billion or greater)

Rating Category (Excellent): Assigned to companies that have, in our opinion, an excellent ability to meet their ongoing insurance obligations. A.M. Best assigns each letter rated (A++ through D) insurance company a **Financial Size Category (FSC)**, which is designed to provide a convenient indicator of the size of a company based on reported policyholders' surplus and conditional or reserve funds.

The objective of **Best's Credit Rating System** is to provide an opinion of an insurer's financial strength and ability to meet ongoing obligations to policyholders. Our opinions are derived from the evaluation of a company's balance sheet strength, operating performance and business profile as compared to Best's quantitative and qualitative standards. View our [Best's Credit Rating Methodology](#) for more information.

While Best's Credit Ratings reflect our **opinion** of a company's financial strength and ability to meet its ongoing obligations to policyholders, they are **not a warranty**, nor are they a recommendation of a specific policy form, contract, rate or claim practice. View our [entire notice](#) for complete details.

The rating symbols "A++", "A+", "A", "A-", "B++", and "B+" are registered certification marks of the A.M. Best Company, Inc.

Note: The above information reflects the most recent Best's Credit Rating for this company, which may have been released subsequent to the creation of the following AMB Credit Report - Insurance Professional.

AMB Credit Report - Insurance Professional provides detailed business overview, extensive financial data and analytical commentary, product and geographic information, company history, as well as the rationale supporting the financial strength rating assigned by A.M. Best. These reports are updated on a regular basis based on input and analysis performed throughout the year.

Report Revision Date - 05/24/2012 *

The **Report Revision Date** * represents the last significant material change made to this report. Other non-material changes may have been made to this report subsequent to this date, but are not reflected in the report revision date. The AMB Credit Report - Insurance Professional below was created based on the following dates.

Rating and Commentary ¹	Financial ²	General Information ³
Best's Credit Rating: 02/27/2012	Time Period: 3rd Quarter - 2012	Corporate Structure: N/A
Rating Rationale: 02/27/2012	Last Updated: 12/05/2012	States Licensed: 04/13/2010
Report Commentary: 02/27/2012	Status: Quality Cross Checked	Officers and Directors: 05/24/2012

***Note:** The **Rating and Commentary** ¹ date outlines the most recent updates to the Company's Rating, Rationale, and Report Commentary for key rating and business changes. Report commentary may include significant changes to Business Review, Financial Performance/Earnings, Capitalization, Investment/Liquidity, or Reinsurance sections of the report. The **Financial** ² date reflects the current status of the financial tables found within the body of the Report, including whether the data was loaded as received or had been run through our quality control cross-check process. The **General Information** ³ date covers key areas that may have changed such as corporate structure, states licensed or officers and

directors.

AMB Credit Report - Insurance Professional for TRANSATLANTIC REINSURANCE COMPANY

Ultimate Parent: Alleghany Corporation

80 Pine Street, 9th Floor, New York, New York, United States 10005

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Tel: 212-365-2200

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AMB#: 003126

NAIC#: 19453

Ultimate Parent#: 058309

FEIN#: 13-5616275

Report Revision Date: 05/24/2012

BEST'S CREDIT RATINGS

Best's Financial Strength Rating: A

Outlook: Stable

Best's Issuer Credit Rating: a

Outlook: Positive

Best's Financial Size Category: XV

RATING RATIONALE

Rating Rationale: The ratings reflect Transatlantic's excellent business profile as a leading international reinsurance organization, with a book of business that is diversified by product line and geography. Transatlantic predominately writes casualty-oriented business and has a history of generally stable and consistent operating results, which have generated very strong operating cash flows. Partially offsetting these positive attributes are A.M. Best's concerns regarding the current soft pricing conditions in the casualty market from which Transatlantic derives a substantial portion of its premiums as well as the reserve adequacy of pre-2001 casualty-oriented business.

The rating affirmations reflect Transatlantic's strong capitalization and excellent business profile. Although 2011 operating results were affected by the multiple worldwide catastrophes resulting in a combined ratio of 113.9% for the year, Transatlantic's five-year average operating performance is still in line with its peer group. As a casualty writer, Transatlantic has a history of consistent operating results complemented by strong investment income.

Transatlantic maintains a formalized risk management framework that recognizes risk categories and allocates ownership of each category. Furthermore, the company maintains an economic capital model that is used to analyze various risk scenarios and as a guide for developing business mix.

The positive outlook on Transatlantic's ICR reflects A.M. Best's acknowledgement of the company's improved risk-based capitalization and expectation that current risk-based capitalization levels will be sustained.

Partially offsetting these positive attributes are A.M. Best's concerns regarding the current soft pricing conditions in the casualty market as well as the reserve adequacy of pre-2001 casualty-oriented business. A.M. Best's concern regarding pre-2001 reserve adequacy is mitigated by the

declining percentage of these reserves relative to the company's total reserves.

Rating factors that could lead to a positive rating action include long-term profitability resulting in consistently strong risk-adjusted capital levels. Factors that could lead to a negative rating action include outsized catastrophe or investment losses relative to its peer group, operating performance consistently below the market for several years or if capital erosion due to operating performance exceeds A.M. Best's expectations.

FIVE-YEAR RATING HISTORY

<u>Date</u>	BEST'S	
	<u>FSR</u>	<u>ICR</u>
02/27/12	A	a
12/21/10	A	a
11/10/09	A	a
05/11/09	A	a
11/10/08	A	a
09/15/08	A u	a u
05/28/08	A+	aa-
02/14/08	A+ u	aa- u
06/13/07	A+	aa-

RATING UNIT MEMBERS

Transatlantic Reinsurance Company

(AMB# 003126):

<u>AMB#</u>	<u>COMPANY</u>	BEST'S	
		<u>FSR</u>	<u>ICR</u>
003727	Fair American Ins & Rein Co	A	a
086500	Trans Re Zurich Re	A	a

KEY FINANCIAL INDICATORS

<u>Period</u> <u>Ending</u>	Statutory Data (\$000)		
	Direct	Net	Pre-tax
	<u>Premiums</u> <u>Written</u>	<u>Premiums</u> <u>Written</u>	<u>Operating</u> <u>Income</u>
2007	...	3,430,677	532,325
2008	...	3,488,869	448,777
2009	...	3,410,014	657,531
2010	...	3,247,119	435,247
2011	...	3,291,536	-80,473
09/2011	...	2,557,623	-98,220
09/2012	...	2,258,260	416,108

<u>Period</u>	Statutory Data (\$000)		
	Net	Total	Policy-
		<u>Admitted</u>	<u>holders'</u>

<u>Ending</u>	<u>Income</u>	<u>Assets</u>	<u>Surplus</u>
2007	391,666	12,633,236	3,368,801
2008	103,448	11,451,445	3,534,148
2009	415,534	12,420,640	4,016,064
2010	355,848	13,123,865	4,325,438
2011	-15,319	13,307,829	3,843,832
09/2011	51,608	13,564,439	3,962,367
09/2012	345,465	13,906,474	4,145,144

Period	Profitability			Leverage			Liquidity	
	Comb.	Inv.	Pre-tax	NA Inv	NPW	Net	Overall	Oper.
<u>Ending</u>	<u>Ratio</u>	<u>Yield</u>	<u>ROR</u>	<u>Lev</u>	<u>to PHS</u>	<u>Lev</u>	<u>Liq</u>	<u>Cash-</u>
2007	95.3	4.5	15.8	71.9	1.0	3.7	137.4	142.0
2008	99.5	4.4	12.7	18.9	1.0	3.2	145.7	121.4
2009	92.8	3.9	19.1	17.0	0.8	2.9	148.6	140.3
2010	98.5	3.6	13.5	17.1	0.8	2.8	150.1	129.4
2011	115.1	3.5	-2.5	19.2	0.9	3.3	141.3	120.4
5-Yr Avg	100.1	3.9	11.9	...	...	...	...	...
09/2011	115.3	XX	-4.0	XX	0.8	3.2	142.1	124.4
09/2012	98.8	XX	18.2	XX	0.7	3.1	143.2	121.1

(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Reinsurance Composite.

BUSINESS PROFILE

Transatlantic offers capacity for treaty and facultative business, both directly and through reinsurance intermediaries. The company ranks as one of the leading global professional reinsurers based on net premiums written. The group's business emphasis focuses on the reinsurance of more complex risks, requiring a high degree of underwriting, actuarial and claims expertise. Business risks include general liability which includes specialty risks, auto liability, medical malpractice, homeowners, fire, allied lines, inland marine, ocean marine, aviation, accident and health, surety and credit. A substantial portion of the business that TRC writes requires a high level of expertise to properly evaluate these complex risks.

Business is derived from both domestic and foreign sources. Transatlantic's home office is in New York City and the company is licensed or can serve as a reinsurer in all 50 states and the District of Columbia in the United States and in Puerto Rico and Guam. In addition, the company has numerous licenses and is registered or authorized to operate in various international jurisdictions throughout the world.

Transatlantic writes approximately half of total net premiums outside of the United States with business substantially written on a treaty basis. Treaty business is split between pro-rata and excess of loss placements and more heavily weighted towards pro-rata. For the group as a whole, the split between casualty and property is approximately 70% and 30%, respectively.

Transatlantic's customer base is comprised of large national accounts, smaller regional insurers and highly focused specialized underwriters. International business has approximated half of the group's net premiums written in recent years. Over time, international growth has been spurred by the expansion of its global facilities in new and existing markets.

Transatlantic continues to benefit from the development of several new products as well as a strong international segment. Transatlantic is also recognized as a leading catastrophe excess-of-loss writer.

2011 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product	Premiums Written		% of	Pure	Loss
<u>Line</u>	<u>Direct</u>	<u>Net</u>	<u>Total</u>	<u>Loss</u>	<u>& LAE</u>
			<u>NPW</u>	<u>Ratio</u>	<u>Reserves</u>
Reins-Property	...	508,017	15.4	112.2	651,244
Reins-Casualty	...	501,383	15.2	66.0	2,525,859
Oth Liab CM	...	420,391	12.8	63.5	1,315,074
Fire	...	292,729	8.9	111.6	445,592
Priv Pass Auto Liab	...	224,278	6.8	78.9	177,976
Oth Liab Occur	...	192,735	5.9	116.2	923,083
Ocean Marine	...	164,567	5.0	64.7	189,506
Allied Lines	...	140,328	4.3	62.5	92,695
Med Prof Liab CM	...	131,344	4.0	77.9	583,378
Other A & H	...	117,345	3.6	81.4	36,101
Boiler & Mach	...	90,215	2.7	77.1	222,730
Credit	...	89,494	2.7	36.5	83,631
Surety	...	74,718	2.3	32.9	79,541
Aircraft	...	67,410	2.0	71.5	103,772
All Other	...	276,580	8.4	73.7	719,883
Totals	...	3,291,536	100.0	81.3	8,150,064

RISK MANAGEMENT

Transatlantic maintains a formal enterprise risk management framework to identify, assess, quantify and mitigate risks. This framework is integrated into day to day operations as well as part of the risk appetite planning process. As part of this process, the underwriting risk profile is determined and delegated to underwriters according to class of business, risk limits, program limits and premium limits. The monitoring of underwriting and claims performance takes various forms including regular qualitative reviews of underwriting files and internal audit reviews.

Aggregate exposures are analyzed through the company's economic capital model which is also used to assess specific scenarios for potential loss events that focus on cross class aggregations and correlations. The model is also used to analyze natural catastrophe scenarios.

Transatlantic is continually engaged in reviewing and enhancing its enterprise risk management framework and economic capital model to assess inherent risks, risk appetite and optimal risk adjusted profile.

OPERATING PERFORMANCE

Operating Results: Transatlantic has generated positive operating results over the recent 5-year period, reflecting solid underwriting capability and net investment income growth. Earnings have been relatively stable and overall positive earnings have allowed organic surplus growth. Given its predominant casualty focus, conservative exposure management and diversified specialty risk book of business, earnings are generally subject to less volatility. Best believes that Transatlantic is in a position to generate strong and consistent operating earnings due to its globally diversified book of business and specialty casualty focus.

PROFITABILITY ANALYSIS

Period <u>Ending</u>	Company				Industry Composite			
	Pre-tax ROR (%)	Return on PHS(%)	Comb. Ratio	Oper. Ratio	Pre-tax ROR (%)	Return on PHS(%)	Comb. Ratio	Oper. Ratio
2007	15.8	12.2	95.3	83.0	31.7	11.3	91.5	58.9
2008	12.7	5.4	99.5	87.2	24.1	-13.8	100.9	72.0
2009	19.1	11.1	92.8	80.8	39.8	20.6	92.7	59.1
2010	13.5	11.0	98.5	85.7	39.3	14.8	94.5	60.3
2011	-2.5	-1.3	115.1	102.4	30.3	5.3	108.8	70.0
5-Yr Avg	11.9	7.5	100.1	87.7	33.1	7.9	97.8	64.1
09/2011	-4.0	XX	115.3	102.4	XX	XX	XX	XX
09/2012	18.2	XX	98.8	84.4	XX	XX	XX	XX

UNDERWRITING EXPERIENCE

Year	Net Undrw Income (\$000)	Loss Ratios			Expense Ratios			Div. Pol.	Comb. Ratio
		Pure Loss	LAE	Loss & LAE	Net Comm	Other Exp.	Total Exp.		
2007	140,603	63.3	3.7	67.0	25.2	3.1	28.3	...	95.3
2008	27,174	67.7	3.3	71.1	25.1	3.4	28.4	...	99.5
2009	256,321	60.1	4.2	64.4	24.2	4.2	28.4	...	92.8
2010	44,053	63.2	4.7	67.9	25.6	5.0	30.6	...	98.5
2011	-505,180	81.3	4.4	85.7	24.8	4.6	29.4	...	115.1
5-Yr Avg	...	67.0	4.1	71.1	25.0	4.0	29.0	...	100.1
09/2011	-408,196	82.1	4.3	86.4	XX	XX	28.9	...	115.3
09/2012	35,731	60.9	4.3	65.2	XX	XX	33.6	...	98.8

INVESTMENT INCOME ANALYSIS (\$000)

<u>Year</u>	Company		
	Net Inv Income	Realized Capital Gains	Unrealized Capital Gains
2007	414,393	23,758	-745
2008	432,202	-191,823	83,000
2009	409,988	-94,790	2,692

2010	412,871	36,637	101,675
2011	414,266	50,862	-38,476
09/2011	314,066	47,956	-81,497
09/2012	329,569	32,811	22,926

	Company			Industry Composite	
	Inv Inc	Inv	Total	Inv Inc	Inv
	Growth	Yield	Return	Growth	Yield
<u>Year</u>	<u>(%)</u>	<u>(%)</u>	<u>(%)</u>	<u>(%)</u>	<u>(%)</u>
2007	11.6	4.5	4.7	-24.5	4.4
2008	4.3	4.4	3.2	-14.1	3.9
2009	-5.1	3.9	3.0	20.9	4.7
2010	0.7	3.6	4.8	-1.0	4.0
2011	0.3	3.5	3.6	20.5	4.4
5-Yr Avg	2.1	3.9	3.9	-1.7	4.3
09/2011	XX	XX	2.3	XX	XX
09/2012	XX	XX	3.1	XX	XX

INVESTMENT PORTFOLIO ANALYSIS

Asset	2011 Inv	% of Invested Assets		Annual
<u>Class</u>	<u>Assets</u>	<u>2011</u>	<u>2010</u>	<u>% Chg</u>
	<u>(\$000)</u>			
Long-Term Bonds	10,463,611	85.3	86.4	-0.3
Stocks	603,896	4.9	4.4	13.8
Affiliated Investments	556,131	4.5	4.5	1.3
Other Inv Assets	636,878	5.2	4.7	11.9
Total	12,260,516	100.0	100.0	0.9

2011 BOND PORTFOLIO ANALYSIS

Asset	% of	Mkt Val	Avg.	Class	Class	Mortgage	Mortgage
<u>Class</u>	<u>Total</u>	<u>to Stmt</u>	<u>Maturity</u>	<u>1 - 2</u>	<u>3 - 6</u>	<u>Secur.</u>	<u>Secur.</u>
	<u>Bonds</u>	<u>Val(%)</u>	<u>(Yrs)</u>	<u>(%)</u>	<u>(%)</u>	<u>(%)</u>	<u>(% of PHS)</u>
Governments	7.0	4.6	4.0	100.0	...	...	...
States, Terr. & Poss.	18.0	6.1	6.3	100.0	...	...	...
Special Revenue	37.6	5.5	7.6	100.0	...	19.6	20.2
Corporates	37.3	1.6	3.8	99.8	0.2	7.5	7.7
Total All Bonds	100.0	4.1	5.7	99.9	0.1	10.2	28.0

BALANCE SHEET STRENGTH

Capitalization: Transatlantic maintains solid risk-adjusted capitalization based on Best's Capital Adequacy Ratio (BCAR). The BCAR score remains fully supportive of the overall diversification of its book of business and increasing capital base. Transatlantic has historically operated from a leaner

base of capital.

CAPITAL GENERATION ANALYSIS (\$000)

<u>Year</u>	<u>Source of Surplus Growth</u>		
	<u>Pre-tax Operating Income</u>	<u>Total Inv. Gains</u>	<u>Net Contrib. Capital</u>
2007	532,325	23,013	-74,247
2008	448,777	-108,824	-78,408
2009	657,531	-92,098	-131,416
2010	435,247	138,312	-268,180
2011	-80,473	12,386	-374,561
5-Yr Total	1,993,407	-27,211	-926,811
09/2011	-98,220	-33,541	-277,323
09/2012	416,108	55,736	-144,316

<u>Year</u>	<u>Source of Surplus Growth</u>		
	<u>Other, Net of Tax</u>	<u>Change in PHS</u>	<u>PHS Growth (%)</u>
2007	-171,773	309,318	10.1
2008	-96,198	165,347	4.9
2009	47,898	481,916	13.6
2010	3,995	309,374	7.7
2011	-38,959	-481,606	-11.1
5-Yr Total	-255,036	784,349	...
09/2011	46,012	-363,071	-8.4
09/2012	-26,217	301,312	7.8

QUALITY OF SURPLUS (\$000)

<u>Year</u>	<u>Year- End PHS</u>	<u>% of PHS</u>			<u>Dividend Requirements</u>		
		<u>Cap Stk/ Contrib. Cap.</u>	<u>Other</u>	<u>Un- assigned Surplus</u>	<u>Stock- holder Divs</u>	<u>Div to POI (%)</u>	<u>Div to Net Inc. (%)</u>
2007	3,368,801	35.3	...	64.7	-82,000	15.4	20.9
2008	3,534,148	34.0	...	66.0	-92,000	20.5	88.9
2009	4,016,064	30.3	...	69.7	-147,000	22.4	35.4
2010	4,325,438	28.9	...	71.1	-300,000	68.9	84.3
2011	3,843,832	33.1	...	66.9	-400,000	-99.9	-99.9
09/2011	3,962,367	32.1	...	67.9	-300,000	-99.9	581.3
09/2012	4,145,144	29.7	...	70.3	-100,000	24.0	28.9

Underwriting Leverage: The company's underwriting leverage measures have trended downward

with the industry composite, however Transatlantic's leverage measures remain elevated compared to the composite. This elevated underwriting leverage is also witnessed in the BCAR score for the company and it continues to be an area which A.M. Best monitors. A.M. Best does take some comfort in Transatlantic's long-term results which have demonstrably been very stable compared to many of its peers.

Its international operations have provided the group expansion opportunities globally. This provides the group with geographical diversification and balance in its product line. The group's specialty casualty focus and established international network provide Transatlantic with competitive advantages to continue its future growth and enhance its global stature.

LEVERAGE ANALYSIS

<u>Year</u>	<u>Company</u>				<u>Industry Composite</u>			
	<u>NPW to PHS</u>	<u>Reserves to PHS</u>	<u>Net Lev</u>	<u>Gross Lev</u>	<u>NPW to PHS</u>	<u>Reserves to PHS</u>	<u>Net Lev</u>	<u>Gross Lev</u>
2007	1.0	1.8	3.7	4.1	0.3	0.7	1.6	2.1
2008	1.0	1.9	3.2	3.5	0.3	0.8	1.8	2.3
2009	0.8	1.8	2.9	3.2	0.3	0.7	1.5	2.0
2010	0.8	1.7	2.8	3.0	0.2	0.5	1.1	1.5
2011	0.9	2.1	3.3	3.6	0.2	0.6	1.2	1.5
09/2011	0.8	2.0	3.2	XX	XX	XX	XX	XX
09/2012	0.7	2.0	3.1	XX	XX	XX	XX	XX

Current BCAR: 196.0

PREMIUM COMPOSITION & GROWTH ANALYSIS

<u>Period Ending</u>	<u>DPW</u>		<u>GPW</u>	
	<u>(\$000)</u>	<u>(% Chg)</u>	<u>(\$000)</u>	<u>(% Chg)</u>
2007	3,945,222	7.8
2008	3,986,685	1.1
2009	3,814,364	-4.3
2010	3,675,627	-3.6
2011	3,651,805	-0.6
5-Yr Change	-0.2
09/2011	2,942,397	5.1
09/2012	2,492,124	-15.3

<u>Period Ending</u>	<u>NPW</u>		<u>NPE</u>	
	<u>(\$000)</u>	<u>(% Chg)</u>	<u>(\$000)</u>	<u>(% Chg)</u>
2007	3,430,677	9.1	3,365,624	9.1
2008	3,488,869	1.7	3,520,371	4.6
2009	3,410,014	-2.3	3,437,356	-2.4
2010	3,247,119	-4.8	3,230,236	-6.0
2011	3,291,536	1.4	3,242,691	0.4
5-Yr CAGR	...	0.9	...	1.0

5-Yr Change	...	4.6	...	5.1
09/2011	2,557,623	2.9	2,430,713	-1.2
09/2012	2,258,260	-11.7	2,284,806	-6.0

Loss Reserves: Adverse development related to accident years 1997-2002 has acted as a drag on earnings over the years although the reserving issues associated with those years appear to be largely behind the company. Transatlantic's total net pre-1986 A&E reserves constitute less than 3% of its overall loss reserve base. Transatlantic's late entry into the casualty market in the late 1970's and its heavier property orientation at that time, minimizes the potential exposure to these problematic liabilities. Ultimately, Best believes that Transatlantic's exposure to ongoing emergence of 1985 and prior A&E claims is manageable with only modest earnings drag expected.

LOSS & ALAE RESERVE DEVELOPMENT: CALENDAR YEAR (\$000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2011	Develop. to Orig. (%)	Develop. to PHS (%)	Develop. to NPE (%)	Unpaid Reserves @ 12/2011	Unpaid Resrv. to Dev. (%)
2006	5,526,704	5,886,523	6.5	11.8	190.8	1,889,182	32.1
2007	6,142,724	6,304,627	2.6	4.8	187.3	2,575,955	40.9
2008	6,581,937	6,635,208	0.8	1.5	188.5	3,480,916	52.5
2009	7,040,065	6,981,570	-0.8	-1.5	203.1	4,509,672	64.6
2010	7,313,318	7,208,095	-1.4	-2.4	223.1	5,830,321	80.9
2011	8,086,924	8,086,924	...	...	249.4	8,086,924	100.0

LOSS & ALAE RESERVE DEVELOPMENT: ACCIDENT YEAR (\$000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2011	Develop. to Orig. (%)	Unpaid Reserves @ 12/2011	Acc Yr. Loss Ratio	Acc Yr. Comb. Ratio
2006	1,536,235	1,212,637	-21.1	382,770	51.5	79.3
2007	1,802,264	1,691,979	-6.1	686,773	60.9	89.2
2008	2,024,801	1,915,800	-5.4	904,961	68.0	96.4
2009	1,840,521	1,690,547	-8.1	1,028,756	61.1	89.5
2010	1,807,824	1,706,994	-5.6	1,320,649	66.5	97.0
2011	2,256,603	2,256,603	...	2,256,603	89.0	118.4

ASBESTOS & ENVIRONMENTAL (A&E) RESERVES ANALYSIS

Year	Company		
	Net A&E Reserves (\$000)	Reserve Retention (%)	Net IBNR Mix (%)
2007	24,124	22.6	53.4
2008	26,450	27.5	44.6
2009	28,029	28.1	47.6
2010	67,715	47.1	50.4
2011	215,460	65.4	59.7

_____ Company _____ Industry Composite _____

<u>Year</u>	<u>Survival Ratio (3 yr)</u>	<u>Comb. Ratio Impact (1 yr)</u>	<u>Comb. Ratio Impact (3 yr)</u>	<u>Survival Ratio (3 yr)</u>	<u>Comb. Ratio Impact (1 yr)</u>	<u>Comb. Ratio Impact (3 yr)</u>
2007	...	0.0	...	...	0.7	...
2008	...	0.1	...	...	0.0	...
2009	8.6	0.1	0.1	7.5	0.6	0.4
2010	11.9	1.6	0.6	7.8	0.7	0.4
2011	14.7	5.4	2.4	9.0	0.5	0.6

CEDED REINSURANCE ANALYSIS (\$000)

<u>Year</u>	<u>Company</u>				<u>Industry Composite</u>			
	<u>Ceded Reins Total</u>	<u>Business Retention (%)</u>	<u>Rein Rec to PHS (%)</u>	<u>Ceded Reins to PHS (%)</u>	<u>Business Retention (%)</u>	<u>Rein Rec to PHS (%)</u>	<u>Ceded Reins to PHS (%)</u>	
2007	1,171,252	94.8	26.7	34.8	90.1	38.8	52.5	
2008	910,634	96.6	18.8	25.8	88.2	44.4	58.9	
2009	1,010,666	89.6	19.7	25.2	86.4	34.6	46.2	
2010	1,170,536	88.5	21.1	27.1	87.9	25.1	33.3	
2011	1,085,993	91.2	23.4	28.3	89.7	25.5	33.9	

2011 REINSURANCE RECOVERABLES (\$000)

	<u>Paid & Unpaid Losses</u>	<u>IBNR</u>	<u>Unearned Premiums</u>	<u>Other Recov*</u>	<u>Total Reins Recov</u>
US Affiliates	198,844	260,414	53,494	-3,754	508,998
Foreign Affiliates	264,212	101,444	...	...	365,656
US Insurers	207,860	88,788	1,101	-5,317	292,432
Other Non-US	171,696	72,850	8,531	-12,205	240,872
Total (ex US Affils)	643,768	263,082	9,632	-17,522	898,960
Grand Total	842,612	523,496	63,126	-21,276	1,407,958

* Includes Commissions less Funds Withheld

INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

<u>Year</u>	<u>Company</u>						<u>Industry Composite</u>	
	<u>Class 3-6 Bonds</u>	<u>Real Estate/ Mtg.</u>	<u>Other Invested Assets</u>	<u>Common Stocks</u>	<u>Non-Affl Inv. Lev.</u>	<u>Affil Inv.</u>	<u>Class 3-6 Bonds</u>	<u>Common Stocks</u>
2007	0.9	...	52.0	19.0	71.9	10.5	1.3	45.9
2008	1.1	...	5.2	12.5	18.9	14.4	3.1	47.2
2009	0.0	...	4.8	12.2	17.0	11.5	2.3	50.0
2010	0.3	...	4.6	12.2	17.1	12.7	2.1	34.8
2011	0.3	...	4.7	14.2	19.2	14.5	2.0	45.0

Liquidity: Liquidity measures are reflective of Transatlantic's conservative investment strategy

which provides for laddered maturities to respond to both its short and long-term obligations. The group's continued solid operating cash flows provide an additional funding source to meet these obligations. Based on Transatlantic's historically solid operating experience, Best expects that the group's overall liquidity profile is more than adequate to support its current operations.

LIQUIDITY ANALYSIS

<u>Year</u>	<u>Company</u>				<u>Industry Composite</u>			
	<u>Quick</u> <u>Liq (%)</u>	<u>Current</u> <u>Liq (%)</u>	<u>Overall</u> <u>Liq (%)</u>	<u>Gross</u> <u>Agents Bal</u> <u>to PHS(%)</u>	<u>Quick</u> <u>Liq (%)</u>	<u>Current</u> <u>Liq (%)</u>	<u>Overall</u> <u>Liq (%)</u>	<u>Gross</u> <u>Agents Bal</u> <u>to PHS(%)</u>
2007	15.9	122.4	137.4	13.1	56.0	117.3	174.3	3.2
2008	15.3	125.8	145.7	12.1	50.0	116.9	169.8	5.3
2009	19.1	130.5	148.6	10.7	58.2	125.9	181.5	4.2
2010	14.8	133.2	150.1	9.5	52.0	122.2	205.8	3.0
2011	17.6	124.8	141.3	10.8	58.7	118.2	203.1	3.7
09/2011	XX	121.4	142.1	17.1	XX	XX	XX	XX
09/2012	XX	125.0	143.2	12.7	XX	XX	XX	XX

CASH FLOW ANALYSIS (\$000)

<u>Year</u>	<u>Company</u>			<u>Industry Composite</u>			
	<u>Underw</u> <u>Cash</u> <u>Flow</u>	<u>Oper</u> <u>Cash</u> <u>Flow</u>	<u>Net</u> <u>Cash</u> <u>Flow</u>	<u>Underw</u> <u>Cash</u> <u>Flow (%)</u>	<u>Oper</u> <u>Cash</u> <u>Flow (%)</u>	<u>Underw</u> <u>Cash</u> <u>Flow (%)</u>	<u>Oper</u> <u>Cash</u> <u>Flow (%)</u>
2007	918,731	1,138,038	68,661	136.7	142.0	112.4	115.0
2008	347,230	700,476	154,187	111.0	121.4	106.4	122.6
2009	831,961	1,106,878	200,179	131.9	140.3	112.0	135.6
2010	438,513	864,378	-411,704	115.1	129.4	104.9	133.8
2011	155,421	631,286	97,834	105.0	120.4	109.4	142.4
09/2011	234,956	503,033	141,132	111.5	124.4	XX	XX
09/2012	115,669	454,694	123,088	105.6	121.1	XX	XX

HISTORY

This company was incorporated on October 29, 1952 under the laws of New York and began business on January 1, 1953. All capital stock was purchased by the Excess Reinsurance Company of America, Philadelphia, Pennsylvania, which on December 31, 1952 was merged with and into the Transatlantic Reinsurance Company (TRC).

The company was reorganized and recapitalized as of December 15, 1977. A majority portion of the then outstanding shares held by American International Group, Inc. (AIG), were exchanged for new shares (a 47.2% interest) in the reorganized carrier which were then transferred, via surplus contributions, to American Home Assurance Company. The remaining shares were sold to seven non-related insurers or their wholly-owned subsidiaries: Metropolitan Life Insurance Company (29%), Swiss Reinsurance Company (23%), Walton Insurance Company of Bermuda (19%), Compagnie Financiere et de Reassurance du Groupe, A.G. of Belgium (9%), United States Fidelity

and Guaranty Company (USF&G) (9%), Daido Mutual Life Insurance Company of Japan (5%) and The Nichido Fire and Marine Insurance Company, Ltd. of Japan (5%). In April 1984, the shares formerly owned by Walton Insurance Company of Bermuda were sold to General Reinsurance Corporation. In May 1984, USF&G sold half of their shares to Daido Mutual Life Insurance Company and half to The Nichido Fire and Marine Insurance Company.

As of early April 1990, the ownership interests in the company were comprised of: American Home Assurance Company (49.99%) and six non-related shareholders with financial control (50.01%) including: Metropolitan Life Insurance Company (16.09%), General Reinsurance Company (10.35%), Swiss Reinsurance Company (10.12%), The Nichido Fire and Marine Insurance Company, Ltd. of Japan (5.17%), Compagnie Financiere et de Reassurance du Groupe, A.G. of Belgium (4.14%) and Daido Mutual Life Insurance Company of Japan (4.14%). In mid-April 1990, shareholders of TRC received common stock of PREINCO Holdings, Inc. in exchange for all their shares. Following the exchange, the name of PREINCO Holdings, Inc., was changed to Transatlantic Holdings, Inc. (TRH), and TRC became a wholly-owned subsidiary. Previously, in June 1986, AIG had contributed all of the outstanding shares of Putnam Reinsurance Company (Putnam), along with additional consideration, to the holding company in exchange for a 20% interest therein. In December 1995, TRH contributed all the common stock of Putnam to TRC. At December 31, 2008, AIG was the majority stockholder of TRH, with an ownership of approximately 59%. In June 2009 AIG reduced its ownership in TRH, through a secondary offering, to approximately 13.9% of the company's outstanding common shares. In March 2010, AIG reduced its beneficial ownership through another secondary public offering. Immediately following the March 2010 secondary public offering, AIG beneficially owned approximately 1.1% (excluding shares held by certain mutual funds that are advised or managed by subsidiaries of AIG).

In March 2012, Alleghany Corporation and Transatlantic Holdings, Inc. completed a merger and Transatlantic became an indirect wholly-owned subsidiary of Alleghany Corporation.

Paid-up capital of \$6,041,655 consists of 1,208,331 common shares at \$5 par value each. All authorized shares are outstanding.

MANAGEMENT

The official staff is headed by President and Chief Executive Officer, Michael C. Sapnar, who prior to assuming his present post served as an officer of Transatlantic since 1995, first as an Underwriter and Assistant Vice President until December 1996, as an Underwriter and Vice President until October 1999, as Chief Underwriting Officer and Senior Vice President until May 2006, as Chief Underwriting Officer and Executive Vice President until May 2011, as Chief Operating Officer until September 2011, when he became President in September 2011 and CEO on January 1, 2012. Mr. Sapnar also serves as a Director of the company, as well as Director, President and CEO of Transatlantic Holdings, Inc., and Fair American Insurance and Reinsurance Company (formerly known as Putnam Reinsurance Company).

OFFICERS

President and CEO: Michael C. Sapnar	SVP: Seymour H. Katz
EVP and CFO: Steven S. Skalicky	SVP: Bertrand Levy
EVP and Chief Information Officer: George J. DiMartino	SVP: Richard Loffler

EVP and Chief Risk Officer: Julian H. Spence	SVP: Cameron MacDonald
EVP and Chief Claim Officer: Beth A. Levene	SVP: William McLaughlin
EVP and Chief Actuary: Kenneth Apfel	SVP: Geoffrey N. Peach
EVP and General Counsel: Gary A. Schwartz	SVP: George N. Phillips
EVP: Paul A. Bonny (International Operations)	SVP: David C. Radford
EVP: Kenneth W. Brandt (North America)	SVP: Kyle Rhodes
EVP: Thomas V. Chohnoky	SVP: Juan C. Roa
EVP: Javier E. Vijil (Latin American & Caribbean Division)	SVP: Edward T. Sheehan, III
SVP and Chief Underwriting Officer: Paul F. McKeon (North America)	SVP: Robert Snow
SVP and Controller: Matthew Mahoney	SVP: Suzanne A. Spantidos
SVP: Robert M. Baldrey	SVP: Andrew Taylor
SVP: George Barone	SVP: Lee J. Taylor
SVP: Donna Bryon	SVP: Victor M. Torres
SVP: Eugene L. Fisher	SVP: Nicholas Tzaneteas
SVP: Andrew Gaudencio	SVP: Lynda A. Wood
SVP: Kin Chung (Peter) Ho	SVP: Ari L. Zalkowitz
SVP: Suzanne B. Holohan	Secretary: Amy M. Cinquegrana (Corporate)
SVP: Robert Johnston	

DIRECTORS

Kenneth Apfel	Gary A. Schwartz
Paul A. Bonny	Steven S. Skalicky
Kenneth Brand	Julian Sprnce
Michael C. Sapnar	Javier E. Vijil

REGULATORY

An examination of the financial condition was made as of December 31, 2009, by the insurance department of New York. The 2011 annual independent audit of the company was conducted by PricewaterhouseCoopers, LLP. The annual statement of actuarial opinion is provided by Kenneth Apfel, FCAS, MAAA, Executive Vice President & Chief Actuary.

TERRITORY

The company is licensed in the District of Columbia, Guam, Puerto Rico, AK, AZ, AR, CA, CO, CT, DE, FL, GA, ID, IL, IN, IA, KS, KY, LA, MA, MI, MN, MS, NE, NV, NJ, NM, NY, OH, OK, PA, SC, SD, TX, UT, WA, WV and WI. Credit is allowed for reinsurance in AL, HI, ME, MD, MO, MT, NH, NC, ND, OR, RI, TN, VT, VA and WY, as it meets state requirements other than licensing or accreditation. It is also licensed in Canada, Japan, the United Kingdom, the Dominican Republic, the Hong Kong Special Administrative Region of The People's Republic of China, Bermuda, Germany and Australia. In addition, the company is registered or authorized as a foreign reinsurer in Argentina (where it maintains a representative office in Buenos Aires, Transatlantic Re (Argentina) S.A.), Brazil (where it maintains a representative office in Rio de Janeiro, Transatlantic Re (Brasil) Ltda., the Republic of Panama (where it maintains a representative office, TRC (PANAMA) S.A.), Bolivia, Chile, Colombia, Ecuador, El Salvador, France, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, Uruguay, Venezuela and is authorized to maintain a representative office in

Shanghai, People's Republic of China. Trans Re Zurich Reinsurance Company Ltd, a subsidiary of TRC, is licensed as a reinsurer in Switzerland and registered in Paraguay, Ecuador, Argentina, Honduras, the Dominican Republic and Colombia. Transatlantic Polska Sp. z o.o., a subsidiary of TRC, maintains a registered representative office in Warsaw, Poland.

REINSURANCE

Transatlantic is principally a seller of reinsurance. Reinsurance arrangements are maintained to protect a company from abnormal loss. Transatlantic has a significant presence in the reinsurance market place and has the ability to provide a substantial amount of capacity. The amount of capacity that Transatlantic offers differs by line of business.

Transatlantic also purchases property catastrophe loss reinsurance protection. Average gross lines and net retention on risks assumed historically have been smaller than the maximums permissible under the company's underwriting guidelines. In addition, these guidelines may be changed and limited exceptions are made from time to time.

BALANCE SHEET (\$000)

<u>ADMITTED ASSETS</u>	<u>12/31/2011</u>	<u>12/31/2010</u>	<u>2011 %</u>	<u>2010 %</u>
Bonds	10,463,611	10,500,250	78.6	80.0
Preferred stock	57,000	5,000	0.4	0.0
Common stock	546,896	525,669	4.1	4.0
Cash & short-term invest	330,711	232,878	2.5	1.8
Other non-affil inv asset	180,061	204,863	1.4	1.6
Investments in affiliates	556,131	549,258	4.2	4.2
Total invested assets	12,134,410	12,017,919	91.2	91.6
Premium balances	464,195	425,703	3.5	3.2
Accrued interest	126,105	131,166	0.9	1.0
All other assets	583,118	549,076	4.4	4.2
Total assets	13,307,829	13,123,865	100.0	100.0
<u>LIABILITIES & SURPLUS</u>	<u>12/31/2011</u>	<u>12/31/2010</u>	<u>2011 %</u>	<u>2010 %</u>
Loss & LAE reserves	8,150,064	7,377,982	61.2	56.2
Unearned premiums	1,016,377	967,533	7.6	7.4
Conditional reserve funds	48,219	57,221	0.4	0.4
All other liabilities	249,336	395,691	1.9	3.0
Total liabilities	9,463,996	8,798,427	71.1	67.0
Capital & assigned surplus	1,274,044	1,248,605	9.6	9.5
Unassigned surplus	2,569,788	3,076,833	19.3	23.4
Total policyholders' surplus	3,843,832	4,325,438	28.9	33.0
Total liabilities & surplus	13,307,829	13,123,865	100.0	100.0

SUMMARY OF 2011 OPERATIONS (\$000)

<u>STATEMENT OF INCOME</u>	<u>12/31/2011</u>	<u>FUNDS PROVIDED FROM OPERATIONS</u>	<u>12/31/2011</u>
Premiums earned	3,242,691	Premiums collected	3,243,399
Losses incurred	2,636,136	Benefit & loss-related pmts	1,956,487
LAE incurred	144,112		
Undrw expenses incurred	967,624	LAE & undrw expenses paid	1,131,490
Net underwriting income	-505,180	Undrw cash flow	155,421
Net investment income	414,266	Investment income	467,476
Other income/expense	10,441	Other income/expense	20,012
Pre-tax oper income	-80,473	Pre-tax cash operations	642,909
Realized capital gains	50,862		
Income taxes incurred	-14,291	Income taxes pd (recov)	11,622
Net income	-15,319	Net oper cash flow	631,286

INTERIM BALANCE SHEET (\$000)

<u>ADMITTED ASSETS</u>	<u>03/31/2012</u>	<u>06/30/2012</u>	<u>09/30/2012</u>
Cash & short term invest	517,807	589,523	453,799
Bonds	10,935,663	10,545,177	10,801,284
Preferred stock	50,000	75,000	75,000
Common stock	686,105	956,912	1,205,911
Other investments	173,914	169,787	115,214
Total investments	12,363,488	12,336,398	12,651,207
Premium balances	548,825	535,574	563,139
Reinsurance funds	189,442	207,638	181,437
Accrued interest	123,140	122,441	113,049
All other assets	386,430	392,730	397,642
Total assets	13,611,325	13,594,782	13,906,474
<u>LIABILITIES & SURPLUS</u>	<u>03/31/2012</u>	<u>06/30/2012</u>	<u>09/30/2012</u>
Loss & LAE reserves	8,272,088	8,144,256	8,257,315
Unearned premiums	1,004,925	1,014,282	989,831
Conditional reserve funds	48,219	48,219	48,219
All other liabilities	341,135	447,156	465,965
Total liabilities	9,666,368	9,653,913	9,761,330
Capital & assigned surp	1,229,729	1,229,729	1,229,729
Unassigned surplus	2,715,229	2,711,140	2,915,415
Policyholders' surplus	3,944,957	3,940,869	4,145,144

Total liabilities & surplus	13,611,325	13,594,782	13,906,474
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INTERIM INCOME STATEMENT (\$000)

	Period Ended <u>09/30/2012</u>	Period Ended <u>09/30/2011</u>	Increase/ <u>Decrease</u>
Premiums earned	2,284,806	2,430,713	-145,907
Losses incurred	1,391,681	1,995,382	-603,701
LAE incurred	98,645	105,107	-6,462
Underwriters expenses incurred	758,749	738,421	20,328
Net underwriting income	35,731	-408,196	443,928
Net investment income	329,569	314,066	15,503
Other income/expenses	50,808	-4,089	54,897
Pre-tax operating income	416,108	-98,220	514,328
Realized capital gains	32,811	47,956	-15,145
Income taxes incurred	103,453	-101,871	205,325
Net income	345,465	51,608	293,858

INTERIM CASH FLOW (\$000)

	Period Ended <u>09/30/2012</u>	Period Ended <u>09/30/2011</u>	Increase/ <u>Decrease</u>
Premiums collected	2,181,826	2,282,418	-100,592
Benefit & loss-related pmts	1,211,177	1,174,836	36,341
Undrw expenses paid	854,980	872,626	-17,646
Underwriting cash flow	115,669	234,956	-119,287
Investment income	383,936	356,949	26,987
Other income/expense	45,630	-77,693	123,323
Pre-tax cash operations	545,235	514,213	31,023
Income taxes pd (recov)	90,541	11,179	79,362
Net oper cash flow	454,694	503,033	-48,339

Find out more about our [Market Segment Outlooks](#), indicating the potential future direction of company ratings within a segment over the next 6 to 18 months.

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Best's Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific

purpose or purchaser.

A Best's Debt/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the accuracy or reliability of the information. Any and all ratings, opinions and information contained herein are provided "as is," without any express or implied warranty.

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AMB Credit Report - Insurance Professional BCR12052012

Best's Credit Rating and Report Updates for ARGO GROUP INTERNATIONAL HOLDINGS, LTD

AMB Credit Report - Insurance Professional provides detailed business overview, extensive financial data and analytical commentary, product and geographic information, company history, as well as the rationale supporting the financial strength rating assigned by A.M. Best. These reports are updated on a regular basis based on input and analysis performed throughout the year.

Report Revision Date - 07/17/2012 *

The **Report Revision Date** * represents the last significant material change made to this report. Other non-material changes may have been made to this report subsequent to this date, but are not reflected in the report revision date. The AMB Credit Report - Insurance Professional below was created based on the following dates.

Rating and Commentary ¹	Financial ²	General Information ³
Best's Credit Rating:	Time Period: Annual - 2011	Corporate Structure: 04/17/2012
Rating Rationale: N/A	Last Updated: 03/08/2012	States Licensed: N/A
Report Commentary: 07/13/2012	Status: Quality Cross Checked	Officers and Directors: 07/17/2012

***Note:** The **Rating and Commentary** ¹ date outlines the most recent updates to the Company's Rating, Rationale, and Report Commentary for key rating and business changes. Report commentary may include significant changes to Business Review, Financial Performance/Earnings, Capitalization, Investment/Liquidity, or Reinsurance sections of the report. The **Financial** ² date reflects the current status of the financial tables found within the body of the Report, including whether the data was loaded as received or had been run through our quality control cross-check process. The **General Information** ³ date covers key areas that may have changed such as corporate structure, states licensed or officers and directors.

AMB Credit Report - Insurance Professional for ARGO GROUP INTERNATIONAL HOLDINGS, LTD

Holding Company

Ultimate Parent: Argo Group International Holdings, Ltd

99 Front St., Hamilton HM 11, Bermuda
110 Pitts Bay Road, Pembroke HM 08, Bermuda
Web: <http://www.argolimited.com/>

Tel: 441-296-5858

Fax: 441-296-6162

AMB#: 058448

FEIN#: 98-0214719

Ultimate Parent#: 058448

**Publicly Traded Corporation: Argo Group International
Holdings, Ltd**

NASDAQ: AGII

Report Revision Date: 07/17/2012

CORPORATE OVERVIEW

Argo Group International Holdings, Ltd. (Argo Group), through its subsidiaries, is an international underwriter of specialty insurance and reinsurance products in the property and casualty market. Argo Group offers a full line of products and services designed to meet the unique coverage and claims handling needs of businesses in four primary segments: Excess and Surplus Lines, Commercial Specialty, International Specialty (formerly Reinsurance) and Syndicate 1200 (formerly International Specialty). Argo Group is the combined international holding company resulting from the August 7, 2007 merger of Argonaut Group, Inc., and PXRE Group, Ltd. In connection with the merger, Argo Group's common shares were approved for listing on the NASDAQ Global Select Market and trade under the symbol "AGII". The company was founded in 1986 and is headquartered in Pembroke, Bermuda.

The Excess and Surplus Lines (E&S) segment focuses on underwriting risks that the standard (admitted) market is unwilling or unable to entertain due to risk characteristics such as the perils involved, the nature of the business, and/or the insured's loss experience. The E&S segment's approach to these risks is generally to offer more restrictive policy terms and unregulated premium rates on a non-admitted basis. However they also retain the ability to write some segments of their business that still meet their underwriting and pricing guidelines, such as Transportation (commercial automobile) coverage, on an admitted basis. The E&S segment consists of two operating platforms: Colony Specialty and Argo Pro. Colony Specialty underwrites coverage for hard to place risks that typically fall outside of the standard market's risk appetite. They operate through six divisions: Allied Medical, Casualty, Contract, Environmental, Property and Transportation. Colony Specialty provides coverage to a broad group of commercial enterprises including contractors, manufacturers, distributors, environmental consultants and contractors, day care centers, apartment complexes, condominium associations, medical facilities, social services, miscellaneous healthcare and assisted living facilities. Premium volume in 2011 for Colony Specialty was comprised of 36% casualty, 22% transportation, 9% property, 29% contract and 4% environmental. Argo Pro is comprised of three divisions: Management Liability, Errors & Omissions (E&O) and Insight. Management Liability provides D&O insurance for small to medium size clients. E&O targets insurance agents, lawyers, miscellaneous professions, employment practices and real estate related accounts. Insight offers coverage for architects and engineers, accountants and insurance agents. All Argo Pro divisions focus on small to medium-sized accounts on both an admitted and non-admitted basis.

The Commercial Specialty segment provides property, casualty and surety coverages designed to meet the specialized insurance needs of businesses within certain well-defined markets. It targets business classes and industries with distinct risk profiles that can benefit from specially designed insurance programs, tailored loss control and expert claims handling. This segment serves its targeted niche markets with a narrowly focused underwriting profile and a unique understanding of the businesses it serves. In 2011, the Commercial Specialty segment consisted of the following operations: Argo Insurance, Commercial Programs, Rockwood Casualty Insurance Company (Rockwood), Argo Surety, and Alteris. The core operations of Argo Insurance consist of Grocery, Restaurants, and Specialty Retail (including dry cleaners or Fabricare, convenience stores, and retail furniture stores). Approximately 49% of Argo Insurance's 2011 gross written premium was from the Grocery segment, followed by 22% in Restaurants, 18% from Fabricare, 10% from Retail Specialty, and 1% from discontinued lines. Argo Insurance provides property, liability, workers compensation, auto, and umbrella coverages throughout the United States. Rockwood is a leading specialty underwriter of workers' compensation for the mining industry. Rockwood also underwrites coverage for small commercial businesses including office, retail operations, light manufacturing, services, and restaurants. Rockwood's strategy includes a strong commitment to its insureds, a highly

experienced staff, and a dedication to the individual underwriting of risks. Approximately 53% of its premiums are written in Pennsylvania where it is the largest workers' compensation insurer of independent coal mines. Rockwood underwrites policies on both a large deductible basis and on a guaranteed cost basis for smaller commercial accounts. In addition, Rockwood provides supporting general liability, pollution liability, umbrella liability, property, commercial automobile and surety coverage, for certain of its mining accounts. These supporting lines of business accounted for approximately 15% of Rockwood's gross written premiums in 2011.

Argo Surety is an underwriting unit offering surety products to a diverse range of U.S. businesses operating in numerous industries. The focus of Argo Surety is to deliver high-quality surety credit solutions to businesses that must satisfy various eligibility conditions in order to conduct commerce, such as licensure requirements promulgated by government statute or regulation, counterparty conditions found in private or public construction projects or satisfactory performance of contracted services. Argo Surety targets the construction (general, trade and service contractors), energy (coal, oil & gas and waste), manufacturing, and transportation industries.

Commercial Programs partners with insurance program administrators to develop specialized commercial programs in target segments of the industry. They seek to partner with program administrators which provide an expertise in a particular field, have a proven record of managing profitable programs, have an established distribution network and are equipped to handle responsibilities such as marketing, underwriting, rating and policy issuance subject to Argo's oversight. Target markets for this division include retail and service industries, such as landscaping operations, pest control and industries related to pet care. Specialty programs are also provided for building management/maintenance companies, community and condominium associations.

Alteris focuses on specialty programs and alternative risk solutions for selected niche markets, operating through the following divisions: Trident, Alteris Public Risk Solutions (APRS), Alteris Alternative Risk Solutions (AARS), Strategic Markets and ARIS. Trident functions as both an underwriter and a managing general agency and is a nationally recognized program manager providing insurance products for small to intermediate-sized accounts in targeted industries. Trident manages programs serving public entities, public schools, special districts and private education (K-12). Trident offers a full range of solutions including program management, administration, professional claims and loss control services on a fee basis for pools as well as fully insured solutions for individual accounts in the sectors it serves. Its product lines include general liability, automobile liability, automobile physical damage, property, inland marine, crime, public official's liability, educator's legal liability, employment practices, law enforcement liability, environmental liability, lawyers professional liability, student accident, workers' compensation, inmate medical and tax interruption. APRS serves large individual government entities and self-insured government pools. Using both traditional and creative approaches, APRS aligns interests with its clients by targeting sophisticated accounts that participate in their own risk bearing. APRS' product lines include general liability, automobile liability, automobile physical damage, property, inland marine, crime, public officials' liability, educators' legal liability, law enforcement professional liability, employment practices liability and excess liability. AARS provides unbundled alternative risk structures supporting both carriers and programs managers through a broad spectrum of products and services. These include program placement, underwriting, administration, acquisition of capital and credit capacity, strategic alliances, policy systems solutions, claim services, risk and safety consultation, and reinsurance for property, landlords (lease guarantee program), casualty, workers compensation and other commercial lines of insurance coverage. Strategic Markets manages programs serving home heating dealers, propane dealers, student transportation, septic contractors, wineries and lawyers. ARIS Title Insurance Corporation (ARIS) was acquired in November 2010. ARIS, a

statutory insurance company licensed by the New York Department of Insurance, provides personal property title insurance that serves the needs of the art marketplace and related fiduciary banking, legal, museum and non-profit communities.

The International Specialty segment is comprised of Argo Group's business outside the U.S., excluding Syndicate 1200, the Company's Lloyd's syndicate. This includes Argo Re, Argo Insurance - Casualty and Professional Lines, Argo Seguros (Brazil), and ArgoGlobal SE. Argo Re is primarily a property catastrophe focused business writing short-tail reinsurance lines. Argo Re primarily focuses on underwriting property catastrophe excess of loss and proportional reinsurance for a relatively small number of cedants whose accounts are known by Argo Re underwriters. Argo Re also underwrites property on a per risk basis and excess casualty and professional liability as well as several other lines of business on an insurance and facultative basis. The business written by Argo Re covers underlying exposures that are located throughout the world including the United States. Argo Re also maintains offices through its subsidiary, Argo Solutions, S.A., in Belgium. In September 2011, a new subsidiary, Argo Re (DIFC) was launched in Dubai, U.A.E. to serve the Middle East and North African insurance community. Headquartered in the Dubai International Financial Center, Argo Re (DIFC) provides specialized coverage in casualty, professional indemnity and financial lines. Argo Insurance - Casualty and Professional Lines, based in Bermuda, provided excess layers of coverage for general and products liability sectors and Officers liability, Errors and Omissions liability, and Employment Practices liability for global clients. Argo Seguros, based in Sao Paulo, Brazil, was launched in 2011 to serve the needs of the commercial insurance market and will provide a broad range of commercial, property, casualty, and specialty coverages in three business areas: marine and cargo, financial lines, and property & engineering. ArgoGlobal SE, established in 2011, serves as a platform initially providing primary insurance, including professional lines and liability products, throughout Europe. ArgoGlobal SE includes a Maltese-domiciled licensed insurance company that was granted a license to operate by the Malta Financial Services Authority in December 2011.

The Syndicate 1200 (formerly International Specialty) segment is focused on underwriting worldwide property, specialty and non-U.S. liability insurance on behalf of one underwriting syndicate, under the Lloyd's of London global franchise. The segment's business platform, Argo International Holdings Ltd. (Argo International) is based in London and comprised of four principal components: Argo Managing Agency, which underwrites insurance risks on behalf of the syndicate for the providers of capital; Syndicate 1200, which bears the insurance risk; Argo Underwriting Agency, which participates with other capital providers on the syndicate via its subsidiary corporate member companies; and Argo Direct Limited, a wholly owned service company, which enters into insurance contracts on behalf of Syndicate 1200 from both the U.K. and a branch based in Paris (Argo Assurances). Argo's participation on the syndicate has gradually increased from 62% on year of account 2010, to 69% on year of account 2011 and 86% on year of account 2012. Argo International's worldwide property division concentrates mainly on underwriting short-tail risks, with an emphasis on commercial properties which are also exposed to catastrophes and other man-made or natural disasters. Argo International's liability division underwrites non-U.S. professional indemnity, international general liability and directors and officers insurance. In addition, approximately 1.5% of the syndicate premium income is written on a range of U.S. general liability risks. Argo International's specialty division underwrites cargo, energy and yachts and hull insurance, while the aerospace division underwrites space and aviation risks. Argo Assurances was launched in 2011 to provide underwriting solutions for commercial satellites, aerospace and some aviation as well as financial lines, including professional indemnity, casualty and directors and officer liability coverage.

CORPORATE STRUCTURE

<u>AMB#</u>	<u>COMPANY NAME</u>	<u>DOMICILE</u>	<u>%OWN</u>
058448	<i>Argo Group Intern Hldgs, Ltd</i>	Bermuda	
013313	Argo Re Ltd.	Bermuda	100.00
058668	<i>Argo International Hldgs Ltd</i>	United Kingdom	100.00
055950	<i>Argo Underwriting Agency Ltd</i>	United Kingdom	100.00
052405	<i>Argo Irish Holdings I Ltd.</i>	Bermuda	100.00
052407	<i>Argo Financial Hldg (Ireland)</i>	Ireland	99.90
058324	<i>Argo Group US, Inc.</i>	DE	100.00
055536	<i>Argonaut Grp Statutory Trust</i>	CT	100.00
055537	<i>Argonaut Grp Stat Trust III</i>	DE	100.00
055538	<i>Argonaut Grp Stat Trust IV</i>	DE	100.00
055539	<i>Argonaut Grp Stat Trust V</i>	DE	100.00
055540	<i>Argonaut Grp Stat Trust VI</i>	CT	100.00
055541	<i>Argonaut Grp Stat Trust VII</i>	DE	100.00
055542	<i>Argonaut Grp Stat Trust VIII</i>	DE	100.00
055543	<i>Argonaut Grp Stat Trust IX</i>	DE	100.00
055544	<i>Argonaut Grp Stat Trust X</i>	DE	100.00
002056	Argonaut Insurance Company	IL	100.00
002219	Argonaut Great Central Ins Co	IL	100.00
003540	Argonaut Limited Risk Ins Co	IL	100.00
003078	Argonaut-Midwest Ins Co	IL	100.00
002058	Argonaut-Southwest Ins Co	IL	100.00
002057	Select Markets Insurance Co	IL	100.00
014152	ARIS Title Insurance Corp	NY	100.00
003283	Colony Insurance Company	VA	100.00
011035	Colony National Insurance Co	VA	100.00
002619	Colony Specialty Insurance Co	OH	100.00
002723	Rockwood Casualty Insurance Co	PA	100.00
012126	Somerset Casualty Insurance	PA	100.00
059084	<i>PXRE Capital Trust I</i>	DE	100.00
058667	<i>Argo Financial Hldgs (BR) Ltd</i>	Ireland	100.00
092222	Argo Seguros Brasil, S.A.	Brazil	100.00
052406	<i>Argo Irish Holdings II</i>	Bermuda	100.00
058551	<i>ArgoGlobal Hldgs (Malta) Ltd</i>	Malta	99.99
091791	ArgoGlobal SE	Malta	99.90
075204	PXRE Reinsurance (BB) Ltd	Barbados	100.00
051960	<i>PXRE Capital Stat Trst II</i>	CT	100.00
051959	<i>PXRE Capital Stat Trust III</i>	DE	100.00
051958	<i>PXRE Capital Stat Trust V</i>	CT	100.00
051957	<i>PXRE Capital Stat Trust VI</i>	DE	100.00

Summarized Accounts as of December 31, 2011

Data reflected within all tables of this report has been compiled from the consolidated financial statements of this company (Source: Company Financial Statement).

ASSETS

	12/31/2011 USD(000)	12/31/2011 % of total	12/31/2010 USD(000)
Cash and equivalents	100,900	1.6	83,500
Long term fixed maturity investments	3,215,500	50.2	3,361,400
Equity investments	403,600	6.3	324,500
Short term investments	296,400	4.6	375,300
Other investments	232,000	3.6	154,200
Invested assets	4,147,500	64.8	4,215,400
Receivables	352,500	5.5	339,800
Reinsurance recoverable	1,143,500	17.9	1,203,900
Deferred policy acquisition cost	125,700	2.0	139,700
Goodwill & other intangibles	246,800	3.9	249,100
Other assets	285,000	4.5	257,100
Total assets	6,401,900	100.0	6,488,500

LIABILITIES & SURPLUS

	12/31/2011 USD(000)	12/31/2011 % of total	12/31/2010 USD(000)
Property / Casualty reserves	3,291,100	51.4	3,152,200
Unearned premium reserves	658,200	10.3	654,100
Total policy reserves	3,949,300	61.7	3,806,300
Debt & notes payable	377,000	5.9	376,500
Other liabilities	596,600	9.3	679,600
Total liabilities	4,922,900	76.9	4,862,400
Equity - common stock	31,300	0.5	31,200
Paid-in capital	716,800	11.2	711,400
Accumulated other comprehensive income	139,800	2.2	147,600
Retained earnings	752,000	11.8	847,500
Common stock in treasury	-160,900	-2.5	-111,600
Total equity	1,479,000	23.1	1,626,100
Total liabilities & equity	6,401,900	100.0	6,488,500

STATEMENT OF INCOME

	12/31/2011 USD(000)	12/31/2010 USD(000)
Direct premiums written	1,261,300	1,283,200
Reins assumed	283,500	243,900
Gross premiums written	1,544,800	1,527,100
Reins ceded	473,000	431,400

Net premiums written	1,071,800	1,095,700
Change in unearned premiums	-10,200	-115,900
Net premiums earned	1,082,000	1,211,600
Total fee income	1,400	2,500
Net investment income	125,800	133,600
Net realized gains/(losses)	49,200	36,800
Non-operating revenue	...	3,800
Total revenue	1,258,400	1,388,300
Benefits & reserves	863,100	777,500
Operating expenses	432,600	472,600
Non-operating expenses	3,500	...
Total benefits & expenses	1,299,200	1,250,100
Earnings before interest & taxes (EBIT)	-40,800	138,200
Interest expense	22,100	22,900
Pre-tax income/(loss) from continuing operations	-62,900	115,300
Total taxes	19,500	32,700
Net income/(loss) before minority interest	-82,400	82,600
Net income/(loss) from continuing operations	-82,400	82,600
Net income/(loss)	-82,400	82,600

STATEMENT OF CHANGES IN EQUITY

	12/31/2011 USD(000)	12/31/2010 USD(000)
Common shares, beginning balance	-80,400	25,900
Common shares, repurchased	49,300	106,500
Common shares, other	100	200
Common shares, ending balance	-129,600	-80,400
Paid-in capital - Beg bal	711,400	702,400
Paid-in capital - Shares repurchased	400	500
Paid-in capital - other	5,800	9,500
Paid-in capital - End bal	716,800	711,400
AOCI - beginning balance	147,600	107,400
AOCI - change in unrealized gains/losses on investments	-1,400	39,400
AOCI - change in unrealized gains/losses - other	-6,400	800
AOCI - ending balance	139,800	147,600

Retained earnings, beginning balance	847,500	779,200
Retained earnings, net income	-82,400	82,600
Retained earnings, common dividends	13,100	14,300
	<hr/>	<hr/>
Retained earnings, ending balance	752,000	847,500
Total shareholder equity	1,479,000	1,626,100

STATEMENT OF CASH FLOWS

	12/31/2011	12/31/2010
	USD(000)	USD(000)
Net cash provided/(used) in operating activities	-17,700	-3,100
Net cash provided/(used) in investment activities	100,300	183,900
Net cash provided/(used) in financing activities	-61,600	-115,400
Effect of exchange rates on cash	-3,600	...
	<hr/>	<hr/>
Total increase (decrease) in cash	17,400	65,400
Cash, beginning balance	83,500	18,100
Cash, ending balance	100,900	83,500

MANAGEMENT OFFICERS

President and CEO: Mark E. Watson III
Chief Underwriting Officer: Andrew Carrier
 (Group)

EVP and CFO: Jay S. Bullock

EVP: Barbara C. Bufkin (Business Development)

SVP and Chief Information Officer: Farid Nagji
SVP and Actuary: Michael Fusco

SVP: Karen Meriweather (Enterprise Risk
 Management)

Second Vice President and Treasurer: George
 Luecke

DIRECTORS

F. Sedgwick
 Browne
 H. Berry Cash
 Hector DeLeon

Nabil N. El-Hage

Mural R. Josephson

Kathleen Nealon
 John R. Power, Jr.
 John H. Tonelli
 Mark E. Watson III
 (Chief Executive
 Officer)
 Gary V. Woods
 (Chairman)

BALANCE SHEET ITEMS

	USD (000) <u>2011</u>	USD (000) <u>2010</u>	USD (000) <u>2009</u>	USD (000) <u>2008</u>	USD (000) <u>2007</u>
Invested assets	4,147,500	4,215,400	4,334,300	3,995,400	3,582,800
Total assets	6,401,900	6,488,500	6,896,800	6,381,500	5,123,500
Debt & notes payable	377,000	376,500	380,600	428,700	369,400
Total liabilities	4,922,900	4,862,400	5,281,900	5,028,600	3,739,000
Total equity	1,479,000	1,626,100	1,614,900	1,352,900	1,384,500
Total capital	1,856,000	2,002,600	1,995,500	1,781,600	1,753,900

INCOME STATEMENT ITEMS

	USD (000) <u>2011</u>	USD (000) <u>2010</u>	USD (000) <u>2009</u>	USD (000) <u>2008</u>	USD (000) <u>2007</u>
Gross premiums written	1,544,800	1,527,100	1,988,900	1,601,500	1,180,900
Net premiums written	1,071,800	1,095,700	1,421,400	1,151,000	854,200
Net investment income	125,800	133,600	145,500	150,200	134,300
Net realized gains/(losses)	49,200	36,800	-16,700	-35,100	5,900
Net income/(loss)	-82,400	82,600	117,500	62,900	143,800

LIQUIDITY RATIOS (%)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total investments to total reserves	107.6	112.9	108.6	105.2	122.7
Liquid assets to total liabilities	81.6	85.2	80.6	78.4	95.8
Total investments to total liabilities	86.3	88.4	82.4	79.6	96.2
Bonds to total reserves	81.4	88.3	88.2	82.9	89.2

PROFITABILITY RATIOS (%)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Loss ratio	79.8	64.2	60.3	64.3	61.3
Expense ratio	40.0	39.0	37.0	36.1	38.2
Combined ratio	119.8	103.2	97.3	100.4	99.4
Investment income ratio	11.6	11.0	10.3	13.3	15.6
Return on assets	-1.3	1.2	1.8	1.1	3.3
Return on revenues	-7.6	6.8	8.3	5.6	16.7
Return on equity	-5.3	5.1	7.9	4.6	12.9

LEVERAGE & DEBT RATIOS (%)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net premiums written to equity	72.5	67.4	88.0	85.1	61.7
Cash flow coverage (x)	-0.8	-0.1	11.7	3.8	6.6
Interest coverage (x)	-4.1	4.4	7.2	4.9	5.5
Debt to equity	25.5	23.2	23.6	31.7	26.7
Debt to total capital	20.3	18.8	19.1	24.1	21.1
Cash and equivalents to total assets	6.2	7.1	6.6	8.1	13.0

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not

address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Best's Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Debt/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

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AMB Credit Report - Insurance Professional BCR08142012



Canadian Lawyers Liability Assurance Society

Year-end communication of 2012 Audit



To be presented to the Audit Committee
at the meeting on February 20, 2013



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February 19, 2013

Private and confidential

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

Dear Audit Committee Members:

Report on audited annual financial statements and Minimum Capital Test Return

We are pleased to present our year-end communication on the results of our audits of the financial statements and the Minimum Capital Test Return (MCT Return) of Canadian Lawyers Liability Assurance Society (the "Society") as of and for the year ended December 31, 2012.

Our audits were conducted in accordance with Canadian Generally Accepted Auditing Standards (GAAS) and the results of our audits are summarized in this report.

Use of our report

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

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

We look forward to discussing this report with you and answering any questions you may have.

Yours truly,

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

Chartered Professional Accountants
Chartered Accountants
Licensed Public Accountants

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Executive summary

This report summarizes the main findings arising from our audits.

Audit findings and other matters	
Audit scope	<p>Our audit of the Society's financial statements was designed to obtain reasonable, rather than absolute, assurance as to whether the financial statements are free of material misstatement.</p> <p>There were no significant departures from the audit plan we communicated to the Audit Committee on December 17, 2012. We confirm that no limitations were placed on the scope of our work and there have been no significant amendments to the audit scope and approach communicated in the audit plan.</p> <p>A description of our audit results has been included in Appendix A of this report.</p>
Significant audit risks	<p>In accordance with our audit plan, our procedures focused on the following areas that we identified as being subject to risk of material misstatement in the current year:</p> <ul style="list-style-type: none">• Provision for unpaid claims and adjustment expenses (valuation); and• Revenue recognition; and• Management override of controls <p>We satisfactorily addressed these significant risks in our audit and have summarized the results of our audit procedures for these risk areas in Appendix B of this report.</p>
Internal control over financial reporting	<p>Our audit was not designed to provide a high degree of assurance that significant deficiencies, if any, would be detected. Accordingly, we are unable to and do not provide any assurance on the design or effective operation of internal control over financial reporting.</p> <p>No matters have come to our attention which indicates a significant deficiency in internal control over financial reporting.</p>
Fraud and illegal acts	<p>Based on the procedures we performed as recommended by Canadian Auditing Standard 240, <i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i>, we are not aware of any illegal acts or fraudulent events with respect to the Society during the year.</p>
Management judgment and accounting estimates	<p>Accounting estimates and interpretations are an integral part of the financial statements prepared by management. They reflect management's current judgments, based on knowledge and experience about past and current events, assumptions about future events and interpretations of the financial reporting standards.</p> <p>During the year ended December 31, 2012 management advised us that there were no changes made in the methodology of calculating the unpaid claims and adjustment expenses.</p> <p>In our judgment, the significant accounting estimates made by management are in all material respects, free of possible management bias and of material misstatement. The disclosure in the financial statements around estimation uncertainty is in accordance with International Financial Reporting Standards (IFRS) and is appropriate to the particular circumstances of the Society.</p> <p>Our views on the significant quantitative and qualitative aspects of the judgments and estimates made by management are presented in Appendix C of this report.</p>

Audit findings and other matters

Significant accounting policies	<p>The Society's significant accounting policies are set forth in Note 3 to the December 31, 2012 financial statements.</p> <p>In our judgment, the significant accounting practices, selected and applied by management are, in all material respects, acceptable under IFRS and are appropriate to the particular circumstances of the Society.</p>
Audit adjustments and uncorrected misstatements	<p>We have aggregated all uncorrected misstatements greater than our clearly trivial amount of \$73,000, those that are quantitatively insignificant but qualitatively material, and adjustments identified as a result of our audit and corrected by management.</p> <p>Our initial estimate of materiality as communicated to the Audit Committee on December 17, 2012 was \$1,460,000, and was based on the Q3' 2012 internal financial statements. This materiality amount remained appropriate based on the year-end financial statements of the Society.</p> <p>To date there were no uncorrected misstatements. Misstatements, if any, noted during the course of completion of our audit will be presented at the Audit Committee meeting. During the audit we identified a reclassification error related to recording of interest income and realized gains with no net impact on the statement of comprehensive income. The error was appropriately corrected by management. We have summarized the corrected error in Appendix G.</p>
Disclosure deficiencies	<p>We made various recommendations to management regarding financial statement disclosures, which have been reflected in the financial statements.</p> <p>To date there are no disclosure deficiencies. Disclosure deficiencies that are more than inconsequential, if any, noted during the course of completion of our audit will be presented at the Audit Committee meeting.</p>
Use of the work of experts	<p>We used the work of our actuarial expert as described in our audit plan document. There were no significant issues noted impacting our audits of the Society's financial statements including MCT Return.</p>
Formal reporting responsibilities	<p>We are required by professional standards to report to you on certain matters to the extent we become aware of them during the performance of our audits.</p> <p>We have summarized the matters that are reportable to the Audit Committee in Appendix D and confirm to you that, as of the date of this report, there are no material matters included in Appendix D requiring your attention.</p>
Representation letters	<p>Management is responsible for the fair presentation of the financial statements of the Society in accordance with IFRS.</p> <p>We expect to receive a representation letter from management, dated February 26, 2013, acknowledging this responsibility.</p>
Independent Auditor's Reports	<p>We intend to issue unmodified audit reports on the financial statements of the Society, the Annual Return Form P&C-1 for the year ended December 31, 2012 and on MCT Return as at December 31, 2012 once the outstanding items referred to on page 3 are satisfactorily completed and the financial statements are approved by the Advisory Board. Draft of our Independent Auditor's Reports on these financial statements are included in Appendix E.</p>
Independence	<p>We have developed appropriate safeguards and procedures to eliminate threats to our independence or to reduce them to an acceptable level.</p> <p>As required under Canadian GAAS, we have reported all relationships and other relevant matters that, in our professional judgment, may reasonably be thought to bear on our independence and confirmed our independence to the Audit Committee for the year ended December 31, 2012.</p> <p>Our independence letter is included in Appendix F.</p>

Audit findings and other matters

Outstanding items

As of the date of writing, certain aspects of our audit and file documentation are outstanding including:

- Receipt of signed management's representations letter
- Signed Appointed Actuary report
- Performance of subsequent event procedures up to February 26, 2013
- Completion of final partner and Engagement Quality Control reviews.

We plan to issue our audit opinions dated February 26, 2013, following completion of the above procedures and approval of the financial statements by the Advisory Board.

In conclusion

We would like to thank management for their contribution towards creating a constructive relationship between our respective teams and in helping us discharge our duties and responsibilities in a comprehensive and efficient manner.

We also thank you for the interest you have continuously shown in the scope and results of our audits. We regard your interest as a critical component in positioning the audit to provide the maximum benefit to you and your stakeholders.

Appendix A – Audit results

Status of deliverables

In our audit plan document, we identified a number of deliverables to be provided to you throughout the course of our audits. The status, as of February 19, 2013, of these items for the Society is as follows:

Deliverables	Status
2012 Audit scope and plan	Complete Dated December 17, 2012
Confirmation of our independence and reporting on non-audit services and relationships	Complete Dated February 19, 2013
Audit results	Complete Dated February 19, 2013
Auditor's report on the following statements: Annual financial statements Annual Return Form P&C-1 Minimum Capital Test Return	(a)
Letter of significant recommendations for management	No items of significance noted
Other requests the Audit Committee may have	No such requests

(a) Subject to Advisory Board approval and completion of items referred to on Page 3 of this report.

Use of the work of experts

The following expert assisted in our audits:

Provision for claims and adjustment expenses and asset/liability duration for MCT Return	Our actuarial expert assisted in assessing the adequacy of the valuation of the provision for claims and adjustment expenses. The actuarial expert also assisted in testing of duration of interest rate sensitive assets/liabilities for MCT Return.
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Internal control matters

An audit is planned and performed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.

We obtained an understanding of internal control relevant to the audits; however, not all controls are relevant to every audit. We evaluated the design of controls relevant to the audit and determined whether they have been implemented. We are not, however, required to determine whether all relevant controls are operating effectively. Although not required by Canadian GAAS, we may decide that, for a particular engagement, it makes sense to rely on the effective operation of some controls to determine our planned substantive procedures. In such cases, we would go beyond evaluating the design of relevant controls and determining whether they have been implemented to also test whether the controls on which we intend to rely are operating effectively.

During the course of our audits, we did not identify any significant deficiencies in the internal control over financial reporting. Our audits were not designed to provide a high degree of assurance that significant deficiencies, if any, would be detected. Accordingly, we are unable to and do not provide any assurance on the design or effective operation of internal control over financial reporting.

Because of the inherent limitations of internal controls, including the possibility of collusion or management override of controls, material misstatements due to fraud may occur and not be detected. Also, projections of any evaluation of the internal controls to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Significant events and related party transactions

During the year the Society changed the regulatory authority from Financial Service Commission of Ontario (FSCO) to Superintendent of Insurance, Alberta. The change in the regulatory authority does not have any impact on the capital requirements or on the financial condition of the Society.

During the year, the Society initiated a Loss Portfolio Transfer (LPT) with Colchester Reinsurance Limited (Colchester) to transfer the outstanding net retained liabilities for the accident years from July 1, 1987 to June 30, 2012 inclusive for a premium of \$44,260,000. As part of the transaction the Society also entered into a Reinsurance Security Agreement with Colchester, which requires Colchester to set up on behalf of the Society deposits equal to at least 115% of Colchester's share of claim liabilities under the LPT. At December 31, 2012 the value of security deposits exceeded the required amount.

During the course of our audits of the Society's financial statements, we have not identified any related party transactions that are not in the normal course of operations and that involve significant judgments by management concerning measurement or disclosure.

Legal and regulatory compliance

Management is responsible for ensuring that Society's operations are conducted in accordance with applicable laws and regulations. The responsibility for preventing and detecting non-compliance rests with management. The auditor is not and cannot be held responsible for preventing non-compliance with laws and regulations. In the course of our audits, we did not identify any illegal or possibly illegal acts or any areas of material non-compliance with laws and regulations by the Society.

Post-balance sheet events

Management is responsible for assessing subsequent events up to the date of release of the financial statements.

At the date of finalizing this report, we are not aware of any significant post balance sheet events that require disclosure or adjustment to the financial statements.

It should be noted that under Canadian Auditing Standard 560, *Subsequent Events*, the auditor is not obligated to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, if, after the date of our reports but before the date the financial statements are released, a fact becomes known which could impact our auditor's reports, we will discuss the matter with management and, where appropriate, the Audit Committee to determine whether the financial statements need amendment and our auditor's reports need updating.

Compliance with IFRS

The audit allows us to express an opinion on whether the financial statements were prepared, in all material respects, in accordance with IFRS. The audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates made by management, and evaluating the overall presentation of the financial statements. Our report on the financial statements and communications required by Canadian GAAS are in accordance with our findings.

The results of our audits indicate that the financial statements of the Society are prepared in all material respects in accordance with IFRS.

Appendix B – Significant audit risks

Significant audit risks

The results of our audit work on areas of significant audit risks are set out below:

Areas of significant audit risk	Our audit response	Our findings
<p>Provision for Unpaid Claims and Adjustment Expenses (valuation)</p> <p>Risk of measurement uncertainty due to a significant amount of judgment required by the Appointed Actuary and management with respect to the assumptions and methodologies underlying the reserves.</p> <p>Estimates are complex and subject to variability. Relatively small variations in assumptions, selections of best estimate and margins for adverse deviations can have a significant impact on the Society's overall financial results.</p> <p>We assessed whether the reserves are appropriately established, carried and released.</p>	<p>This is an area subject to a significant amount of management judgment with respect to the assumptions and methodologies underlying the reserves. The actuarial reserving process utilizes a multitude of data sources and complex models to develop the estimate of policy liabilities.</p> <p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> • Utilized actuarial experts in the planning and execution of our audit procedures • Tested internal controls over the actuarial and claims processes • Selected and tested a representative sample of claims to ensure reserved amounts were properly supported and payments were properly authorized and accurately recorded • Tested underlying data used in the valuation including claims reserves, claims paid and premium data • Tested the reconciliation of the reserves, with focus on the reconciliation between the administrative and valuation systems • Reviewed the draft opinion of the Appointed Actuary • Assessed the reasonableness of key assumptions and methodologies • Carried out independent recomputations of the actuarial reserves and compared to the Society's valuation • Reviewed the discount factor used and the application of discounting • Reviewed trends in the development of prior years' ultimate and performed a retrospective assessment (a look back test) to determine whether management judgments and assumptions relating to the estimates indicated a possible bias on the part of management. 	<ul style="list-style-type: none"> • We believe that, in general, controls are adequately designed and implemented • Claims data appear complete and accurate and related reserve amounts appear appropriate, based on our audit testing • Our Actuarial expert reviewed actuarial methodologies and assumptions and has conducted various recomputation tests. The results of conducting these procedures were satisfactory and differences in computed amounts were within the range of acceptable actuarial practice. The net difference between Deloitte and the Appointed Actuary is 3.2% (2011: -1.6%) (Deloitte \$6,379,000 compared to Appointed Actuary \$6,181,000) <p>Subject to the completion of the outstanding items referred to on Page 3 of this report, the results of our audit procedures to date have been satisfactory.</p>

Areas of significant audit risk	Our audit response	Our findings
Revenue recognition Revenue streams are contractually driven, although the level of manual intervention increases the risks.	We performed the following audit procedures: <ul style="list-style-type: none"> • Tested management's controls over significant revenue streams • Performed a combination of analytical procedures and test of details • Agreed, on a sample basis, the insurance premiums recorded in the administration system to supporting documentation • Obtained confirmation from the insured and tested reconciling items, if any • For investment income performed test of details by selecting a sample of transactions and traced income to the source document and compared the individual income components to the prior year for any unusual movements. 	See Appendix G for the corrected error relating to the investment income. The results of our audit procedures were satisfactory.
Management override of controls We are obliged under the auditing standard, <i>The auditor's responsibilities relating to fraud in the audit of financial statements</i> , to consider and report on the risk associated with the potential for management override of controls. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud, and thus a significant risk.	We performed the following audit procedures: <ul style="list-style-type: none"> • Assessed the effectiveness of controls over the financial close process including the preparation and posting of journal entries and other adjustments • Tested, on a sample basis, the appropriateness of large or unusual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Examined accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatement due to fraud. 	The results of our audit procedures were satisfactory.
Other area of audit focus		
In relation to the LPT transaction referred to in Appendix A above, we have: <ul style="list-style-type: none"> • obtained an understanding of the business rationale for this transaction; • reviewed and understood the LPT agreement, amendment and key terms; • reviewed the Reinsurance Security Agreement; • checked custodian statement to ensure sufficient security deposit is maintained by Colchester and assessed any collectability issues; • checked the approval from the Advisory Board; • tested appropriate accounting treatment was followed for the LPT transaction under <i>IFRS 4 Insurance Contracts</i>; • updated our audit documentation related to the agreements; and • reviewed and tested the related financial statement disclosures. 		
The results of our audit procedures were satisfactory.		

Appendix C – Management judgments and accounting estimates

Management judgments and accounting estimates

The financial statements of the Society are prepared by management who are responsible for the integrity and fairness of the data presented. The preparation of the financial statements requires management to exercise judgment in the selection and application of accounting policies including the determination of related amounts that must of necessity be based on estimates and judgments. These estimates and judgments are normally based on knowledge and experience about past and current events and on assumptions about future events.

Accounting policies involving significant management judgments and accounting estimates include those for valuation of the provision for unpaid claims and adjustment expenses and collectability of reinsurance receivable.

We have set out in the table on the following page our comments with respect to these significant management judgments and accounting estimates as at December 31, 2012 (with December 31, 2011 comparatives).

Management judgments and accounting estimates	2012 (in '000)	2011 (in '000)	Comments
Provision for unpaid claims and adjustment expenses – Gross	\$74,790	\$79,943	Management's estimate of actuarial liabilities is the most significant area of measurement uncertainty which utilizes complex models and significant management judgment for assumptions.
Provision for unpaid claims and adjustment expenses - Net	\$6,181	\$45,512	Significant decline in the net provision for unpaid claims and adjustment expenses was a result of LPT as discussed earlier in this report.
Impact of changes in assumptions and discount rate- Net	577	\$2,050	<p>There were no changes made in the methodology of calculating provision for unpaid claims and adjustment expenses between last year and current year end. The Bornhuetter-Ferguson Method (BF) which is based on expected claims development patterns and expected losses continues to be the primary method relied upon by the Appointed Actuary. While there were no changes in the methodology, the Appointed Actuary has changed the basis of some key assumptions used in actuarial methods. These changes include loss development factor used in BF and changes in unallocated loss adjustment load. The changes were made to reflect the Society's emerging specific experience and changes in risk profile.</p> <p>The discount rate was decreased by 100 basis points to 0.85% (2011:1.85%). A significant decline is due to change in the reference portfolio. The current year's discount rate was based on Canada T-bills compared to prior year which is based on bond investments. As a result of the LPT transaction, the Society has transferred all the bond investments to Colchester for payment of ceded premium under LPT agreement.</p> <p>We noted no changes to the provision for adverse deviations "PfAD" factor as compared to prior year.</p> <p>Our actuarial expert reviewed the assumptions and methodologies used to estimate the actuarial liabilities.</p> <p>The recalculation of the policy liabilities did not produce materially different results and the differences between our estimates of the policy liabilities and the Society's Appointed Actuary's' estimates were found to be within the range of accepted actuarial practice.</p>

Management judgments and accounting estimates	2012 (in '000)	2011 (in '000)	Comments
Reinsurance receivable	\$1,870	\$5,739	Reinsurance receivable balance requires management to make judgement on the recoverability from the reinsurers due to disputes or inability to pay.
Provision for unpaid claims and adjustment expenses recoverable from reinsurer	\$68,609	\$34,431	We did not identify any significant reinsurance disputes, Our test also did not identify any concerns related to the reinsurer credit defaults. Moreover, the security deposit in place for unregistered reinsurer exceeded the provision of unpaid claims and adjustment expenses recoverable balance.

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

Appendix D – Reportable matters to the Audit Committee

We are required by professional standards and regulatory requirements to report to you any of the following matters to the extent we become aware of them during the course of the audits. Our findings are based on the audit work considered necessary by us to render our opinion on the Society's financial statements and MCT Return.

Reportable matters	Comments
Fraud or possible fraud identified through the audit process	None noted
Illegal or possibly illegal acts	None noted
Related party transactions that are not in the normal course of business	None noted
Responsibility assumed by Deloitte Our Audit Strategy and Scope	As per our audit plan presented to the Audit Committee on December 17, 2012
Management judgments and accounting estimates	See management judgments and accounting estimates in Appendix C
Audit adjustments (non-trivial adjustments whether or not corrected)	None noted
Uncorrected misstatements determined by management to be immaterial	None noted
Significant accounting policies and unusual transactions	See significant accounting policies on page 2. See discussion in Appendix A related to unusual transactions on LPT
Critical accounting policies and practices	
Alternative treatments under IFRS for accounting policies and practices related to material items (including specific transactions) that have been discussed with Management during the current audit period, including: Ramifications of the use of such alternative disclosures and treatments The treatment preferred by Deloitte.	No material items noted
Deloitte's judgments about the quality, not just the acceptability, of the Society's accounting principles as applied in its financial reporting	See management judgments and accounting estimates in Appendix C
Disagreements with management	None
Consultation with other accountants	None noted
Major issues discussed with management prior to retention	None

Reportable matters	Comments
Problems or difficulties encountered in performing the audits and management's response	None
Significant deficiencies in internal control, if any, identified by us during the year, in the conduct of the audit of the financial statements.	None noted. See internal control matters in Appendix A
Material written communications between Deloitte and management	See status of deliverables in Appendix A
All relationships between Deloitte and the Society that, in our professional judgment, may reasonably be thought to bear on independence.	See Independence Letter in Appendix F
A confirmation that Deloitte is independent with respect to the Society within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.	
Discuss the results of the procedures performed to identify fraud/illegal acts.	None noted
Discuss the Society's annual audited financial statements with the Audit Committee.	To be discussed at the meeting of the Audit Committee on February 20, 2013

Appendix E – Draft Independent Auditor's Reports

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

1. Draft audit report on the IFRS financial statements

Independent Auditor's Report

To the Advisory Board of Canadian Lawyers Liability Assurance Society

We have audited the accompanying financial statements of Canadian Lawyers Liability Assurance Society, which comprise the statement of financial position as at December 31, 2012, and the statements comprehensive income (loss), changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canadian Lawyers Liability Assurance Society as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

(To be signed Deloitte LLP)

Chartered Professional Accountants
Chartered Accountants
Licensed Public Accountants
February 26, 2013

2. Draft audit report on the P&C-1

Independent Auditor's Report

To the Provincial Superintendents of Financial Institutions/Insurance

We have audited the accompanying financial statements of Canadian Lawyers Liability Assurance Society (the "Society"), which comprise the statements of Assets and Liabilities and Equity as at December 31, 2012 and the statements of Income, Retained Earnings, Reserves, Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss), Cash Flows and Changes in Equity for the year then ended on pages 20.10 through 20.60 of the Society's Annual Return P&C-1, which include a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canadian Lawyers Liability Assurance Society as at December 31, 2012 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Unaudited Information

We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the schedules or exhibits referenced on pages 20.10 through 20.60 of the Society's Annual Return P&C-1.

(To be signed Deloitte LLP)

Chartered Professional Accountants
Chartered Accountants
Licensed Public Accountants
February 26, 2013

3. Draft audit report on the MCT Return

Independent Auditor's Report

To the Provincial Superintendents of Financial Institutions/Insurance

We have audited the accompanying Minimum Capital Test Return (the MCT Return) on page 30.70 of the Annual Return P&C-1 of Canadian Lawyers Liability Assurance Society as at December 31, 2012. The MCT Return has been prepared by management based on the provisions of the Office of the Superintendent of Financial Institutions Canada's (OSFI) Guideline – Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies (the Guideline).

Management's Responsibility for the MCT Return

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the MCT Return of Canadian Lawyers Liability Assurance Society as at December 31, 2012 is prepared, in all material respects, in accordance with the provisions of the Guideline.

Basis of Accounting and Restriction on Use

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

(To be signed Deloitte LLP)

Chartered Professional Accountants
Chartered Accountants
Licensed Public Accountants
February 26, 2013

Appendix F – Independence letter



Deloitte LLP
Brookfield Place
181 Bay Street
Suite 1400
Toronto ON M5J 2V1
Canada

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

February 19, 2013

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

Dear Audit Committee Members:

We have been engaged to audit the financial statements of Canadian Lawyers Liability Assurance Society (Society) for the year ended December 31, 2012.

Canadian generally accepted auditing standards (GAAS) require that we communicate in writing with you regarding our compliance with relevant ethical requirements regarding independence as well as all relationships and other matters between Society, our Firm and network firms that, in our professional judgment, may reasonably be thought to bear on our independence. We are also required to communicate the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the appropriate provincial institute / ordre and applicable legislation, covering such matters as:

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

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since February 14, 2012, the date of our last letter.

We are aware of the following relationships between the Society and our Firm and network firms that, in our professional judgment, may reasonably be thought to bear on our independence. The following relationships represent matters that have occurred from February 14, 2012 to February 19, 2013.

- The fees chargeable to the Society for audit services are \$82,000 for the period February 14, 2012 to February 19, 2013.

GAAS requires that we confirm our independence to the audit committee in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario. Accordingly, we hereby confirm that, we are independent with respect to the Society within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as at February 19, 2013.

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

We look forward to discussing the matters addressed in this letter with you at our upcoming meeting on February 20, 2013.

Yours truly,

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

Chartered Professional Accountants
Chartered Accountants
Licensed Public Accountants

Appendix G – Corrected error

During the course of our audit we noted the following error which was corrected by management. The corrected entry is recorded below:

Materiality - \$1,460,000

December 31, 2012 Description	Increase (Decrease)				
	Assets	Liabilities	Ending Subscribers' Equity	Opening Subscribers' Equity	Net Income
Realized gain on transfer of investments to Colchster for LPT incorrectly recorded as interest income	\$ -	\$ -	\$ -	\$ -	\$ 1,600,586
Interest income on investments transferred as above were incorrectly recorded	\$ -	\$ -	\$ -	\$ -	\$ (1,600,586)
Sub-total (pre-tax)	\$ -	\$ -	\$ -	\$ -	\$ -
	-	-	-	-	
	-	-	-	-	
Net effect (after-tax)	\$ -	\$ -	\$ -	\$ -	\$ -

www.deloitte.ca

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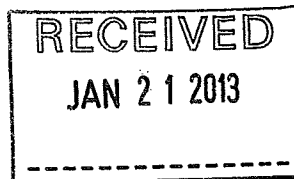
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MARTIN, LUCAS & SEAGRAM LTD.
INDEPENDENT INVESTMENT COUNSEL
SUITE 620, 48 YONGE STREET
TORONTO
M5E 1G9

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

January 17, 2013



Mr. Patrick Mahoney,
Dion, Durrell + Associates Inc.,
2900 - 250 Yonge St.,
Toronto, ON M5B 2L7

Dear Patrick:

Re: Canadian Lawyers Liability Assurance Society

Please find enclosed our fourth quarter investment report on CLLAS. The report covers the Short Term Investment Fund for the entire quarter ending December 31 last and the Long Term Investment Fund for the broken period from October 1 to November 14. We have also included an additional schedule which details the date to date gains and losses for each of the individual holdings in the Long Term Investment Fund over the reporting period.

The originals of the two separate accounts for the Short and the Long Term Investment Funds covering the two periods have been sent to RBC Dexia Investor Services for payment.

It was a rather uneventful period for the domestic bond market as prices drifted in a narrow sideways trading range. As arranged by CLLAS, all the securities in the Long Term Investment Fund and a short-term provincial issue held in the Short Term Fund were transferred out on November 15, 2012. As a result, at year-end the CLLAS surplus funds consisted of the Short Term Investment Fund alone.

During the fourth quarter, we continued to roll over maturities held in the Short Term Fund in accordance with the Investment Policy statement dated May 5, 2012. We will stand by for instructions regarding the Short Term Fund's investment objectives and parameters following the transfer of investment management responsibilities for the Long Term Fund.

In the meantime, please let me know if there are any questions or comments on the report.

With best regards,

Yours sincerely,

A handwritten signature in cursive script, appearing to read "Andrew Bell".

RWB/mab
Enclosures

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

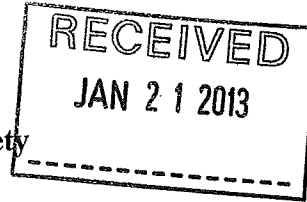
Copy

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

January 17, 2013

In account with

Canadian Lawyers Liability Assurance Society
- Long Term Investment Fund



Valuation of Long Term Investment Fund
at November 14, 2012

\$43,881,439

Investment Counsel Fee for the period
October 1 to November 14, 2012
at .25% per annum

\$13,525.10

Harmonized Sales Tax (HST) at 13%

1,758.26

\$15,283.36

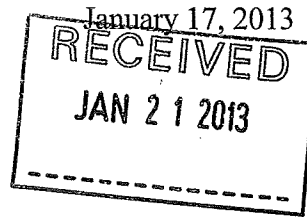
Please return this account when
making payment so that it may be
receipted and sent back to you.

HST Registration No. R103546115

MARTIN, LUCAS & SEAGRAM LTD.
INDEPENDENT INVESTMENT COUNSEL
SUITE 620, 48 YONGE STREET
TORONTO
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In account with

Canadian Lawyers Liability Assurance Society
- Short Term Investment Fund

Valuation of Short Term Investment Fund
at December 31, 2012

\$13,274,072

Investment Counsel Fee for the period
October 1 to December 31, 2012
at .025% (1/4 of .10% per annum)

\$3,318.52

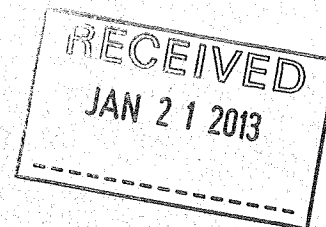
Harmonized Sales Tax (HST) at 13%

431.41

\$3,749.93

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making payment so that it may be
receipted and sent back to you.

HST Registration No. R103546115



CLLAS
CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

INVESTMENT REPORT

LONG TERM FUND – NOVEMBER 14, 2012
SHORT TERM FUND – DECEMBER 31, 2012

MARTIN, LUCAS & SEAGRAM LTD.
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CLLAS

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

COMMENTARY FOR THE QUARTER ENDING DECEMBER 31, 2012

Review of Market Yields

Bond yields across all maturities traded in a fairly tight sideways channel during the fourth quarter. As a result of an upward shift late in the year, yields ended the quarter near the high end of their three month range and slightly above their levels at the end of September.

As a result of the small upward shift across the curve, and a slight downtick in the three month Treasury Bill rate, the yield curve steepened slightly, with the yield advantage of 10-year issues over T-Bills increasing to .88% at year-end, compared to .76% three months earlier.

	Jan. 1/95	Jun. 30/12	Sep. 30/12	Dec. 31/12
3-Month Treasury Bills	6.80%	0.87%	0.97%	0.92%
5-year Canadas	8.99%	1.25%	1.30%	1.38%
10-year Canadas	9.09%	1.74%	1.73%	1.80%

During the broken period from September 30 to November 14, the valuation of the Long Term Investment Fund declined \$93,237, or 0.2% on a capital basis.

At November 14, 2012, the average term to maturity of the Long Term Investment Fund stood at 3.1 years, compared to 3.3 years at September 30.

During the period, in the Long Term Investment Fund, all the securities, plus a short-term provincial coupon bond held in the Short Term Fund, were transferred out on November 15, 2012, using November 14 market values. Further activity involved the roll-over of maturities in the Short Term account.

The table below shows the distribution of the assets held in both the Short and Long Term Investment Funds at November 14.

<i>Distribution at November 14, 2012</i>	<i>Valuation</i>	<i>%</i>
Short Term Investment Fund	\$13,247,061	23.2%
Long Term Investment Fund	43,881,439	76.8%
TOTAL COMBINED VALUATION	\$57,128,500	100.0%

CLLAS

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

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

- Investment Performance: Summary of Capital Performance and Total Returns for the Long Term Investment Fund
- (Returns Exclude Investment Counsel Fees)
- Total Returns vs. Benchmarks - Gross and Net of Fees
- Distribution of Securities in the Long Term Investment Fund
by Credit Risk and by Maturity
- Compliance Statement
- Quarterly Performance Report - Gross of Fees: Long Term Investment Fund
- Bond Market Commentary and Future Policy
- Security Holdings in the Short Term Fund at December 31, 2012
Security Holdings in the Long Term Fund at November 14, 2012
- Security Purchases and Sales
- Cash Reconciliations
- External Individual Credit Rating Report

CLLAS

LONG TERM INVESTMENT FUND

SUMMARY OF CAPITAL PERFORMANCE SINCE THE STARTING DATE OF JANUARY 1, 1995

	Jan. 1/95	Jun. 30/12	Sep. 30/12	Nov. 14/12
<i>Valuation of Long Term Investment Fund</i>	<i>\$3,466,369</i>	<i>\$43,360,787</i>	<i>\$42,975,126</i>	<i>\$43,881,439</i>
Cumulative Capital Added (Net) since January 1, 1995		\$37,258,406	\$36,958,406	\$37,957,956

Capital Change		+\$181,971	-\$85,661	-\$93,237
Capital % Change		+ 0.5%	-0.2%	-0.2%

LONG TERM INVESTMENT FUND

TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIODS ENDING OCTOBER 31, 2012 (ANNUALIZED)

	Five Years	Four Years	Three Years	Two Years	One Year	One Month
<i>Long Term Investment Fund</i>	<i>5.27%</i>	<i>4.97%</i>	<i>4.00%</i>	<i>3.56%</i>	<i>3.04%</i>	<i>0.06%</i>
DEX Canada Short Bond Index	4.39%	3.53%	2.89%	2.45%	1.53%	0.07%
DEX Provincial Short Bond Index	4.85%	4.48%	3.47%	2.99%	2.14%	0.13%

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LONG TERM INVESTMENT FUND

TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIOD ENDING OCTOBER 31, 2012

	Since Inception Oct. 1/08 *	Three Years*	Two Years *	One Year	One Month
<i>Long Term Investment Fund – Gross of Fees</i>	5.07%	4.00%	3.56%	3.04%	0.06%
<i>Long Term Investment Fund – Net of Fees</i>	4.77%	3.69%	3.23%	2.75%	-0.01%
Benchmark Portfolio **	5.59%	4.77%	4.17%	3.39%	0.00%

* Annualized

** The Benchmark Portfolio, adopted from October 1, 2008, is based on the sum of the following total return indices:

30% DEX Short Term Federal Bond Index
30% DEX Short Term Provincial Bond Index
20% DEX Mid Term Federal Bond Index
20% DEX Mid Term Provincial Bond Index

SHORT TERM INVESTMENT FUND

TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIOD ENDING DECEMBER 31, 2012

	Since Inception Oct. 1/08 *	Three Years*	Two Years *	One Year	Last 3 Months
<i>Short Term Investment Fund – Gross of Fees</i>	0.81%	0.80%	0.91%	0.91%	0.23%
<i>Short Term Investment Fund – Net of Fees</i>	0.67%	0.69%	0.80%	0.79%	0.20%
Benchmark Portfolio **	0.74%	0.75%	0.91%	0.91%	0.24%

* 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)

	Jan. 1/95	Jun. 30/12	Sep. 30/12	Nov. 14/12
Bonds, Treasury Bills & Cash Less than 1 year term	29.0%	13.2%	14.6%	17.3%
Canadas Greater than 1 year term	54.7%	38.2%	36.3%	35.5%
Provincials Greater than 1 year term	16.3%	34.4%	34.7%	33.7%
Corporates Greater than 1 year term	-	14.2%	14.4%	13.5%
TOTAL PORTFOLIO	100.0%	100.0%	100.0%	100.0%

LONG TERM INVESTMENT FUND

DISTRIBUTION OF SECURITIES BY MATURITY
(Based on Market Values)

	Jan. 1/95	Jun. 30/12	Sep. 30/12	Nov. 14/12
Under 1 year	29.0%	13.2%	14.6%	17.3%
1 - 3 years	19.8%	35.3%	35.6%	35.7%
3 - 5 years	29.3%	31.7%	32.1%	29.7%
5 - 7 years	11.4%	6.8%	4.6%	4.5%
7 - 10 years	10.5%	13.0%	13.1%	12.8%
TOTAL	100.0%	100.0%	100.0%	100.0%
Average Maturity (yrs)	2.60	3.49	3.27	3.08
Average Duration	2.30	3.20	3.00	2.82

SHORT TERM INVESTMENT FUND

	Jan. 1/95	Jun. 30/12	Sep. 30/12	Dec. 31/12
Short Term Average Duration	N/A	0.12	0.04	0.05

CLLAS

COMPLIANCE WITH INVESTMENT POLICY STATEMENT

<i>December 31, 2012</i>	Investment Limits	Investment Funds	Compliance
<i>Short Term Investment Fund</i>			
Maximum Term of Any Issue	1 year	0.1 years	Yes
Minimum Size of Two Funds	20% of Total	23.2%*	Yes
Minimum Canada & Provincial Percentage	50%	75.9%	Yes
Minimum Provincial Quality	A	None Held	Yes
Minimum Bank CD & BA Quality	R1	R1	Yes

*At November 14, 2012

<i>November 14, 2012</i>	Investment Limits	Investment Funds	Compliance
<i>Long Term Investment Fund</i>			
Maximum Term of Any Issue	10 years	9.3 years	Yes
Minimum Cda and Cda Guarantee Percentage	40%	41.4%	Yes
Maximum Provincial Percentage	40%	41.9%	No
Minimum Provincial Quality **	A	A	Yes
Maximum Corporate Percentage	20%	16.7%	Yes
Minimum Corporate Quality **	A	A	Yes

** At time of purchase

At November 14, the portfolio's provincial percentage was a fraction above the 40% maximum limit.

This will confirm that during the period the balance of the portfolio's components was managed in compliance with the Investment Policy Statement that became effective May 5, 2012.

At November 14, the Short Term Investment Fund represented 23.2% of the two Funds combined, which was above the 20% minimum required. At November 14, none of the bond holdings' current credit ratings was below the minimum requirement.

"At November 14, the lowest rated bonds were:"

Provincial Bonds: Quebec and Manitoba @ A Hi

Corporate Bonds: Canadian Utilities Inc. @ A

Enbridge Gas Distribution @ A

CLLAS

Martin, Lucas & Seagram Ltd.
PERFORMANCE REPORT
GROSS OF FEES
CLLAS - LONG TERM INVESTMENT FUND
From 09-30-12 to 11-14-12

Portfolio Value on 09-30-12	42,975,126
Accrued Interest	309,179
Contributions	999,550
Withdrawals	-31,925
Realized Gains	0
Unrealized Gains	-93,237
Interest	31,925
Dividends	0
Change in Accrued Interest	154,557
Portfolio Value on 11-14-12	43,881,439
Accrued Interest	463,736
Average Capital	43,278,266
Total Gain before Fees	93,245
IRR for 0.12 Years	0.22%

CLLAS

BOND MARKET COMMENTARY AND FUTURE POLICY

The global economic expansion remained intact last year, although overall economic activity softened in most major regions. The most recent estimates from the International Monetary Fund forecasted world growth of 3.3% for 2012, down from 3.8% the previous year. Across the developed economies, Europe and Japan slipped into recession in the second half of last year. A moderate deceleration among the major emerging markets also contributed to slowdown in global growth.

In an effort to counter the slowdown, central banks in most developed and developing nations launched additional rounds of monetary stimulus throughout the past year. Last fall, the European Central Bank (ECB) announced one of the most ambitious programs by pledging to buy unlimited quantities of short-term government bonds from financially distressed euro zone countries in order to preserve the euro and reduce borrowing costs. The Federal Reserve also made open-ended commitments to continue with significant monthly purchases of mortgage and treasury securities until the U.S. jobless rate declines to at least 6.5%, provided projected inflation is no more than 2.5%. The Bank of Japan has since followed with a significant expansion of their stimulative policies.

The adoption of more aggressive monetary policies started to show some positive results in the closing months of last year. In Europe, borrowing costs eased and a noticeable improvement in financial conditions helped to alleviate concerns surrounding the ability of Spain and Italy to finance their deficits. Meanwhile, the most recent quarterly data showed the two largest economies had rebounded from their summer lull. In the U.S., GDP picked up during the third quarter, due to higher consumer spending, inventory accumulation and gains in the housing sector. Economic indicators across Asia's large economies also showed improvement, led by China. After experiencing seven consecutive quarters of slower growth, a string of better than expected data confirmed that China's growth rate stabilized during the third quarter and there are growing signs that its economy is again building upward momentum.

Turning to the bond market, against a backdrop of moderate global growth, minimal inflationary pressures, and growing central bank purchases of government debt as the authorities ramped up their reflationary measures, bond yields remained depressed and prices held in a sideways trading range. At the close of 2012, yields on 5 and 10 year Canada bonds were very close to their average level over the entire year.

In recent weeks, both the equity and bond markets have been buffeted by political developments south of the border, as U.S. lawmakers struggled to address the so called "fiscal cliff". The rancorous tone of the debates caused investors to vacillate between risk-on and risk-off trading positions. Fortunately, a last minute compromise averted the cliff's harshest measures, since these had the potential to push the U.S. into recession and possibly derail the global expansion. As a result, the equity markets started the new year with a strong rally, fuelled in large part by investors' relief that the most onerous aspects of the scheduled tax increases and spending cuts were averted or delayed. This in turn, put downward pressure on bond yields as investors shifted to higher risk assets.

CLLAS

However, as expected, U.S. politicians were unable to achieve a grand deal that would effectively address their deep structural fiscal imbalances and the recent passage of the American Taxpayer Relief Act provided only a partial fix. Across the board mandated spending cuts (the spending sequester) were delayed for only two months and without the adoption of an official budget for 2013, funding for all nonessential spending will run out in late March. Furthermore, the debate over raising the debt ceiling looms and the U.S. Treasury estimates that extraordinary measures now being used to avert a default will work only until the latter half of February or early March.

As a result, the initial enthusiasm that pushed stocks higher has waned and bond prices have since recovered some of the ground lost earlier. Over the coming weeks, we expect bond prices will be supported as investors seek the relative safety of government debt as they endure additional rounds of unsettling political posturing and uncertainty. Back in the fall of 2011, which was the last time negotiations stalled to raise the U.S. debt ceiling, bond prices rallied despite the spectre of a default and Standard and Poor's decision to strip the U.S. of their AAA credit rating. Given the deep political divides that still prevail, the discussions surrounding how to restore America's fiscal health through spending cuts are expected to remain highly contentious and based on past experience, will likely drag on until the eleventh hour. Given the considerable economic and political stakes resting on the outcome, it seems reasonable to expect the necessary compromises will be made, but this is far from assured.

Provided a U.S. political accident is avoided, we see the potential for gradual improvement in some of the major global economic headwinds that prevailed throughout 2012. There are encouraging economic signs coming from Asia, with China rebuilding upward momentum after having successfully engineered a soft landing. While Europe's economic malaise continues to deepen, some of the necessary structural adjustments have been made and their financial markets have stabilized in recent months, which is an essential condition to arrest the decline. Closer to home, the debates surrounding tax and spending policies in the U.S. will weigh on the near term growth prospects for both the U.S. and Canada. However, a successful resolution of these issues would remove a considerable source of uncertainty that has been holding back both economies.

In conclusion, we believe there is room for cautious optimism for the medium term economic outlook. Given that prevailing bond yields are providing negative real returns and remain well above fair value, based on the Fed's historical models, we believe yields will begin to trend higher as the economic and financial environment normalizes. However, we expect this will be a drawn out process, given the amount of slack that remains in the economy and the monetary authorities' commitment to maintain a near-zero interest rate policy for some time yet. As a result, we expect money market yields will remain anchored around current levels, given expected central bank policies.

RWB/mab
January 18, 2013

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

CLLAS - LONG TERM INVESTMENT FUND**Portfolio Holdings at November 14, 2012**

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
GOVERNMENT BONDS					
750,000	Canada Housing Trust Sr. 18 4.55% due December 15, 2012	102.72	100.27	752,004	34,125
900,000	Canada Housing Trust Sr. 19 3.60% due June 15, 2013	99.87	101.46	913,108	32,400
900,000	Canada Housing Trust Sr. 22 3.55% due September 15, 2013	105.12	102.03	918,263	31,950
1,650,000	Canada Housing Trust Sr. 24 2.70% due December 15, 2013	100.25	101.73	1,678,515	44,550
1,500,000	Canada Housing Trust Sr. 26 2.20% due March 15, 2014	99.80	101.45	1,521,686	33,000
1,000,000	Canada Housing Trust Sr. 28 3.15% due June 15, 2014	99.95	103.16	1,031,612	31,500
1,500,000	Canada Housing Trust Sr. 29 2.75% due September 15, 2014	101.82	102.90	1,543,571	41,250
600,000	Canada Mtge & Housing 4.30% due April 1, 2015	100.95	107.08	642,451	25,800
650,000	Canada Mtge & Housing Corp. 4.10% due October 1, 2015	98.39	107.81	700,733	26,650
1,000,000	Canada 3.00% due December 1, 2015	102.41	105.44	1,054,372	30,000
1,000,000	Canada Housing Trust 2.75% Series 39 due December 15, 2015	99.35	104.24	1,042,430	27,500
1,000,000	Canada 4% due June 1, 2016	99.58	109.69	1,096,869	40,000
1,000,000	Canada Housing Trust 2.05% Series 46 due June 15, 2017	99.91	102.09	1,020,860	20,500
750,000	Canada Housing Trust Sr. 23 4.10% due December 15, 2018	104.51	113.24	849,337	30,750
1,500,000	Canada Housing Trust No. 1 Sr. 30 3.75% due March 15, 2020	103.99	112.30	1,684,487	56,250
1,000,000	Canada Housing Trust 3.35% due December 15, 2020	104.64	109.83	1,098,326	33,500
600,000	Canada Housing Trust 2.65% Series 45 due March 15, 2022	101.55	104.01	624,030	15,900
				18,172,651	555,625
PROVINCIAL BONDS					
1,250,000	Ontario 4.50% due December 2, 2012	103.37	100.11	1,251,413	56,250
1,000,000	Ontario Coupon due December 2, 2012	99.55	99.96	999,550	0
1,275,000	Ontario 4-3/4% due June 2, 2013	102.35	101.94	1,299,797	60,563

CLLAS - LONG TERM INVESTMENT FUND**Portfolio Holdings at November 14, 2012**

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
1,000,000	Manitoba 5.05% due December 3, 2013	101.61	104.01	1,040,099	50,500
750,000	Ontario 5% due March 8, 2014	102.63	104.92	786,901	37,500
500,000	Ontario 3.25% due September 8, 2014	99.84	103.55	517,764	16,250
800,000	Alberta 2.75% due December 1, 2014	101.64	103.12	824,966	22,000
750,000	Manitoba 4.80% due December 3, 2014	104.46	107.10	803,240	36,000
1,350,000	Ontario 4.5% due March 8, 2015	101.62	107.14	1,446,368	60,750
900,000	Ontario 3.15% due September 8, 2015	102.69	104.68	942,133	28,350
1,750,000	Ontario 4.4% due March 8, 2016	102.25	109.22	1,911,282	77,000
750,000	Ontario 3.20% due September 8, 2016	99.95	105.74	793,023	24,000
1,750,000	Ontario 4.30% due March 8, 2017	101.49	110.52	1,934,118	75,250
500,000	Alberta 1.75% due June 15, 2017	99.45	100.37	501,854	8,750
1,000,000	Ontario 4.20% due March 8, 2018	100.33	111.26	1,112,648	42,000
1,000,000	British Columbia 4.10% due December 18, 2019	103.60	112.73	1,127,274	41,000
1,000,000	British Columbia 3.70% due December 18, 2020	99.83	110.20	1,101,984	37,000
				18,394,411	673,163
CORPORATE BONDS					
400,000	Wells Fargo Financial Canada MTN 4.40% due December 12, 2012	99.78	100.18	400,723	17,600
750,000	Toronto Dominion Bank Dep. Note 4.854% due February 13, 2013	101.35	100.82	756,180	36,405
250,000	Bank of Nova Scotia 4.56% due October 30, 2013	100.07	102.97	257,420	11,400
300,000	Wells Fargo Financial Canada MTN 4.33% due December 6, 2013	99.97	102.85	308,558	12,990
250,000	Enbridge Gas Distribution 5.570% due January 29, 2014	107.04	104.68	261,702	13,925
250,000	Canadian Utilities Inc. 5.096% due November 18, 2014	105.56	106.91	267,282	12,740

CLLAS - LONG TERM INVESTMENT FUND

Portfolio Holdings at November 14, 2012

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
500,000	CIBC 4.75% due December 22, 2014	101.80	106.24	531,201	23,750
300,000	GE Capital Cda Fndg 4.65% due February 11, 2015	102.20	105.97	317,900	13,950
500,000	Royal Bank 3.18% due March 16, 2015	102.15	103.42	517,090	15,900
300,000	Royal Bank 3.36% due January 11, 2016	100.54	104.19	312,568	10,080
300,000	CIBC Dep Nts 3.40% due January 14, 2016	100.67	104.33	312,975	10,200
400,000	Bank of Nova Scotia Dep. Note 3.61% due February 22, 2016	101.65	105.09	420,342	14,440
600,000	Bank of Montreal 3.103% due March 10, 2016	100.79	103.58	621,482	18,618
500,000	Bank of Montreal Dep. Note 3.49% due June 10, 2016	104.92	104.96	524,796	17,450
500,000	Royal Bank 3.66% Sr. Dep. Note due January 25, 2017	101.46	105.95	529,747	18,300
700,000	CIBC Dep Note 3.95% due July 14, 2017	102.93	107.67	753,679	27,650
200,000	Bank of Montreal 4.55% due August 1, 2017	99.94	110.37	220,734	9,100
				<hr/> 7,314,377	<hr/> 284,498
TOTAL PORTFOLIO				43,881,439	1,513,286

Martin, Lucas & Seagram Ltd.
DATE TO DATE GAINS AND LOSSES
CLLAS - LONG TERM INVESTMENT FUND
From 09-30-12 to 11-14-12

Security	09-30-12 Market Value	Additions Withdrawals	11-14-12 Market Value	11-14-12 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
GOVERNMENT BONDS								
Canada Housing Trust Sr. 18 4.55% due December 15, 2012	755,168	0	752,004	770,425	0	0	-18,421	-3,164
Canada Housing Trust Sr. 19 3.60% due June 15, 2013	915,588	0	913,108	898,840	0	0	14,268	-2,480
Canada Housing Trust Sr. 22 3.55% due September 15, 2013	920,781	0	918,263	946,117	0	0	-27,854	-2,518
Canada Housing Trust Sr. 24 2.70% due December 15, 2013	1,681,185	0	1,678,515	1,654,203	0	0	24,312	-2,670
Canada Housing Trust Sr. 26 2.20% due March 15, 2014	1,523,250	0	1,521,686	1,497,053	0	0	24,633	-1,565
Canada Housing Trust Sr. 28 3.15% due June 15, 2014	1,033,600	0	1,031,612	999,460	0	0	32,152	-1,988
Canada Housing Trust Sr. 29 2.75% due September 15, 2014	1,545,735	0	1,543,571	1,527,285	0	0	16,286	-2,165
Canada Mtge & Housing 4.30% due April 1, 2015	644,826	-12,900	642,451	605,700	0	0	36,751	-2,375
Canada Mtge & Housing Corp. 4.10% due October 1, 2015	702,293	-13,325	700,733	639,525	0	0	61,208	-1,560
Canada 3.00% due December 1, 2015	1,056,380	0	1,054,372	1,024,060	0	0	30,312	-2,008
Canada Housing Trust 2.75% Series 39 due December 15, 2015	1,042,320	0	1,042,430	993,510	0	0	48,920	110
Canada 4% due June 1, 2016	1,099,800	0	1,096,869	995,820	0	0	101,049	-2,931
Canada Housing Trust 2.05% Series 46 due June 15, 2017	1,020,200	0	1,020,860	999,120	0	0	21,740	660
Canada Housing Trust Sr. 23 4.10% due December 15, 2018	850,500	0	849,337	783,840	0	0	65,497	-1,163
Canada Housing Trust No. 1 Sr. 30 3.75% due March 15, 2020	1,684,995	0	1,684,487	1,559,825	0	0	124,662	-509
Canada Housing Trust 3.35% due December 15, 2020	1,098,630	0	1,098,326	1,046,410	0	0	51,916	-304
Canada Housing Trust 2.65% Series 45 due March 15, 2022	624,252	0	624,030	609,315	0	0	14,715	-222
GOVERNMENT BONDS Total	18,199,502		18,172,651	17,550,507	0	0	622,144	-26,851
PROVINCIAL BONDS								
Ontario 4.50% due December 2, 2012	1,256,888	0	1,251,413	1,292,133	0	0	-40,721	-5,475
Ontario Coupon due December 2, 2012	0	999,550	999,550	995,455	0	0	4,095	0
Ontario 4-3/4% due June 2, 2013	1,305,383	0	1,299,797	1,304,990	0	0	-5,193	-5,586
Manitoba 5.05% due December 3, 2013	1,044,670	0	1,040,099	1,016,075	0	0	24,024	-4,571
Ontario 5% due March 8, 2014	789,908	0	786,901	769,700	0	0	17,201	-3,007

Martin, Lucas & Seagram Ltd.
DATE TO DATE GAINS AND LOSSES
CLLAS - LONG TERM INVESTMENT FUND
From 09-30-12 to 11-14-12

Security	09-30-12 Market Value	Additions Withdrawals	11-14-12 Market Value	11-14-12 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
Ontario 3.25% due September 8, 2014	520,306	0	517,764	499,180	0	0	18,584	-2,543
Alberta 2.75% due December 1, 2014	826,000	0	824,966	813,148	0	0	11,818	-1,034
Manitoba 4.80% due December 3, 2014	806,453	0	803,240	783,425	0	0	19,815	-3,213
Ontario 4.5% due March 8, 2015	1,450,629	0	1,446,368	1,371,933	0	0	74,436	-4,261
Ontario 3.15% due September 8, 2015	943,650	0	942,133	924,198	0	0	17,935	-1,517
Ontario 4.4% due March 8, 2016	1,915,550	0	1,911,282	1,789,410	0	0	121,872	-4,268
Ontario 3.20% due September 8, 2016	793,778	0	793,023	749,618	0	0	43,406	-755
Ontario 4.30% due March 8, 2017	1,938,510	0	1,934,118	1,776,025	0	0	158,093	-4,393
Alberta 1.75% due June 15, 2017	502,385	0	501,854	497,245	0	0	4,609	-532
Ontario 4.20% due March 8, 2018	1,114,650	0	1,112,648	1,003,315	0	0	109,333	-2,002
British Columbia 4.10% due December 18, 2019	1,130,570	0	1,127,274	1,036,047	0	0	91,227	-3,296
British Columbia 3.70% due December 18, 2020	1,101,760	0	1,101,984	998,345	0	0	103,639	224
PROVINCIAL BONDS Total	17,441,088		18,394,411	17,620,242	0	0	774,170	-46,227
CORPORATE BONDS								
Wells Fargo Financial Canada MTN 4.40% due December 12, 2012	402,404	0	400,723	399,120	0	0	1,603	-1,681
Toronto Dominion Bank Dep. Note 4.854% due February 13, 2013	759,743	0	756,180	760,125	0	0	-3,945	-3,563
Bank of Nova Scotia 4.56% due October 30, 2013	258,405	-5,700	257,420	250,175	0	0	7,245	-985
Wells Fargo Financial Canada MTN 4.33% due December 6, 2013	309,807	0	308,558	299,920	0	0	8,639	-1,249
Enbridge Gas Distribution 5.570% due January 29, 2014	263,090	0	261,702	267,610	0	0	-5,909	-1,389
Canadian Utilities Inc. 5.096% due November 18, 2014	267,578	0	267,282	263,910	0	0	3,372	-296
CIBC 4.75% due December 22, 2014	533,490	0	531,201	508,980	0	0	22,221	-2,290
GE Capital Cda Fndg 4.65% due February 11, 2015	318,675	0	317,900	306,600	0	0	11,300	-775
Royal Bank 3.18% due March 16, 2015	518,550	0	517,090	510,755	0	0	6,335	-1,460
Royal Bank 3.36% due January 11, 2016	313,290	0	312,568	301,620	0	0	10,948	-722
CIBC Dep Nts 3.40% due January 14, 2016	313,548	0	312,975	301,998	0	0	10,977	-573
Bank of Nova Scotia Dep. Note 3.61% due February 22, 2016	421,280	0	420,342	406,596	0	0	13,746	-938
Bank of Montreal 3.103% due March 10, 2016	622,326	0	621,482	604,762	0	0	16,720	-844
Bank of Montreal Dep. Note 3.49% due June 10, 2016	525,790	0	524,796	524,575	0	0	221	-995

Martin, Lucas & Seagram Ltd.
DATE TO DATE GAINS AND LOSSES
CLLAS - LONG TERM INVESTMENT FUND
From 09-30-12 to 11-14-12

Security	09-30-12 Market Value	Additions Withdrawals	11-14-12 Market Value	11-14-12 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
Royal Bank 3.66% Sr. Dep. Note due January 25, 2017	531,015	0	529,747	507,323	0	0	22,425	-1,268
CIBC Dep Note 3.95% due July 14, 2017	754,614	0	753,679	720,496	0	0	33,183	-935
Bank of Montreal 4.55% due August 1, 2017	220,932	0	220,734	199,882	0	0	20,852	-198
CORPORATE BONDS Total	7,334,536		7,314,377	7,134,446	0	0	179,931	-20,159
TOTAL PORTFOLIO	42,975,126		43,881,439	42,305,195	0	0	1,576,244	-93,237
TOTAL DATE TO DATE GAIN OR LOSS								-93,237
% CHANGE DURING PERIOD								-0.22

CLLAS - SHORT TERM INVESTMENT FUND

Portfolio Holdings at December 31, 2012

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
CASH					
	Cash Account			20,744	0
MONEY MARKET ISSUES					
1,185,000	Royal Bank BA 1.00% due January 14, 2013	99.93	99.96	1,184,470	11,842
8,075,000	Canada Treasury Bill .83% due January 17, 2013	99.87	99.96	8,071,528	66,937
2,000,000	CIBC BA 1.00% due January 18, 2013	99.85	99.94	1,998,870	19,969
2,000,000	Canada Treasury Bill .80% due January 31, 2013	99.93	99.92	1,998,460	15,989
				<hr/> 13,253,328	<hr/> 114,737
TOTAL PORTFOLIO				13,274,072	114,737

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
From 10-01-12 To 12-31-12

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
PURCHASES					
10-05-12	10-09-12	1,170,000	Canada Treasury Bill .86% due October 25, 2012	99.96	1,169,558.91
10-05-12	10-09-12	1,200,000	National Bank of Canada BA 1.03% due October 18, 2012	99.97	1,199,695.20
10-09-12	10-10-12	1,500,000	Bank of Nova Scotia BA 1.00% due October 25, 2012	99.96	1,499,383.50
10-09-12	10-10-12	1,600,000	TD Bank BA 1.00% due October 25, 2012	99.96	1,599,342.40
10-10-12	10-11-12	7,805,000	Canada Treasury Bill .87% due October 25, 2012	99.97	7,802,393.13
10-17-12	10-18-12	1,175,000	CIBC BA .97% due October 31, 2012	99.97	1,174,594.63
10-24-12	10-25-12	2,000,000	Bank of Nova Scotia BA .96% due November 23, 2012	99.92	1,998,476.00
10-24-12	10-25-12	8,075,000	Canada Treasury Bill .81% due November 22, 2012	99.94	8,069,985.43
10-24-12	10-25-12	2,000,000	Royal Bank BA .96% due November 23, 2012	99.92	1,998,476.00
10-30-12	10-31-12	1,175,000	CIBC BA .98% due November 20, 2012	99.95	1,174,369.03
11-19-12	11-20-12	1,175,000	CIBC BA 1.00% due December 19, 2012	99.92	1,174,040.03
11-21-12	11-22-12	8,075,000	Canada Treasury Bill .83% due January 17, 2013	99.87	8,064,728.60
11-22-12	11-23-12	2,000,000	Bank of Nova Scotia BA .999% due December 31, 2012	99.90	1,997,920.00
11-22-12	11-23-12	2,000,000	CIBC BA 1.00% due January 18, 2013	99.85	1,996,936.00
12-18-12	12-19-12	1,185,000	Royal Bank BA 1.00% due January 14, 2013	99.93	1,184,156.28
12-28-12	12-31-12	2,000,000	Canada Treasury Bill .80% due January 31, 2013	99.93	1,998,642.00
					44,102,697.14
SALES					
10-04-12	10-04-12	1,345,000	Royal Bank BA .98% due October 4, 2012	100.00	1,345,000.00
10-09-12	10-09-12	1,000,000	National Bank of Canada BA 1.00% due October 9, 2012	100.00	1,000,000.00
10-10-12	10-10-12	750,000	Bank of Nova Scotia BA 1.00% due October 10, 2012	100.00	750,000.00
10-10-12	10-10-12	500,000	CIBC BA .98% due October 10, 2012	100.00	500,000.00

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
From 10-01-12 To 12-31-12

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
10-10-12	10-10-12	1,000,000	CIBC BA 1.00% due October 10, 2012	100.00	1,000,000.00
10-10-12	10-10-12	850,000	TD Bank 1.00% due October 10, 2012	100.00	850,000.00
10-11-12	10-11-12	2,000,000	Canada Treasury Bill .86% due October 11, 2012	100.00	2,000,000.00
10-11-12	10-11-12	2,000,000	Canada Treasury Bill .90% due October 11, 2012	100.00	2,000,000.00
10-11-12	10-11-12	3,805,000	Canada Treasury Bill .90% due October 11, 2012	100.00	3,805,000.00
10-18-12	10-18-12	1,200,000	National Bank of Canada BA 1.03% due October 18, 2012	100.00	1,200,000.00
10-25-12	10-25-12	1,500,000	Bank of Nova Scotia BA 1.00% due October 25, 2012	100.00	1,500,000.00
10-25-12	10-25-12	1,170,000	Canada Treasury Bill .86% due October 25, 2012	100.00	1,170,000.00
10-25-12	10-25-12	7,805,000	Canada Treasury Bill .87% due October 25, 2012	100.00	7,805,000.00
10-25-12	10-25-12	1,600,000	TD Bank BA 1.00% due October 25, 2012	100.00	1,600,000.00
10-31-12	10-31-12	1,175,000	CIBC BA .97% due October 31, 2012	100.00	1,175,000.00
11-20-12	11-20-12	1,175,000	CIBC BA .98% due November 20, 2012	100.00	1,175,000.00
11-22-12	11-22-12	8,075,000	Canada Treasury Bill .81% due November 22, 2012	100.00	8,075,000.00
11-23-12	11-23-12	2,000,000	Bank of Nova Scotia BA .96% due November 23, 2012	100.00	2,000,000.00
11-23-12	11-23-12	2,000,000	Royal Bank BA .96% due November 23, 2012	100.00	2,000,000.00
12-19-12	12-19-12	1,175,000	CIBC BA 1.00% due December 19, 2012	100.00	1,175,000.00
12-31-12	12-31-12	2,000,000	Bank of Nova Scotia BA .999% due December 31, 2012	100.00	2,000,000.00
					44,125,000.00

Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - SHORT TERM INVESTMENT FUND
From 10-01-12 To 12-31-12

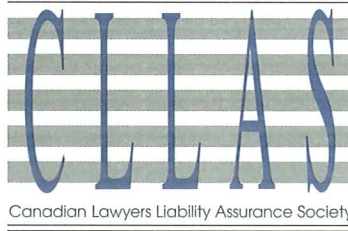
Cash Balance at October 1, 2012			9,104.35
ADD: Proceeds from Sales	44,125,000.00		
Interest on Balance	58.44		
Bond Interest Credited (from Long Term Investment Fund)	<u>31,925.00</u>	<u>44,156,983.44</u>	
			44,166,087.79
LESS: Cost of Purchases	44,102,697.14		
Investment Counsel Fees - Short Term Investment Fund	4,026.38		
Investment Counsel Fees - Long Term Investment Fund	30,351.18		
Trust Company Charges	<u>8,268.83</u>	<u>44,145,343.53</u>	
Cash Balance at December 31, 2012			20,744.26

Martin, Lucas & Seagram Ltd..

EXTERNAL INDIVIDUAL CREDIT RATING REPORT - DECEMBER 31, 2012

CLLAS - SHORT TERM INVESTMENT FUND

ALL RATINGS ARE DBRS, UNLESS NOTED									
Quantity	Security		Rating	Unit	Cost	Total Cost	Price	Market Value	Pct. Assets
CASH									
	Cash Account					20,744		20,744	0.2
MONEY MARKET ISSUES									
1,185,000	Royal Bank BA 1.00%	due January 14, 2013	R-1	99.93	1,184,156	99.96	1,184,470	8.9	
8,075,000	Canada Treasury Bill .83%	due January 17, 2013	R-1	99.87	8,064,729	99.96	8,071,528	60.8	
2,000,000	CIBC BA 1.00%	due January 18, 2013	R-1	99.85	1,996,936	99.94	1,998,870	15.1	
2,000,000	Canada Treasury Bill .80%	due January 31, 2013	R-1	99.93	1,998,642	99.92	1,998,460	15.1	
						13,244,463		13,253,328	99.8
TOTAL PORTFOLIO						13,265,207		13,274,072	100



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

Date: February 21, 2013

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

From: Patrick Mahoney 

Re: Investment Policy Update

The Loss Portfolio Transfer (LPT) implemented on June 30, 2012 has dramatically changed the profile of CLLAS' assets and liabilities, and this means that CLLAS will need to revisit both its surplus policy and its investment policy. In our December 7, 2012 memo to the Board, we recommended that no explicit adjustment to CLLAS' surplus be made (by means for example, of a credit against premium) until the regulators had had the chance to review CLLAS' 2012 year-end regulatory filings which show the impact of the LPT on CLLAS' surplus position. The Board agreed to consider CLLAS' surplus policy at the June 2013 meeting as part of the finalizing the rates and reinsurance terms of the 2013/14 year.

CLLAS' investment policy also needs to be reconsidered as a result of both the LPT (which ceded all retained liabilities prior June 30, 2012 to Colchester) and the current reinsurance structure (which limits CLLAS' retention on the current policy year to "drop down" claims). CLLAS' cash and investments amounted to about \$14.9 million at December 31, 2012, compared with \$61.0 million a year earlier. CLLAS' net claims liabilities (i.e. after taking into account recoverables from reinsurers) totalled \$6.2 million at December 31, 2012, compared with \$45.5 million a year earlier.

Revisions to the investment policy will in part be driven by the surplus policy as the appropriate level of surplus will reflect regulatory requirements, CLLAS' cash flow requirements (i.e. the need to "front" claims payments while awaiting reimbursement from reinsurers) and the desire for flexibility in terms retaining risk in future reinsurance negotiations. Once the quantum and the rationale for CLLAS' surplus policy are agreed, the appropriate investment policy can be easily determined.

In the meantime, as a result of the payment of the premium for the LPT, CLLAS is holding about \$15 million in short term investments. As was discussed in the Actuarial Valuation, this results in an expected yield of about 0.85%. This compares to historical returns on the CLLAS investment portfolio as shown in the table below:

CLLAS Historical Annualized Returns (net of investment management fees)				
	(A) Long Term Fund	(B) Short Term Fund	(C) 80/20 Asset Mix	(D) 60/40 Asset Mix
2012	3.69%	0.67%	3.09%	2.48%
2011	5.53%	0.63%	4.55%	3.57%
2010	5.40%	0.55%	4.43%	3.46%
(C)	Current investment policy requirement			
(D)	Proposed amendment to asset mix requirement			

The Board should consider whether it would be appropriate to improve the yield on its current portfolio by investing a portion of its current assets in bonds, pending the adoption of a revised investment policy. The policy has historically been structured to balance short term requirements (specifically having funds readily available to pay claims, both the portion retained by CLLAS and the portion to be reimbursed by reinsurers) while improving the return on funds that were held to pay claims that would emerge down the road. CLLAS no longer requires funds to pay the retained portion of claims but will still be required to “front” claims payments pending reimbursement from reinsurers, including Colchester. CLLAS’ normal operating requirements (i.e. reinsurance costs, operating expenses, etc.) are met out of the semi-annual premium instalments and reimbursements from Colchester for their portion of any claims settlement should be relatively expeditious.

Section 2.2 of the Investment Policy currently states:

- 2.2 The Investment Manager shall maintain two Funds (the “Funds”) for investment purposes: the Short Term Investment Fund and the Long term Investment Fund. Monies provided to the Investment Manager for investment shall be allocated to one or both of the Funds, as directed by CLLAS, or in the absence of such direction, as determined by the Investment Manager. In any event, the Short Term Investment Fund must represent not less than 20% of the total market value of the two Funds at the time the monies are received by the Investment Manager, after giving effect to such allocation. Transfers between the Funds may also be made at the direction of CLLAS subject to the Short Term Fund being at least 20% of the market value of the two Funds at the time of transfer and after giving effect thereto.

The Board could consider retained a minimum amount in the short term fund to deal with claims payments, and investing any additional funds in the investment account in longer term bonds subject to the requirements of the current investment policy re quality etc. If the asset mix requirement in Section 2.2 of the investment policy were amended by replacing 20% with 40% (subject to reconsideration of the policy at the June 2013 meeting) the short term fund would hold about \$6 million for claims payments.

We look forward to discussing this at the upcoming Board meeting.