

# Canadian Lawyers Liability Assurance Society

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Professional Liability Risk Management Re-audit Proposal

September 13, 2011

**WALKER SORENSEN LLP**

# Initial Audits

- Initial audits collected data on the differences between what the firms could be doing and what they were doing to manage professional liability (“PL”) risk
- I will refer to this difference as the “Gap”



# Re-audit Proposal

- Concept

- to find out what the firms have done to close the Gap, particularly with respect to practice supervision
- to find out what new PL risks the firms are facing and what they are doing to manage them
- to conduct a more in-depth analysis of compliance by the firms' lawyers and staff with their PL risk management policies and procedures

- Purpose

- to see what improvements the firms have made since the initial audit
- to keep abreast of new developments and to compare how firms are handling them
- for initial audits I did not have a good enough understanding of each firm's policies and procedures to conduct a meaningful compliance audit

# Collection of Data

- Questionnaires

- Gap Questionnaire

- tailored for each firm to collect data on what each firm has done to close the Gap
    - much shorter than original questionnaire

- Management Questionnaire

- same questionnaire for all firms
    - very short questionnaire

- “Person on the Street” Questionnaire

- tailored for each firm to collect data on compliance with the firm’s PL risk management policies and procedures
    - designed to be completed in 30 minute interview



# Collection of Data

- Gap Questionnaire

- firms would complete the Gap Questionnaires themselves, or I could collect the information by interviews
- to be completed at east 30 days before interviews begin

- Management Interview

- group interview of senior management
- 1 hour (much shorter than initial audits)

- "Person on the Street" Interviews

- 6 lawyers not involved in management of the firm
- interviewed separately
- 30 minutes each (3 hours in total)

# Reporting

- Reports (privileged and confidential)
  - Gap Questionnaire
  - “Person on the Street” Questionnaires
  - Management Questionnaire
  - Report summarizing findings
- Updated Benchmarking Analysis
  - subject to consent of all firms



# Timetable

- Timetable

- Days 1 to 10 - preparation of Gap Questionnaire
- Day 10 - delivery of Gap Questionnaire
- Days 10 to 40 - completion of Gap Questionnaire by firm or through interviews
- Days 40 to 50 - preparation of "Person on the Street" Questionnaire
- Day 55 - Interviews (1 day per office)
- Days 55 to 80 - preparation of Report

# Timetable

- Propose to re-audit 3 to 4 firms/year
- Would take 3 years to complete re-audits
- Start in 2011 and completed by end of 2013
- Up-date Benchmarking Analysis after re-audits completed



# Cost

- Re-audit of main office
  - \$8,500, plus HST (if firm completes the Gap Questionnaire)
  - \$10,000, plus HST (if I conduct interviews to complete the Gap Questionnaire)
- Re-audit of each additional office
  - \$3,500, plus HST (if additional office completes the Gap Questionnaire)
  - \$5,000, plus travel expenses and HST (if I conduct interviews to complete the Gap Questionnaire)
- Lower than cost of initial audits
  - \$20,000 for main office
  - \$5,000 for each additional office
- Propose that CLLAS reimburse firms for 50% of cost (same as for initial audits)

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

**Minutes of a Meeting of the Advisory Board**

8:30 a.m.  
Davies Ward Phillips & Vineberg LLP  
45<sup>th</sup> Floor, 1 First Canadian Place  
Toronto, Ontario

**Tuesday, June 21, 2011**

**Present:**

Nicholas Leblovic (Chairman)	Davies Ward Phillips & Vineberg LLP
Glenn Leslie	Blake Cassels & Graydon LLP
Richard Prupas	Blake Cassels & Graydon LLP
Sue Grundy	Blake Cassels & Graydon LLP
Barry Bresner	Borden Ladner Gervais LLP
Chris Woodbury	Fraser Milner Casgrain LLP
Donald Milner	Fasken Martineau DuMoulin LLP
Eugene Cipparone	Goodmans LLP
Bill Scott	McCarthy Tetrault LLP
Daniel MacDonald	McMillan LLP
Julia Holland	Torys LLP
Les O'Connor	WeirFoulds LLP
Patrick Mahoney	Office of the General Manager
Norma Ibbetson	Office of the General Manager
Joe Tontini	Dion, Durrell + Associates

**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 February 22, 2011 Meeting of the Advisory Board**

**It was moved by Julia Holland and seconded by Les O'Connor that, subject to a minor change to Item 6, the minutes of the February 22, 2011 meeting of the Advisory Board be approved. The motion was carried unanimously.**



**4. Business Arising Out of the Minutes**

Items arising out of the minutes will be dealt with under the other agenda items.

**5. Comments of the Chair**

Mr. Leblovic reported on his trip to London with Joe Tontini and Patrick Mahoney. They met with numerous London reinsurers (incumbents and potential new markets) to discuss renewal terms. A more complete report will follow under Joe Tontini's report to the Board.

Mr. Leblovic emphasized that this year's efforts to move CLLAS rates closer to market rates was part of a two year strategy and that he expanded that in 2012 we would continue these efforts in the London and Canadian markets.

Mr. Leblovic indicated that an updated 2011 list of Committee memberships has been circulated.

He provided an update on the efforts to obtain LSUC accreditation for the CLLAS e-learning program. Discussions continue and the matter is moving forward at a slow pace.

**6. Pro-Form Insurance Services**

Bob Wilson reported to the Board on the status of the renewals of the excess insurance and CLLAS International programs. He advised that world events appear to have no significant effect on the soft insurance markets.

Quotes have been obtained on a status quo basis and also on the assumption that the 49x1 structure being considered by CLLAS is adopted. Rates remain unchanged from 2010/2011 in both the excess and International programs with the exception of a slight rate decrease of 5% for U.S. lawyers for 2011/2012. ProForm was also able to continue the two year rolling rate guarantee subject to the existing criteria.

There are no changes to the Canadian Excess policy wordings with the exception of providing an "out" clause to the extent a firm does not renew its five-year commitment to CLLAS on July 1, 2012. The CLLAS International policy may be amended to clarify wording on an endorsement re the phrase "incidental to the practice of Canadian law". Any change will be reviewed by Julia Holland and the Board Chair before being finalized.

An updated reinsurance rating schedule was included in the agenda materials.

The Chair thanked Mr. Wilson for his work on the renewal and Mr. Wilson left the meeting.

**7. Reinsurance Renewal**

Joe Tontini distributed a presentation to the Board on the reinsurance renewal. The mandate from the board was to achieve as close to market rates as possible for the upcoming renewal. In order to accomplish this, Mr. Tontini explained that it was necessary to restructure CLLAS' insurance/reinsurance program, i.e. the consolidation of a number of layers into a single \$49 million excess of \$1 million policy. He explained that the terms and structure also need to respect various regulatory constraints and the \$15 million maximum CLLAS retention contained in the Subscribers' Agreement.

A total of 56 different markets, including incumbents, were approached during the renewal process. Thirty of these markets declined, including some key long-term partners such as Beazley, Hannover, Swiss Re and SCOR, usually as a result of the proposed pricing. We are still waiting to hear from 20 markets. Mr. Tontini provided the Board with a copy of an email from Hannover Re to illustrate the difficulty the incumbents are having with the proposal for this renewal and their willingness to work with CLLAS as much as they can.

Mr. Tontini presented a number of options to the Board with respect to the renewal. Which option is chosen by the Board depends in part on the level of authorizations that are obtained, each of which had a different pricing scenario for the 49x1 layer at the indicated price, and in part on the level of desire within CLLAS to maintain relationships with some of its long-term partners. He indicated that the various scenarios illustrated in the presentation assume the application of surplus for 2011/2012 using investment income on surplus (consistent with past practice) and also the \$1 million approved by the Board at its last meeting. For consistency, all scenarios assume the same level of surplus.

There was considerable discussion with respect to the various options. The consensus of the Board was to work with Option 3 in order to preserve key relationships with certain long-term participants. It was noted that the new program structure will result in some incremental costs to CLLAS for program management.

A motion was passed approving the application of \$1M of CLLAS' surplus to reduce rates for 2011-2012.

## **8. Report of the General Manager's Office**

### *Premium Tax Update*

Mr. Mahoney provided an update on this matter and indicated that CLLAS is now licensed in both Alberta and British Columbia. Discussions with Quebec are progressing extremely slowly.

The firms with Vancouver offices are currently receiving letters from the BC Ministry of Finance quantifying the premium tax assessments. Other than confirming the numbers, the only item of note is the inclusion in one letter of some of the insurers on the CLLAS International program as unlicensed insurers. Clarification is being sought from the regulator as this appears to be an oversight on their part. Mr. Mahoney reported that the final step in BC is a filing for the 2010/11 policy year as CLLAS was not licensed until June of 2011.

Ontario has conducted a premium tax audit of CLLAS and verbal confirmation has been provided that a recommendation will be made to approve the premium tax refund..

### *Management Report at March 31, 2011*

Mr. Mahoney reviewed with the Board the Balance Sheet and Income Statement for the quarter ending March 31, 2011. Of note is the sizable decrease on the reinsurance recoverable line over the same period last year. We have collected nearly all outstanding funds relating to the claim that was arbitrated. Mr. Mahoney advised that one reinsurer on the 10x25 layer is questioning the related claims issue and it remains to be seen what steps will be required to collect from that reinsurer. The amount at issue is just under \$2 million. On a related matter, he advised that the swing premium adjustment (which has long been held as a liability) has become a payable as a result of the receipt of funds from the arbitration.

Mr. Mahoney confirmed with the Board CLLAS' MCT ratio was 248% at March 31, 2011 (246% at December 31, 2010) compared with the target of 210%. The 210% MCT level translates into a dollar



value of about \$17 million, meaning that CLLAS's actual surplus position is well in excess of its target at March 31, 2011.

**9. Report of the Claims Committee**

Barry Bresner reported to the Board. There is some ongoing activity with respect to previously reported matters with one significant reserve adjustment post-March 31, 2011 with respect to an upcoming mediation.

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

Bill Scott reported. The Committee has a number of initiatives in process but due to scheduling issues has not been able to meet since the last Board meeting. A full report will be provided at the September meeting..

**11. Report of the Policy Committee**

The Committee reported that the policy was reviewed by external legal council who suggested a number of clarifications which will be made with effect for the up-coming policy year.

**12. Report of the Investment Manager**

The investment manager's report is included in the Board materials as an information item.

**13. Other Business - Banking Resolution**

No other business

**14. Next Meeting**

The next regularly scheduled meeting of the Board will be on September 13, 2011.

There being no further business, the meeting was terminated.

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Chairman

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Secretary

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

**FINANCIAL MANAGEMENT REPORT**

**For the Period Ending June 30, 2011**



# **CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

## **FINANCIAL MANAGEMENT REPORT**

**June 30, 2011**

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Exhibit I	Statement of Financial Position
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Exhibit III	Statement of Changes in Equity
Exhibit IV	Operating Budget Variance Analysis

## Exhibit I

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2011**

	As at 30/06/2011	As at 31/06/2010
<b>ASSETS</b>		
Cash	5,138,274	5,411,214
Short term investments	19,474,353	11,621,265
Premium receivable	0	0
Other receivable	3,532,619	0
Prepaid expenses	0	471,348
Deferred policy acquisition costs	0	0
Unearned reinsurance premium ceded	0	0
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	35,798,000	45,462,000
Reinsurance recoverable	2,279,986	12,117,610
Interest income due and accrued	324,551	285,801
Bonds	44,237,353	36,767,706
	<u>110,785,136</u>	<u>112,136,944</u>
<b>LIABILITIES</b>		
Accounts payable & accrued charges	3,062,708	308,475
Premium taxes payable	1,179,293	0
Unearned premium	0	0
Due to reinsurers	0	0
Provision for unpaid claims and adjustment expenses	83,715,000	86,875,000
Provision for unpaid premium liabilities	0	2,629,821
Premium deficiency liability	0	0
	<u>87,957,000</u>	<u>89,813,296</u>
<b>SUBSCRIBERS' EQUITY</b>		
Surplus	21,522,529	20,952,879
Accumulated Other Comprehensive Income (Loss),	1,305,607	1,370,769
	<u>22,828,136</u>	<u>22,323,648</u>
	<u>110,785,136</u>	<u>112,136,944</u>



**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**For the Period Ending June 30, 2011**

	Current Year		Prior Year	
	Quarter June 30, 2011	Year to Date June 30, 2011	Quarter June 30, 2010	Year to Date June 30, 2010
Written Premium	0	0	0	(16,568)
Gross Written Premiums	0	0	0	(16,568)
Less: Reinsurance Ceded	0	0	0	0
Net Written Premiums	0	0	0	(16,568)
Change in Unearned Premiums	2,004,732	3,987,433	2,455,678	4,892,587
Earned Premiums	2,004,732	3,987,433	2,455,678	4,876,019
Claims Paid	324,537	449,684	106,126	125,393
Change in IBNR	929,000	1,881,000	6,083,000	2,247,000
Change in Case Reserve	1,550,000	1,655,000	(2,401,000)	998,000
Premium Deficiency Expense	(286,000)	(548,000)	0	0
Change in provision for unpaid premium liability	0	0	0	0
Incurred Claims	2,517,537	3,437,684	3,788,126	3,370,393
Management and operating expenses	538,854	1,217,626	749,703	1,288,880
Reinsurance fees	68,250	136,500	68,250	136,500
Premium taxes	85,594	87,316	130,000	283,123
Total Operating Expenses	692,698	1,441,442	947,953	1,708,503
<b>Underwriting Gain (Loss)</b>	(1,205,503)	(891,692)	(2,280,401)	(202,877)
Investment Income	444,990	836,286	363,534	724,414
Income on Claim Related Matters	1,559,658	1,559,658	0	0
<b>NET GAIN/(LOSS)</b>	<u>799,145</u>	<u>1,504,252</u>	<u>(1,916,867)</u>	<u>521,537</u>
<b>Other comprehensive income (loss)</b>				
Unrealized gains (losses) on available for sale financial assets arising during the year	448,217	107,554	334,242	160,284
Recognition of realized gain (loss) included in income	-	-	-	0
Other comprehensive income (loss) for the year	448,217	107,554	334,242	160,284
<b>Total comprehensive income (loss)</b>	<u>1,247,361</u>	<u>1,611,806</u>	<u>(1,582,625)</u>	<u>681,821</u>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF CHANGES IN EQUITY**  
**June 30, 2011**

	Minimum Surplus	Additional Surplus	Unrealized gains and losses on ATS financial assets	Total Equity
Balance, beginning of year	50,000	19,968,277	1,198,053	21,216,330
Comprehensive income for the year				
Net gain (loss) for the year		1,504,252		1,504,252
Other comprehensive income				
Unrealized gains and losses on available-for-sale financial assets arising during the year			107,554	107,554
Recognition of realized gain included in income			-	-
Total other comprehensive income (loss)			107,554	107,554
Total comprehensive income (loss) for the year		1,504,252	107,554	1,611,806
Balance at June 30, 2011	50,000	21,472,529	1,305,607	22,828,136



**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS**  
**FOR THE PERIOD ENDED June 30, 2011**

	Annual Budget	Year to Date Budget % Accrued to Date	Year to Date Budget \$	Year to Date Actual \$	Fav/(Unfav) Variance \$
<b>MANAGEMENT SERVICES</b>	495,000	50%	247,500	273,463	(25,963)
<b>PROFESSIONAL SERVICES</b>					
Actuarial Services	100,000	67%	67,000	67,455	(455)
Reinsurance Matters (Note 1)	400,000	67%	268,000	446,065	(178,065)
Strategic Matters	120,000	67%	80,400	21,731	58,669
Sub-Total Professional Services	620,000		415,400	535,251	(119,851)
GST/HST on Consulting Fees	144,950		86,177	105,133	(18,956)
<b>Total Management &amp; Professional Services *</b> (See Note 2)	<b>1,259,950</b>		<b>749,077</b>	<b>913,847</b>	<b>(164,770)</b>
<b>OTHER EXPENSES</b>					
Audit Expenses	75,000	50%	37,500	47,404	(9,904)
Annual Dinner	5,500	50%	2,750	6,014	(3,264)
Premium Taxes	745,000	50%	372,500	87,316	285,184
Premium Taxes: Interest	-		-	122,736	(122,736)
Chairman's Expenses	2,000	50%	1,000	-	1,000
Chairman's Honourarium	75,000	100%	75,000	75,000	-
Reinsurance Expense	10,000	50%	5,000	-	5,000
Office Expenses	20,000	50%	10,000	18,524	(8,524)
Office Expenses - Website management software license	1,000	50%	500	1,162	(662)
Claims: Borderaux (LSUC)	16,000	50%	8,000	1,100	6,900
Special Services	165,000	50%	82,500	(162,917)	245,417
Miller Insurance Fees (Reins. Comm.) (See Note 3)	280,000	50%	140,000	136,500	3,500
I.B.C Statistical Plan Fees	15,000	50%	7,500	3,896	3,604
FSCO Assessment Fees	15,000	50%	7,500	2,011	5,489
Investment counsel fees	142,000	50%	71,000	73,088	(2,088)
Investment - Custodial	45,000	50%	22,500	21,030	1,470
Risk Management/Loss Prevention	80,000	50%	40,000	92,684	(52,685)
License Fee	5,000	50%	2,500	-	2,500
Insurance: Sundry	-		-	2,046	(2,046)
<b>Sub-total</b>	<b>1,696,500</b>		<b>885,750</b>	<b>527,595</b>	<b>358,155</b>
<b>TOTAL</b>	<b>2,956,450</b>		<b>1,634,827</b>	<b>1,441,442</b>	<b>193,385</b>

**\* NOTE 1: REINSURANCE MATTERS**

Reinsurance Budget was adjusted subsequent to the February Board meeting based on the decision taken at the meeting with respect to reinsurance renewal strategy.

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

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

First Quarter, ending March 31st	26%
Second Quarter, ending June 30th	41%
Third Quarter, ending September 30th	16%
Fourth Quarter, ending December 31st	17%
	<u>100%</u>

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

The annual budget is based upon the annual fee estimated for the policy period 2011/2012.  
The year to date actual includes the fees billed for the first 2 months of 2011



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**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**

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**Date:** August 26, 2011

**To:** David Morritt  
William Scott  
Donald Milner  
Gordon Goodman  
Les O'Connor  
Nicholas Leblovic

Barry Bresner  
Daniel MacDonald  
Chris Woodbury  
Julia Holland  
Glenn Leslie  
Gale Rubenstein

**Copy:** Patrick Mahoney

**From:** Joe Tontini and Ryan Durrell

**Re: Final Report on CLLAS Rating and Reinsurance Placement  
July 1, 2011/2012**

The purpose of this report is to provide the CLLAS Board with a final summary of the rating and reinsurance placement for July 1, 2011/2012. For ease of reference, we have attached the following exhibits:

- A. CLLAS Limit Structure
- B. Reinsurance and Retrocession Structure Overview
- C. FSCO Reinsurance Guidelines
- D. Current Rate Structure and Participation by Reinsurer – Proportional and Aggregate Stop-Loss Reinsurance
- E. Current Rate Structure and Participation by Retrocessionaire – Proportional and Aggregate Stop-Loss Retrocession
- F. Aggregate Stop-loss Reinsurance Structure (Historical)

**Highlights**

- The professional liability insurance market for lawyers in Canada continued to be extremely competitive and since CLLAS was entering the final year of its fifth Underwriting Period, it was agreed that CLLAS should move away from the traditional actuarial approach to the market and to secure the most competitive terms possible.

- The previous structure had served CLLAS very well over the years but it became clear that in order to bridge the gap between the CLLAS and market rates, a bold new structure was required (Exhibit A):
  - The CLLAS first \$5MM policy (100% retained by CLLAS) and the \$30MM first excess policy (including three layers of reinsurance coverage) would be replaced by a \$50MM (inclusive of underlying limits) CLLAS policy;
  - The \$15MM excess of \$35MM policy placed in the commercial market would be pushed up to the \$50MM attachment point and the total limits provided by the commercial markets increased from \$105MM to \$110MM. The commercial market layers would continue to drop down to US\$30MM for CLLAS International exposures;
  - The two CLLAS optional excess layers would be replaced by a single layer attaching at \$160MM with limit options between \$10MM and \$60MM in increments of \$10MM. The upper limit would therefore be \$60MM excess of \$160MM for a maximum limit of \$220MM (previously \$200MM);
  - The Umbrella Policy of \$30MM per claim/\$60MM aggregate would continue to sit on top of all limits subject to a minimum of \$65MM (previously \$50MM).
- We proposed rates under the new structure that were market driven and approached all existing underwriters as well as a significant number of new underwriters.
- Reinsurance Layer 1 – \$49MM excess of \$1MM (\$40MM excess of \$10MM for Quebec lawyers who have \$10MM of underlying coverage):
  - 50% of this layer is proportionally reinsured;
  - With CLLAS taking a vertical participation in this layer, as opposed to 100% of the loss-rich first \$4MM, the need for stop-loss protection through Colchester is reduced. Colchester was therefore able to take on more risk and now participates in the main CLLAS structure for 25% of the \$49MM excess of \$1MM. Further, Colchester's share of this layer is layered to accommodate some of the incumbent reinsurers (specifically Swiss Re, Hannover Re, Beazley and Scor Re) as retrocessionaires of Colchester. These reinsurers were very interested in maintaining a relationship with CLLAS but could not support the new price or the new structure. Ultimately, Colchester only retains 25% of the \$4MM excess of \$1MM layer;
  - CLLAS retains the remaining 25% of this layer as well as the entire drop down exposure. Along with the Colchester retention (25% of \$4MM), CLLAS' total maximum single loss retention is \$14,225,000 (previously \$14,475,000).
- Reinsurance Layer 2 – Between \$10MM and \$60MM excess of \$160MM (Optional Excess) – 100% reinsured.

- Reinsurance Layer 3 – \$30MM/\$60MM excess of \$65MM (Umbrella) – 100% reinsured.
- As we moved to the new structure, we were able to keep most of the incumbent reinsurers and have added a few new reinsurers to the program. However, a small number of incumbent reinsurers have left the program. See Exhibit B for a schematic of the Primary Policy (including Reinsurance Layer 1) with all reinsurers and retrocessionaires.
- Reinsurers' security ratings remain strong. Nevertheless, CLLAS maintains a rigorous security monitoring process which the Audit Committee continues to oversee.
- CLLAS has met the "25% rule" which is the regulatory guideline established by FSCO (Exhibit C) and is within the \$15,000,000 maximum retention specified in the Subscribers' Agreement.
- The rate for patent & trademark agent and certain non-lawyer consultants was reduced from 50% of the lawyer rate to 25%.
- Due to the favourable rates and the resulting cost savings, the firms' interest in purchasing higher limit on the Optional Excess Policy has greatly increased.
- CLLAS members have realized overall savings of approximately of \$4,000,000 or roughly \$850 per lawyer while gaining \$15MM of additional limits.
- Some policy changes have been implemented. More details are provided in the "Policy Wording Changes" section below.

**CLLAS Primary Policy – \$50MM per Claim and in the Annual Aggregate  
(Reinsurance Layer 1)**

The Primary Policy under the new structure provides coverage per firm of \$50MM per claim and in the annual aggregate, including any underlying coverage provided by the respective law society and/or other mandatory insurance and/or any other insurance arranged on behalf of the firm. In Quebec, the Primary Policy is excess of the Quebec mandatory limit of \$10MM. If there is no underlying insurance, then CLLAS would provide \$49.975MM of coverage excess of \$25,000 deductible.

Reinsurance Limit: \$49MM aggregate per firm excess of \$1MM aggregate per firm

CLLAS Retention: 25% or \$12.25MM

Rate: \$2,950 per lawyer (\$1,675 per Quebec lawyer)/\$738 per P&T agent

CLLAS members were charged a rate of \$3,520 per lawyer (\$1,734 for Quebec lawyers) and \$880 per patent & trademark agent for the Primary Policy to cover the premium taxes, administration costs and expected loss costs related to the CLLAS retention.



**CLLAS Optional Excess Policy – Between \$10MM and \$60MM Aggregate Excess of \$160MM**  
**(Reinsurance Layer 2)**

Firms have the option of purchasing limits between \$10MM and \$60MM in increments of \$10MM. Two firms purchased the limit of \$40MM while nine others purchased the maximum limit of \$60MM.

Reinsurance Limit: Between \$10MM and \$60MM (in increments of \$10MM) aggregate per firm excess of \$110MM aggregate per firm excess of the CLLAS Primary Policy

CLLAS Retention: Nil

Rate: \$72 per lawyer/\$18 per P&T agent for limit of \$10MM  
\$126 per lawyer/\$32 per P&T agent for limit of \$20MM  
\$162 per lawyer/\$41 per P&T agent for limit of \$30MM  
\$198 per lawyer/\$50 per P&T agent for limit of \$40MM  
\$234 per lawyer/\$59 per P&T agent for limit of \$50MM  
\$270 per lawyer/\$68 per P&T agent for limit of \$60MM

CLLAS charged its members \$220 per lawyer and \$55 per patent & trademark agent for the CLLAS Optional Excess Policy with a limit of \$40MM. For policies with a limit of \$60MM, CLLAS charged its members \$300 per lawyer and \$75 per patent & trademark agent.

**CLLAS Umbrella Excess Policy – \$30MM per Claim/\$60MM Aggregate All Firms Combined Excess of a Minimum of \$65MM per Firm**  
**(Reinsurance Layer 3)**

This policy is shared by all CLLAS firms.

Reinsurance Limit: \$30MM per claim/\$60MM aggregate all firms combined excess of a minimum of \$65MM per firm

CLLAS Retention: Nil

Rate: \$135 per lawyer/\$34 per P&T agent

CLLAS charged its members \$150 per lawyer and \$38 per patent & trademark agent for the CLLAS Umbrella Excess Policy.

*Note: For all CLLAS policies, certain non-lawyer consultants, depending on risk, are charged the lawyer rate or the patent & trademark agent rate as appropriate.*

### **Reinsurance Overview**

The following table shows this year's reinsurance allocation:

	<b><u>2011/2012</u></b>			<b><u>CLLAS Retention</u></b>
	<b><u>London</u></b>	<b><u>Domestic</u></b>	<b><u>Colchester</u></b>	
Layer 1	40%	10%	25%	25%
Layer 2	33%	67%	Nil	Nil
Layer 3	49%	51%	Nil	Nil

*Note: Bermuda reinsurers are included among the domestic reinsurers.*

By layering Colchester's 25% participation, we were able to accommodate and keep some of the incumbent underwriters who were very interested in maintaining a relationship with CLLAS but could not support our new price and/or structure. We were also able to add a number of new underwriters to the CLLAS program, namely, Argo and Antares (Lloyd's syndicates), Axis and CNA on the main CLLAS structure and Munich Re on the Colchester layered structure. On the other hand, a couple of Lloyd's syndicates, Aspen Re, CRC and Toa left the program.

Please refer to Exhibits D and E for more details on the participating reinsurers and their percentages.

### **Reinsurance Security**

We have provided a separate update on the Reinsurance Security Report in which we have discussed the most current security ratings of each of the CLLAS reinsurers as well as reporting on the security monitoring process.

### **Aggregate Stop-Loss Protection and Retrocession Protection**

Colchester provides the following aggregate stop-loss protection in 2011/12 (see Exhibits E and F):

Limit: \$22.5MM in the annual aggregate excess of \$17.5MM in the annual aggregate in respect of CLLAS' retained losses and Colchester's retained losses in the \$49MM excess of \$1MM and CLLAS' retained losses in the drop down below \$1MM

Rate: \$118 per lawyer/\$29.50 per P&T agent

Colchester's net retention on the aggregate cover is made up of the following: a) its own share of the first \$17.5MM; b) 3.75% of \$20MM excess of \$17.5MM; and c) 100% of the top \$2.5MM. Colchester has arranged retrocession protection for 96.25% of \$20MM excess of \$17.5MM. The retrocession premium is \$452,375.

### **Changes to Reinsurance Contracts**

The reinsurance terms and conditions are revised to be more “follow the fortunes”.

### **Policy Wording Changes**

On the Primary Policy, other than amendments made to reflect the new limit, the following changes will also be made:

- Changes dealing with aggregating related matters as a single claim (wording was reorganized without changing the basic concept, except to explicitly state that related matters that emerge subsequently are aggregated back into this policy year).
- Minor adjustments to tighten wording, e.g.:
  - adding definitions of “Aggregate Limit of Liability” and “Per Claim Limit of Liability”;
  - ensuring terminology is consistently used (e.g. “act, error, omission or negligent act”);
  - ensuring section numbering is consistent;
  - deletion of “past or present” in Condition IV.10 as redundant;
  - deletion of “except for Condition IV.2 above” in Condition IV.11 to clarify wording.
- Minor collateral changes necessitated by the above changes.

The “Goodman and Carr LLP Lateral Hire Extension Endorsement” will continue to be attached. The premium charged for this year is \$325 for each lawyer who was involved in a lateral hire from Goodman and Carr LLP. This is the final year that premium is charged on this endorsement.

The policies are currently being prepared.

### **FSCO Reinsurance Guidelines**

Exhibit C sets forth the reinsurance calculations based on the 2011/12 premiums and reinsurance protections to determine whether CLLAS is inside with respect to the reinsurance guidelines provided by FSCO. The guideline for maximum total reinsurance is 75% and the guideline for maximum unregistered reinsurance is 25%. The calculations for CLLAS results in 70.0% total reinsurance and 23.6% unregistered reinsurance. CLLAS is within the FSCO guidelines.

### **Regulatory Issues**

Lloyd’s believes that FSCO, the Ontario agency that regulates CLLAS, will continue to apply the same rules that they have in the past about registered and unregistered reinsurance so the Part XIII changes relating to “Insurance in Canada of Risks” introduced by OSFI will not likely have any effect on CLLAS. CLLAS has, however, taken steps to be in compliance with Part XIII. In this respect, Alternative Risk Services continues to act as CLLAS’ reinsurance intermediary in order to comply with the Part XIII requirements.

**Concluding Remarks**

This renewal has proven to be very challenging, as is usually the case when changing the status quo. While we sacrificed a little in the way of price to accommodate some of the more important incumbent reinsurers, it was modest compared to the significant savings that were achieved overall. CLLAS is in a very good position to enter its sixth five-year Underwriting Period in 2012.

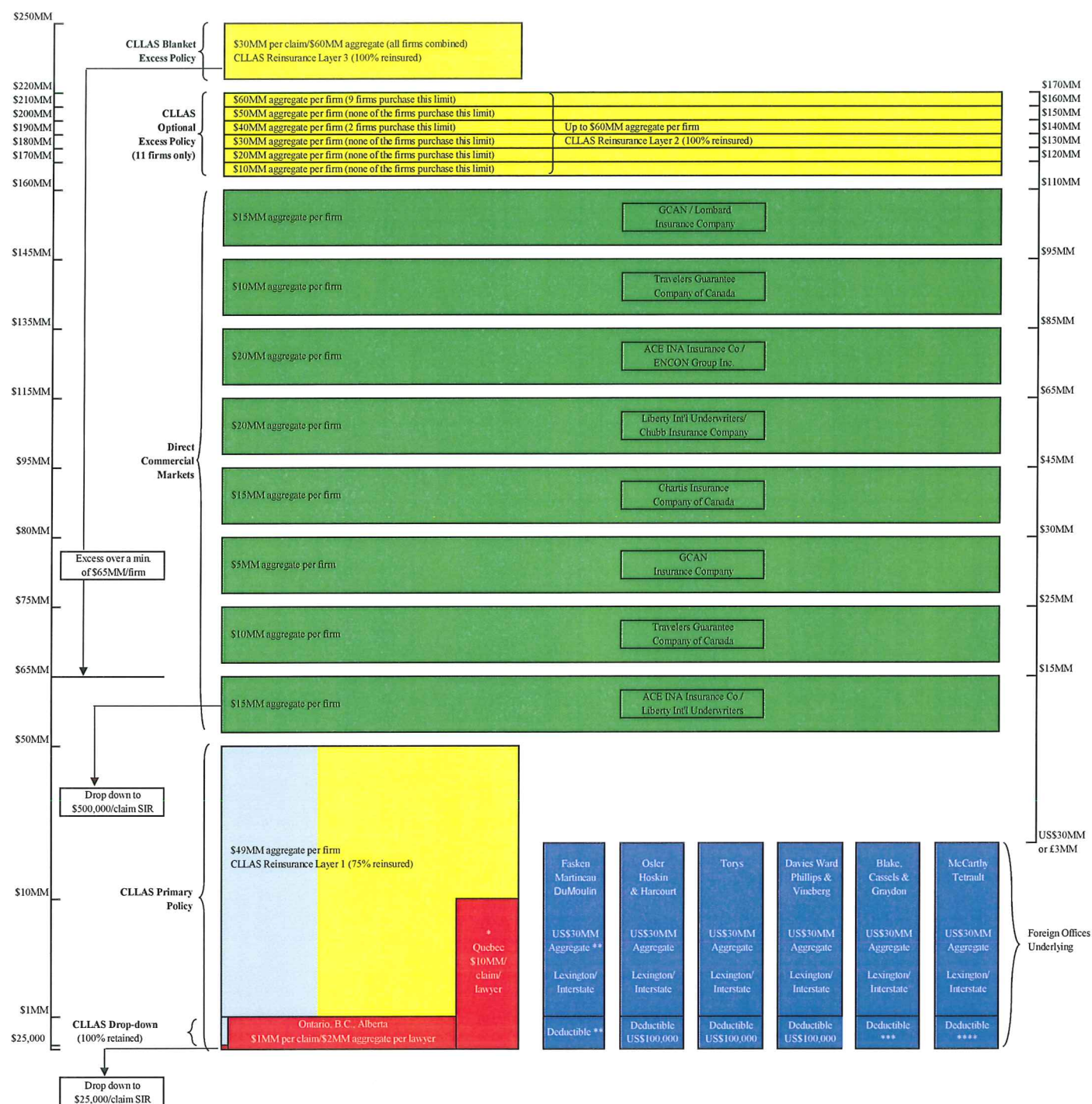
Encl.  
Ad-Bd\_1108\_Final Report to Board re 2011/12 Reins Placement



# CLLAS LIMIT STRUCTURE JULY 1, 2011 - JULY 1, 2012

## Canadian Exposures

## Foreign Exposures



Note: All limits are expressed in Canadian currency unless otherwise specified.

\* The CLLAS Primary Policy is excess of \$10MM/claim in Quebec.

\*\* US\$30MM limit with a UK indemnity limit of £3MM (provided by Lloyd's).

Deductibles: US\$75,000 per claim for UK work, US\$250,000 per claim for US work, US\$50,000 per claim for other work.

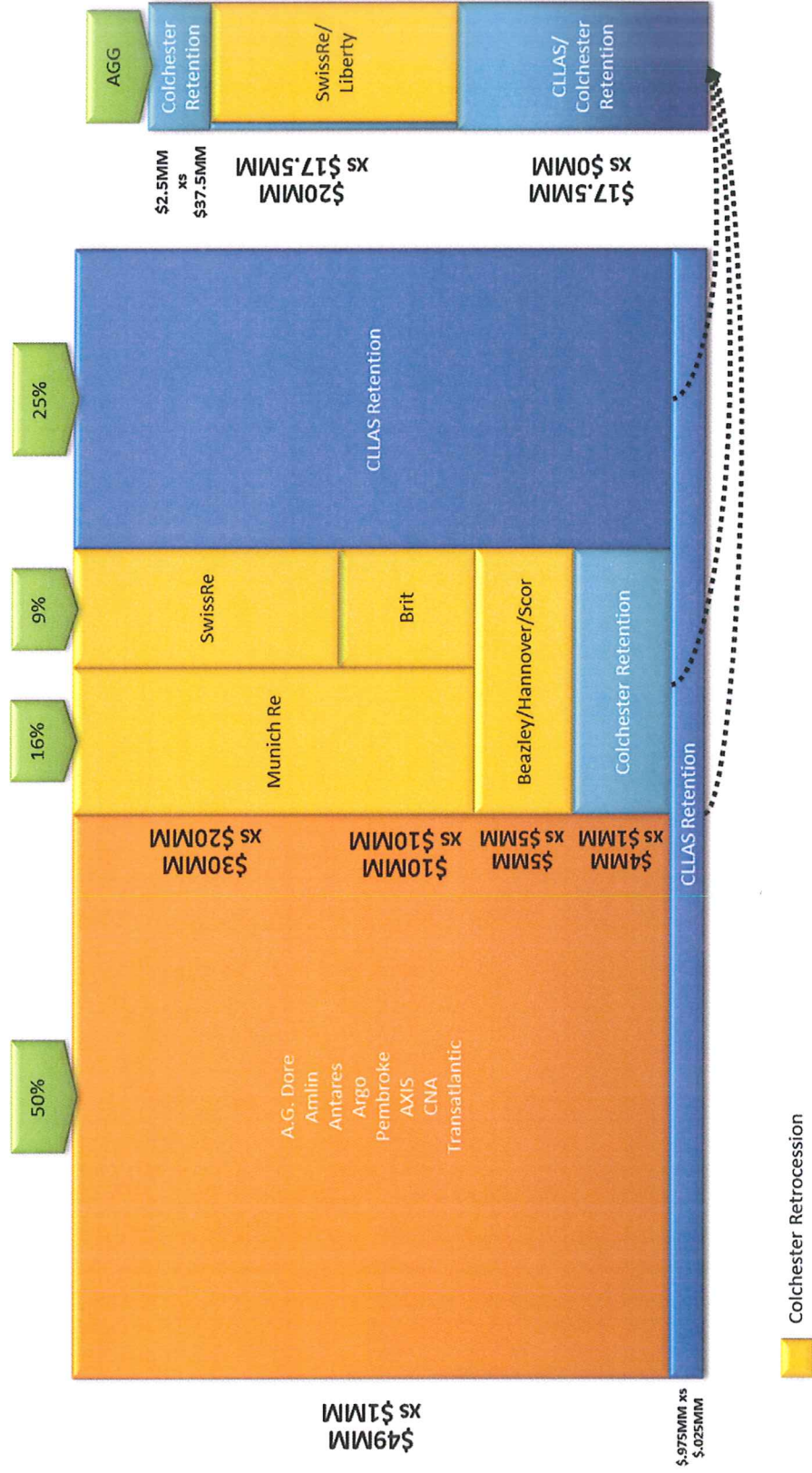
\*\*\* US\$75,000 per claim for UK work, US\$100,000 per claim for US work, US\$50,000 per claim for China, Bahrain and Saudi Arabia work.

\*\*\*\* US\$75,000 per claim for UK work, US\$50,000 per claim for US work, US\$50,000 per claim ex-US & UK work.  
(Note: The period for this policy runs from September 30 to September 30.)

# CLLAS/Colchester

Reinsurance and Retrocession Structure Overview (2011-2012)

EXHIBIT B



## 2011 EXHIBIT

## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

REINSURANCE CEDED  
FINANCIAL SERVICES COMMISSION OF ONTARIO GUIDELINES

	CALENDAR YEAR 2011	RATIO OF DIRECT PREMIUM
A. 2011/2012 CONTINGENCY RESERVE ADJUSTMENT	\$12,990	
B. 2011/2012 PREMIUM FOR LAWYERS, P&T and NLC	\$14,946,782	
C. 2011/2012 GOODMAN AND CARR LATERAL HIRE EXTENSION ENDORSEMENT PREMIUM	\$18,200	
D. 2011/2012 OPTIONAL EXCESS LAYER PREMIUM FOR LAWYERS, P&T and NLC	\$1,329,920	
E. 2011/2012 UMBRELLA FOR LAWYERS, P&T and NLC	\$698,852	
<b>F. DIRECT WRITTEN PREMIUM</b>	<b>\$17,006,744</b>	<b>100.0%</b>
G. REGISTERED REINSURANCE		
H. PROPORTIONAL REINSURANCE	\$7,892,036	
I. AGGREGATE REINSURANCE	\$0	
<b>J. TOTAL REGISTERED REINSURANCE</b>	<b>\$7,892,036</b>	<b>46.4%</b>
K. UNREGISTERED REINSURANCE		
L. PROPORTIONAL REINSURANCE	\$3,463,966	
M. AGGREGATE REINSURANCE	\$549,733	
<b>N. TOTAL UNREGISTERED REINSURANCE</b>	<b>\$4,013,699</b>	<b>23.6%</b>
<b>O. TOTAL REINSURANCE</b>	<b>\$11,905,735</b>	<b>70.0%</b>

## Notes:

N. The FSCO guideline for unregistered reinsurance is 25% (maximum).

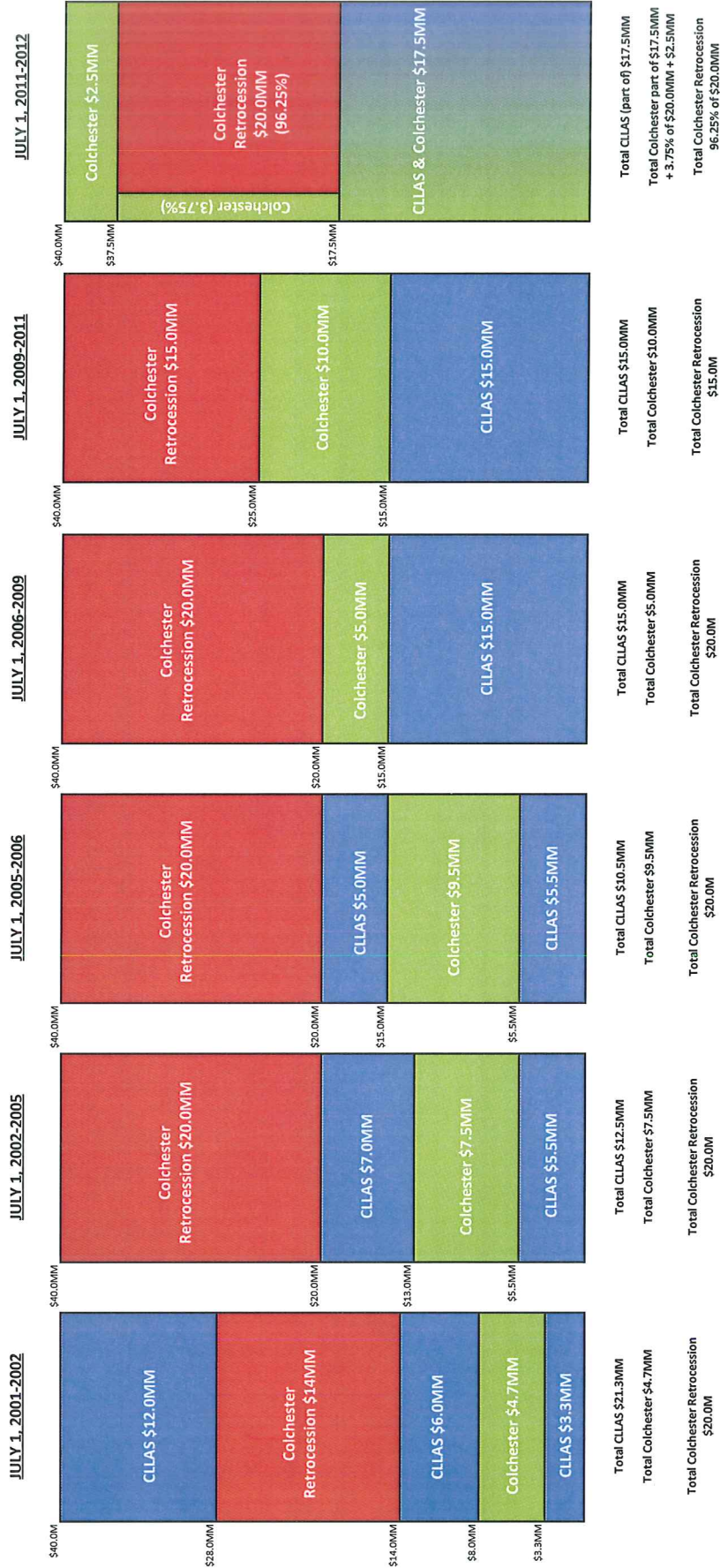
O. The FSCO guideline for total reinsurance is 75% (maximum).

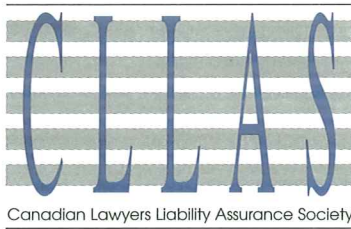






# Aggregate Stop-loss Reinsurance Structure (Historical)





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**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**

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**Date:** August 10, 2011

**To:** David Morritt  
William Scott  
Donald Milner  
Gordon Goodman  
Les O'Connor  
Nicholas Leblovic

Barry Bresner  
Daniel MacDonald  
Chris Woodbury  
Julia Holland  
Glenn Leslie  
Gale Rubenstein

**Copy:** Patrick Mahoney

**From:** Joe Tontini and Colin Egelton

**Re:** Reinsurance Security Report Update

The purpose of this report is to provide the CLLAS Audit Committee and the Board with a Reinsurance Security Report update. This is being done in light of the most recent reinsurance placement and the fact that there have been new reinsurers added to the program. The report is intended to update the Audit Committee and provide them with the financial status of the new reinsurers joining the program as of July 1, 2011.

This report is not intended to review existing markets in detail, however, an update is provided below. Please refer to the most recent February 2011 report for detailed information on the incumbent markets.

**Monitoring 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.

There are two levels involved in the CLLAS reinsurer monitoring. Please see Appendix A for a detailed description of the CLLAS Level I and Level II Monitoring.

### **Incumbent Reinsurers Update**

Please see Appendix B for a complete list of Reinsurer Security Ratings as of July 27, 2011.

There have been two changes to the A.M. Best and S&P ratings of incumbent reinsurers since the February 2011 report, and both are positive:

- A.M. Best upgraded the outlook for Brit Insurance from “Negative” to “Stable”;
- Allied World Assurance Company (AWAC) had its S&P rating raised by one notch from A- to A in June 2011. S&P also put AWAC on a “Positive Credit Watch” due to the merger discussions that are currently taking place with Transatlantic Reinsurance Company (see below).

A complete report from S&P on the AWAC rating upgrade can be found in Appendix C.

### **New Reinsurers**

The following are the A.M. Best and S&P ratings for the four new reinsurers on the CLLAS program:

<b>Lloyd's Syndicates<sup>1</sup></b>	<b>A.M. Best Rating</b>	<b>S&amp;P Rating</b>
Antares 1274	A(Excellent): Stable Outlook	A+ (Strong): Stable Outlook
Argo 1200	A(Excellent): Stable Outlook	A+ (Strong): Stable Outlook
<b>Domestic Markets</b>	<b>A.M. Best Rating</b>	<b>S&amp;P Rating</b>
Axis Reinsurance Company	A (Excellent): Stable Outlook	A+ (Strong): Stable Outlook
Continental Casualty Company (CNA)	A(Excellent): Stable Outlook	A-(Strong): Stable Outlook

### **Potential Merger of Allied World Assurance Company and Transatlantic**

In June 2011, there were reports that AWAC and Transatlantic Re had agreed to a \$3.2 billion “merger of equals”. However, in July 2011, a third party, “Validus Holdings”, made a cash and share offer that valued Transatlantic Re at around \$3.5 billion. The Validus offer was over \$300 million more than the AWAC offer that was recommended to shareholders in the previous month. Initial reports indicated that Transatlantic shareholders were “likely” to favor the Validus bid. However, within days of the proposed Validus bid, stock prices adjusted and the values of both bids began to converge.

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<sup>1</sup> All Lloyd's Syndicates benefit from the single Lloyd's rating. This is appropriate as it relates to funds held at Lloyd's by the Syndicates and Members, as well as the Lloyd's central fund.

On August 7, 2011, Berkshire Hathaway entered the fray offering \$3.25 billion for Transatlantic. Following the stock market turmoil of early August, the offer represented a 17.6% premium to the agreed merger between Transatlantic and AWAC, and a 12.1% premium on the unsolicited bid from Validus – based on current share prices.

We will continue to monitor this situation and provide updates as appropriate.

### **Colchester Exposure**

On the surface, it appears that Colchester has a significant exposure to the CLLAS program this year: 25% of the \$49M xs \$1M layer which amounts to a maximum per claim exposure of \$12.25M. However, Colchester has retroceded 100% of their \$45M xs \$5M exposure, leaving them with only 25% of the \$4M xs \$1M layer. This leaves Colchester with a total net per claim exposure of only \$1M. The retrocession and aggregate stop-loss protection that have been put in place have helped to control and minimize Colchester's overall total net exposure.

### **Level II Monitoring**

No incumbent markets currently residing in Level I monitoring experienced Level II triggers as a result of the recent reinsurance renewal. Given Argo's 23.53% participation on the \$49M xs \$1M layer, it is reasonable to believe that the expected losses for Argo will exceed 10% of all expected losses for the current year. This would automatically place them in the Level II category. Additionally, we believe that Argo should have a Level II analysis conducted because they are such a significant player on the new \$49M xs \$1M Layer. After Argo's 23.53% participation, the next biggest reinsurer on this layer has a 5% participation.

Please see Appendix D for a completed Level II analysis on Argo, including a detailed A.M. Best report and some additional corporate information.



**Appendix A**  
**CLLAS Reinsurers Monitoring Criteria**

**Level I Monitoring**

In February 2011, a complete Level I monitoring analysis was conducted on all of the CLLAS reinsurers, based on complete actuarial information. This analysis included the following:

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

Other than the A.M. Best and S&P ratings, the analysis noted above is based on actuarial data and is conducted on an annual basis at the beginning of each year. Although a complete Level I analysis was not conducted at this time, we can ascertain that there would be no incumbent reinsurers added to the Level II monitoring list that were not already on the list in February 2011. For complete details on the incumbent reinsurers currently on the Level II monitoring list, please refer to the February 2011 Reinsurance Security Report.

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

**Level II Monitoring Triggers**

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

- Downgrading of the security 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.

## **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.

**APPENDIX B**  
**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**REINSURERS' SECURITY RATING**

Reinsurer	Registered Status	A.M. Best					S&P			
		July 27, 2011 Rating		February 7, 2011 Rating		June 10, 2010 Rating	July 27, 2011 Rating		February 7, 2011 Rating	June 10, 2010 Rating
		Rating	Change from Last Rating	Rating	Change from Last Rating		Rating	Change from Last Rating		
Lloyd's	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable	A+ (Strong)/Stable
Aspen Re	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Strong)/Stable	Unchanged	A (Strong)/Stable	A (Strong)/Stable
Hamover Ruck	Registered	A (Excellent)/Positive	Unchanged	A (Excellent)/Positive	Unchanged	A (Excellent)/Stable	AA- (Very Strong)/Stable	Unchanged	AA- (Very Strong)/Stable	AA- (Very Strong)/Stable
Brit Insurance Limited	Registered	A (Excellent)/Stable	Outlook Upgraded from "Negative" to "Stable"	A (Excellent)/Negative	Unchanged	A (Excellent)/Stable	Not Available	Unchanged	Not Available	Not Available
Transatlantic Reinsurance Company (UK)	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable	A+ (Strong)/Stable
Arch Insurance Company (Canada Branch)	Registered	A (Excellent)/Positive	Unchanged	A (Excellent)/Positive	Unchanged	A (Excellent)/Stable	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable	A (Strong)/Positive
Allied World Assurance Company Ltd.	Unregistered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Strong)/Credit Watch-Positive	From "A-" to "A" placed on "Positive" credit watch	A- (Strong)/positive	A- (Strong)/Stable
CRC (Bermuda) Reinsurance Ltd.	Unregistered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	Not Available	Unchanged	Not Available	Not Available
GCAN Insurance Company	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	Not Available	Unchanged	Not Available	Not Available
SCOR Canada Reinsurance Company	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Strong)/Positive	Unchanged	A (Strong)/Positive	A (Strong)/Stable
Swiss Reinsurance Company Ltd. (Canada Branch)	Registered	A (Excellent)/Positive	Unchanged	A (Excellent)/Positive	Unchanged	A (Excellent)/Stable	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable	A+ (Strong)/Stable
Toa Reinsurance Company of America	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable	A+ (Strong)/Stable
Transatlantic Reinsurance Company (Parent)	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable	A+ (Strong)/Stable
Transatlantic Reinsurance Company (Canada)	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable	A+ (Strong)/Stable
Colechester Reinsurance Ltd.	Unregistered	Not Available	Unchanged	Not Available	Unchanged	Not Available	Not Available	Unchanged	Not Available	Not Available
Antares 1274	Registered	A (Excellent)/Stable	N/A	N/A	N/A	N/A	A+ (Strong)/Stable	N/A	N/A	N/A
Argo 1200	Registered	A (Excellent)/Stable	N/A	N/A	N/A	N/A	A+ (Strong)/Stable	N/A	N/A	N/A
Axis Reinsurance Company	Registered	A (Excellent)/Stable	N/A	N/A	N/A	N/A	A+ (Strong)/Stable	N/A	N/A	N/A
Continental Casualty Company (CNA)	Registered	A (Excellent)/Stable	N/A	N/A	N/A	N/A	A- (Strong)/Stable	N/A	N/A	N/A

# Global Credit Portal

## RatingsDirect®

June 13, 2011

### Research Update:

## Allied World Assurance And Some Transatlantic Ratings Placed On CreditWatch Positive Following Merger Announcement

### Primary Credit Analyst:

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Rationale

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## Research Update:

# Allied World Assurance And Some Transatlantic Ratings Placed On CreditWatch Positive Following Merger Announcement

## Overview

- Yesterday, Allied World Assurance Co. Holdings AG and Transatlantic Holdings Inc.'s respective boards of directors approved a definitive agreement for a stock-for-stock merger of equals.
- We have placed the ratings on Allied World and its operating units on CreditWatch with positive implications because being part of a leading global reinsurance group could improve its competitive position.
- We have also placed the rating on Transatlantic on CreditWatch positive because of possible narrowed notching between the holding-company and operating-company ratings.
- The ratings on Transatlantic's operating companies are unchanged.

## Rating Action

On June 13, 2011, Standard & Poor's Ratings Services placed its 'BBB+' counterparty credit rating on Allied World Assurance Co. Holdings AG and its 'A' counterparty credit and financial strength ratings on Allied World's subsidiaries on CreditWatch with positive implications. At the same time, Standard & Poor's also placed its 'BBB+' counterparty credit rating on Transatlantic Holdings Inc. on Credit Watch positive. The counterparty credit and financial strength ratings on Transatlantic's subsidiaries are unchanged.

## Rationale

These rating actions follow the announcement by Allied World and Transatlantic that they have entered into a definitive agreement for a merger of equals. The transaction is subject to shareholder and regulatory approval. The companies expect to complete the merger within six months.

Scott Carmilani, chief executive officer of Allied World, will take over as president and CEO of the newly merged group, which will be named TransAllied Group Holdings AG. Michael Sapnar, who is Chief Operating Officer at Transatlantic, will become president and CEO of Global Reinsurance. For accounting purposes, it is expected that Transatlantic will be the acquirer. However, Allied World will become the surviving entity, as the combined group will be domiciled in Switzerland. When the merger is complete, Transatlantic shareholders should own close to 58% of the combined company, with Allied World's shareholders owning the remaining 42%.

We have placed the Allied World ratings on CreditWatch positive to reflect our view that the group's competitive position could improve as a result of this transaction. Specifically, the merger will create a



significantly larger insurance and reinsurance group with about \$7 billion in shareholders' equity. Among the potential benefits of the expected transaction is the combined group's improved diversification by platform, product, and distribution channel. For example, the merger will allow the group to expand its writings beyond long-tail coverages into specialty non-property short-tail lines (such as accident and health, credit, and surety coverages), which might decrease earnings volatility over the long term.

Partially offsetting these positive factors is the integration risk associated with the merger. In our opinion, the retention of key managers and staff members at TransAllied Group Holdings AG will be an important element in the merger's success, given both companies' strong expertise. We also believe there is execution risk related to TransAllied Group Holdings AG capitalizing on a larger, more diversified platform to produce a stable business with strong, high-quality earnings over the long term.

Somewhat mitigating this concern is the complementary nature of Transatlantic and Allied World's writings and client base. There is minimal overlap in the groups' business lines, which should simplify the amalgamation of their books of business and help reduce any friction among management and staff at the merged organization. In addition, Allied World's success in integrating Darwin Professional Underwriters Inc. into its operations demonstrates an ability to execute a transformational acquisition, though the merger with Transatlantic is much larger and will likely be a more formidable task.

We placed the Transatlantic rating on CreditWatch positive because we could narrow the notching between the holding-company rating and the operating-company ratings to two notches from three. This is because we believe that the group will hold a meaningful proportion of its capital--which it will build through regular dividends that do not require regulatory approval, internal quota-share arrangements, and other means--in Bermuda. We expect that the Bermuda Monetary Authority will be the group's regulatory supervisor. The combined group's global earnings diversification, very strong unrestricted cash flow, and low leverage could also support narrowed notching.

The ratings on Transatlantic's operating companies are unchanged. Despite the strengths of the merger--including an enhanced market position, an opportunity to enter the primary low limits market with an established carrier, and more favorable tax treatment outside of the U.S.--it remains to be seen whether the combined entity will be able to outperform its peers.

## CreditWatch

Upon the completion of the merger, we would expect to raise the ratings on Allied World by one notch. If the transaction is not completed, we would likely affirm the ratings, all else being equal.

## Related Criteria And Research

- Allied World Assurance Co. Holdings AG And Subsidiaries Ratings Raised By One Notch; Outlook Stable, June 7, 2011.
- Table Of Contents: Standard & Poor's Insurance Ratings Criteria, June 1, 2011.

## Ratings List

### CreditWatch Action

	To	From
Allied World Assurance Company Holdings, AG		
Counterparty Credit Rating	BBB+/Watch Pos/--	BBB+/Stable/--
Senior Unsecured	BBB+/Watch Pos	BBB+

Allied World Assurance Co. (Europe) Ltd.  
 Allied World National Assurance Co.  
 Allied World Assurance Co. U.S. Inc.  
 Allied World Assurance Co. Ltd.  
 Allied World Assurance Co. (Reinsurance) Ltd.  
 Allied World Reinsurance Co.

Counterparty Credit Rating	A/Watch Pos/--	A/Stable/--
Financial Strength Rating	A/Watch Pos/--	A/Stable/--

Transatlantic Holdings Inc.		
Counterparty Credit Rating	BBB+/Watch Pos/--	BBB+/Stable/--
Senior Unsecured	BBB+/Watch Pos	BBB+

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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The McGraw-Hill Companies

**Appendix D**  
**Level II Analysis on Argo Group International Holdings, Ltd.**

**General**

The Argo International corporate profile, along with the bios for the senior underwriter and head of claims is attached.

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 we serve 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.

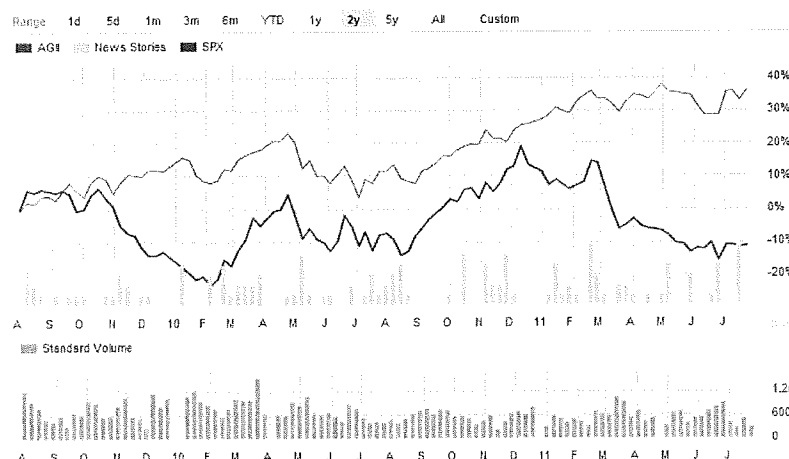
**Reinsurance** writes reinsurance business worldwide through the broker market, with offerings that include specialty property catastrophe reinsurance and excess casualty and professional insurance.

**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) (third highest rating out of 16 rating classifications) with a stable outlook, and Standard and Poor's-rated "A-" (Strong) with a stable outlook. ARIS Title Insurance Corporation, which has yet to be rated, issues policies guaranteed through a rated subsidiary of Argo Group.

**Stock Performance**

The following is the 2-year stock performance as at July 26, 2011, for Argo Group International Holdings Limited. For comparison purposes, we have included the S&P index.



### Highlights of A.M. Best Report

The complete A.M. Best report is attached.

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 Underwriting Agency Limited (formerly known as Heritage Underwriting Agency plc), based in London, is comprised of three primary components: Argo Managing Agency, which manages the syndicate; Syndicate 1200 and Argo Corporate Member Companies, which participates with other capital providers on syndicates. 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. Going forward, the Syndicate 1200 segment will be principally managed and evaluated as a Lloyd's market syndicate business and will focus on the management and profitable growth of this business.

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 and \$1,527,100,000 in 2010;
- 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 and \$1,095,700,000 in 2010;
- Positive Net income since 2006: \$106,000,000 in 2006, \$143,800,000 in 2007, \$62,900,000 in 2008, \$117,500,000 in 2009 and \$82,600,000 in 2010;
- 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 and 112.9% in 2010;
- Interest Coverage ratio has been good since 2006: 11.9 in 2006, 5.5 in 2007, 4.9 in 2008, 7.2 in 2009 and 4.4 in 2010;



- Argo Group has shown underwriting stability since 2006, with loss ratios less than 65% in each of the last five years: 58.8% in 2006, 61.3% in 2007, 64.3% in 2008, 60.3% in 2009 and 64.2% in 2010.

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## 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 - 07/18/2011 \*

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 <sup>1</sup>	Financial <sup>2</sup>	General Information <sup>3</sup>
<b>Best's Credit Rating:</b>	<b>Time Period: Annual - 2010</b>	<b>Corporate Structure: 06/06/2007</b>
<b>Rating Rationale: N/A</b>	<b>Last Updated: 06/09/2011</b>	<b>States Licensed: N/A</b>
<b>Report Commentary: 07/18/2011</b>	<b>Status: Quality Cross Checked</b>	<b>Officers and Directors: 07/18/2011</b>

**\*Note:** The **Rating and Commentary** <sup>1</sup> 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** <sup>2</sup> 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** <sup>3</sup> 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: [www.argolimited.com](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: 07/18/2011

## 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 risks that the standard (admitted) market is unwilling or unable to underwrite due to the unique risk characteristics of the insureds or the lack of competing insurers willing to offer such coverage because of the perils involved, the nature of the business, 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. In the fourth quarter of 2010, Argo Group announced the restructuring of this segment resulting in the consolidation of Colony Insurance and Argonaut Specialty under a unified platform branded "Colony Specialty". Colony Specialty will deliver a product structure that is more easily understood and transparent to the market, offering clients: access to a wider array of products, increased responsiveness, faster quotes, and improved ease of doing business. In addition, the new structure will leverage the entire Argo Group platform, which will promote efficiencies and support collaboration within E&S and with other Argo Group segments. The E&S segment now consists of two operating platforms: Colony Specialty and Argo Pro. These two operations focus on underwriting surplus lines coverage but may underwrite certain classes of business on an admitted basis for insureds with risk profiles that meet Argo Group's underwriting standards. Colony Specialty focuses on a broad class of risks. Its operations are divided into five focused divisions: Casualty, Property, Transportation, Environmental and Contract Binding. Colony Specialty provides coverage to commercial enterprises including contractors, manufacturers, retailers, distributors, property owners, service risks and apartment complexes. The environmental division offers package policies for environmental consultants and contractors, storage tanks, dry cleaners pollution liability as well as other environmental-related liability exposures. The Transportation division focuses on small to medium sized automobile risks and is written on a contract binding basis. Argo Pro is comprised of three divisions: Allied Medical (AM), Errors & Omissions (E&O) and Insight. AM targets medical facilities within the social services, miscellaneous healthcare, and long-term care segments. E&O targets miscellaneous E&O, technology E&O, insurance agents E&O and lawyers E&O accounts. Insight offers E&O 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 2010, the Commercial Specialty segment consisted of the following operations: Argo Insurance, Rockwood Casualty Insurance Company (Rockwood), Argo Surety, Commercial Programs and Alteris. Argo Group also announced the acquisition of ARIS Title

Insurance Corporation in the 4Q of 2010, which provides art title insurance that serves the needs of the art marketplace and related fiduciary banking, legal, museum and non-profit communities. The core operations of Argo Insurance consist of Grocery, Restaurants, and Specialty Retail (including dry cleaners, commercial launderers, convenience stores, and retail furniture stores). During 2009 and 2010, Argo Insurance discontinued programs for Hospitality and Religious Organizations and its program with First Insurance Company of Hawaii as profitability was inconsistent with management's expectations. 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 52% 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 16% of Rockwood's gross written premiums in 2010. 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 (formerly Programs & Product Development) partners with retail 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, forestry/logging operations, 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) and Alteris Alternative Risk Solutions (formerly Corporate Accounts). 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, private education (K-12), home heating dealers, propane dealers, student transportation, septic contractors, waste haulers, wineries and lawyers. 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, police and firefighters 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. Alteris Alternative Risk Solutions 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. The International Specialty segment underwrites international and U.S. reinsurance business. Previously, this segment was known as the Reinsurance segment but following an evaluation of the operating structure of Argo Group's Bermuda and London based operations, in conjunction with management changes impacting these operations, the company decided to rename this segment International Specialty. The segment's primary business platform is Argo Re, a Bermuda Class 4 insurance company. Argo Re focuses on underwriting property catastrophe excess of loss reinsurance for a relatively small number of cedants whose accounts are known by Argo Re underwriters. Argo Re will also underwrite property per risk and pro rata reinsurance on a select basis. The business written by Argo Re covers underlying exposures that are located throughout the world including the United States. During 2009, Argo Re launched a "Casualty and Professional Lines" division that provides primary excess casualty coverage for general and products liability, directors and officers liability, errors and omissions liability and employment practices liability for global clients. The Casualty and Professional Lines division accounted for approximately 29% of this segment's premium volume in 2010. In the fourth quarter of 2010, Argo Group announced that going forward, products offered by this division will be marketed under the unified Argo Insurance brand as Argo Insurance Worldwide Professional Lines and Argo Insurance Worldwide Casualty Lines. Going forward, this segment will serve as the center for Argo Group's international insurance and reinsurance business, including the company's product development and global strategic expansion initiatives.

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 Underwriting Agency Limited (formerly known as Heritage Underwriting Agency plc), based in London, is comprised of three primary components: Argo Managing Agency, which manages the syndicate; Syndicate 1200 and Argo Corporate Member Companies, which participates with other capital providers on syndicates. 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. Going forward, the Syndicate 1200 segment will be principally managed and evaluated as a Lloyd's market syndicate business and will focus on the management and profitable growth of this business.

## 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	<i>Argo Re Ltd.</i>	Bermuda	100.00
052405	<i>Argo Irish Holdings I Ltd.</i>	Ireland	100.00
052407	<i>Argo Fin Hldg (Ireland) Ltd</i>	Ireland	80.00
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
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
052406	<i>Argo Irish Holdings II</i>	Ireland	100.00
052407	<i>Argo Fin Hldg (Ireland) Ltd</i>	Ireland	20.00
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

### Source of Information: Audited Financial Statement

### Summarized Accounts as of December 31, 2010

## ASSETS

	12/31/2010 USD(000)	12/31/2010 % of total	12/31/2009 USD(000)
Cash and equivalents	83,500	1.3	18,100
Long term fixed maturity investments	3,361,400	51.9	3,532,100
Equity investments	324,500	5.0	265,900
Short term investments	375,300	5.8	439,300
Other investments	154,200	2.4	97,000
Invested assets	4,215,400	65.0	4,334,300
Receivables	339,800	5.2	419,400
Reinsurance recoverable	1,203,900	18.6	1,379,400
Intangibles	388,800	6.0	434,400
Other assets	250,500	3.9	311,200
Total assets	6,481,900	100.0	6,896,800

## LIABILITIES & SURPLUS

	12/31/2010 USD(000)	12/31/2010 % of total	12/31/2009 USD(000)
Property / Casualty reserves	3,152,200	48.6	3,203,200
Unearned premium reserves	654,100	10.1	803,600
Total policy reserves	3,806,300	58.7	4,006,800
Debt & notes payable	376,500	5.8	380,600
Other liabilities	673,000	10.4	894,500
Total liabilities	4,855,800	74.9	5,281,900
Equity - common stock	31,200	0.5	31,000
Paid-in capital	711,400	11.0	702,400
Accumulated other comprehensive income	147,600	2.3	107,400
Retained earnings	847,500	13.1	779,200
Common stock in treasury	-111,600	-1.7	-5,100
Total equity	1,626,100	25.1	1,614,900
Total liabilities & equity	6,481,900	100.0	6,896,800

## STATEMENT OF INCOME

	12/31/2010 USD(000)	12/31/2009 USD(000)
Direct premiums written	1,283,200	1,840,000
Reins assumed	243,900	148,900
Gross premiums written	1,527,100	1,988,900
Reins ceded	431,400	567,500
Net premiums written	1,095,700	1,421,400
Change in unearned premiums	-115,900	6,500
Net premiums earned	1,211,600	1,414,900
Total fee income	2,500	1,100
Net investment income	133,600	145,500
Net realized gains/(losses)	36,800	-16,700
Non-operating revenue	3,800	200
Total revenue	1,388,300	1,545,000
Benefits & reserves	777,500	853,100
Operating expenses	472,600	523,800
Total benefits & expenses	1,250,100	1,376,900

Earnings before interest & taxes (EBIT)	138,200	168,100
Interest expense	22,900	25,700
Pre-tax income/(loss) from continuing operations	115,300	142,400
Total taxes	32,700	24,900
Net income/(loss) before minority interest	82,600	117,500
Net income/(loss) from continuing operations	82,600	117,500
Net income/(loss)	82,600	117,500

## STATEMENT OF CHANGES IN EQUITY

	12/31/2010 USD(000)	12/31/2009 USD(000)
Common shares, beginning balance	25,900	25,700
Common shares, repurchased	106,500	...
Common shares, other	200	200
Common shares, ending balance	-80,400	25,900
Paid-in capital - Beg bal	702,400	694,200
Paid-in capital - Shares repurchased	500	500
Paid-in capital - other	9,500	8,700
Paid-in capital - End bal	711,400	702,400
AOCI - beginning balance	107,400	-28,700
AOCI - change in unrealized gains/losses on investments	39,400	135,800
AOCI - change in unrealized gains/losses - other	800	300
AOCI - ending balance	147,600	107,400
Retained earnings, beginning balance	779,200	661,700
Retained earnings, net income	82,600	117,500
Retained earnings, common dividends	14,300	...
Retained earnings, ending balance	847,500	779,200
Total shareholder equity	1,626,100	1,614,900

## STATEMENT OF CASH FLOWS

	12/31/2010 USD(000)	12/31/2009 USD(000)
Net cash provided/(used) in operating activities	-3,100	301,800
Net cash provided/(used) in investment activities	183,900	-240,800
Net cash provided/(used) in financing activities	-115,400	-48,100

Total increase (decrease) in cash	65,400	12,900
Cash, beginning balance	18,100	5,200
Cash, ending balance	83,500	18,100

## MANAGEMENT

**Officers:** President and Chief Executive Officer, Mark E. Watson III; Executive Vice President and Chief Financial Officer, Jay S. Bullock; Senior Vice President and Chief Information Officer, Farid Nagji; Senior Vice President and Group Actuary, Michael Fusco; Senior Vice President, Treasurer and Chief Accounting Officer, N. James Tees; Senior Vice Presidents, Barbara C. Bufkin (Business Development), John F. Kearney (Strategic Planning), Karen Meriweather (Enterprise Risk Management), Kevin D. Silva (Human Resources); Vice Presidents, Kevin Copeland, Amit Shah (Corporate Reinsurance and Risk Management).

**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>2010</u>	USD (000) <u>2009</u>	USD (000) <u>2008</u>	USD (000) <u>2007</u>	USD (000) <u>2006</u>
Invested assets	4,215,400	4,334,300	3,995,400	3,582,800	2,514,100
Total assets	6,481,900	6,896,800	6,381,500	5,123,500	3,721,500
Debt & notes payable	376,500	380,600	428,700	369,400	144,300
Total liabilities	4,855,800	5,281,900	5,028,600	3,739,000	2,873,800
Total equity	1,626,100	1,614,900	1,352,900	1,384,500	847,700
Total capital	2,002,600	1,995,500	1,781,600	1,753,900	992,000

## INCOME STATEMENT ITEMS

	USD (000) <u>2010</u>	USD (000) <u>2009</u>	USD (000) <u>2008</u>	USD (000) <u>2007</u>	USD (000) <u>2006</u>
Gross premiums written	1,527,100	1,988,900	1,601,500	1,180,900	1,155,600
Net premiums written	1,095,700	1,421,400	1,151,000	854,200	847,000
Net investment income	133,600	145,500	150,200	134,300	104,500
Net realized gains/(losses)	36,800	-16,700	-35,100	5,900	21,200
Net income/(loss)	82,600	117,500	62,900	143,800	106,000

## LIQUIDITY RATIOS (%)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total investments to total reserves	112.9	108.6	105.2	122.7	100.5
Liquid assets to total liabilities	85.4	80.6	78.4	95.8	88.5
Total investments to total liabilities	88.5	82.4	79.6	96.2	89.0
Bonds to total reserves	88.3	88.2	82.9	89.2	79.5

## PROFITABILITY RATIOS (%)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Loss ratio	64.2	60.3	64.3	61.3	58.8
Expense ratio	39.0	37.0	36.1	38.2	35.1
Combined ratio	103.2	97.3	100.4	99.4	93.8
Investment income ratio	11.0	10.3	13.3	15.6	12.9
Return on assets	1.2	1.8	1.1	3.3	3.6
Return on revenues	6.8	8.3	5.6	16.7	13.0
Return on equity	5.1	7.9	4.6	12.9	16.2

## LEVERAGE & DEBT RATIOS (%)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net premiums written to equity	67.4	88.0	85.1	61.7	99.9
Cash flow coverage (x)	-0.1	11.7	3.8	6.6	23.0
Interest coverage (x)	4.4	7.2	4.9	5.5	11.9
Debt to equity	23.2	23.6	31.7	26.7	17.0
Debt to total capital	18.8	19.1	24.1	21.1	14.6
Cash and equivalents to total assets	7.1	6.6	8.1	13.0	6.9

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 do they 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 do they address the suitability of any particular financial obligation for a specific purpose or purchaser.

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AMB Credit Report - Insurance Professional BCR07182011





## Corporate profile

Argo Group International Holdings, Ltd. is an international underwriter of specialty insurance and reinsurance products in areas of the property and casualty markets. Through our operating companies, we offer a comprehensive line of high-quality products and services designed to meet the unique coverage and claims-handling needs of our clients in four business segments: Excess and Surplus Lines, Commercial Specialty, Reinsurance and International Specialty, which includes our Lloyd's syndicate.

Argo Group has a long-term track record of growth. With roots in California and Texas, we operated exclusively in the United States as Argonaut Group for many years. Our asset and renewal rights acquisitions of strong niche insurance companies, such as Colony, Rockwood and Grocers gave us a foothold throughout the U.S. to serve the commercial specialty and excess and surplus lines markets. Organic growth also played a role in our expansion as a leader in the specialty insurance marketplace, with the formation of companies such as Trident and Argonaut Specialty.

Our expansion into international markets and the reinsurance business began in 2007 when Argonaut Group merged with Bermuda-based PXRE Group, creating Argo Group. To better serve these markets and position ourselves for further international expansion, the company headquarters was moved from San Antonio to Bermuda. Concurrently, Argo Group's reinsurance company, Argo Rè was formed. In 2008, Argo Group acquired Heritage, a specialist insurer and Lloyd's syndicate. Its mix of property and liability business and access to the Lloyd's market made it a complementary addition to our Bermuda and U.S. books of business.

Currently, Argo Group has offices in six countries, including Brazil and the UAE, and through our 28 locations, we write business in many countries across the world. Our geographic expansion has produced positive financial results, most notably a compounded growth in book value per share of approximately 13 percent since 2002, which marked the infancy of Argo Group's entrance into the specialty insurance market.

## Nigel Dorning



Nigel worked for Sedgwick 1976-1985, specialising in professional indemnity (PI) covers from 1978. He joined Bain Dawes in 1985 as a specialist in construction related covers within the PI discipline before becoming an Executive Director for all London Market broking. Following the merger of Bain Clarkson and Hogg Robinson in 1995, he became involved with a research and development role. Nigel spent two years with RGB agencies, where he set up a liability department, before joining Amlin in 1999. Since 2000, Nigel has overseen Amlin UK's PI business, focusing mainly on UK and European exposures in the construction and miscellaneous classes.

Nigel recently left Amlin to join Argo International

## Steve Mansfield

Steve has handled PI claims for a period in excess of 20 years firstly at syndicate 919 (Don Carey and others) then for Amlin and finally followed a number of colleagues to Heritage/Argo where he has been head of Casualty claims ever since.

Steve heads a team of 4 in London and works integrally with the underwriters on all casualty underwriting both facultative and facility and has specific knowledge of the Canadian and Australian markets.

Steve is well known to adjusters and lawyers across the globe as one of the most senior underwriters in his field. We intend for Steve to have an integral role in the writing of all our programmes and fully expect him to have an interactive role with our cover-holders.



# Dion Durrell

CLLAS

Board Presentation - Reinsurance Overview

September 13, 2011

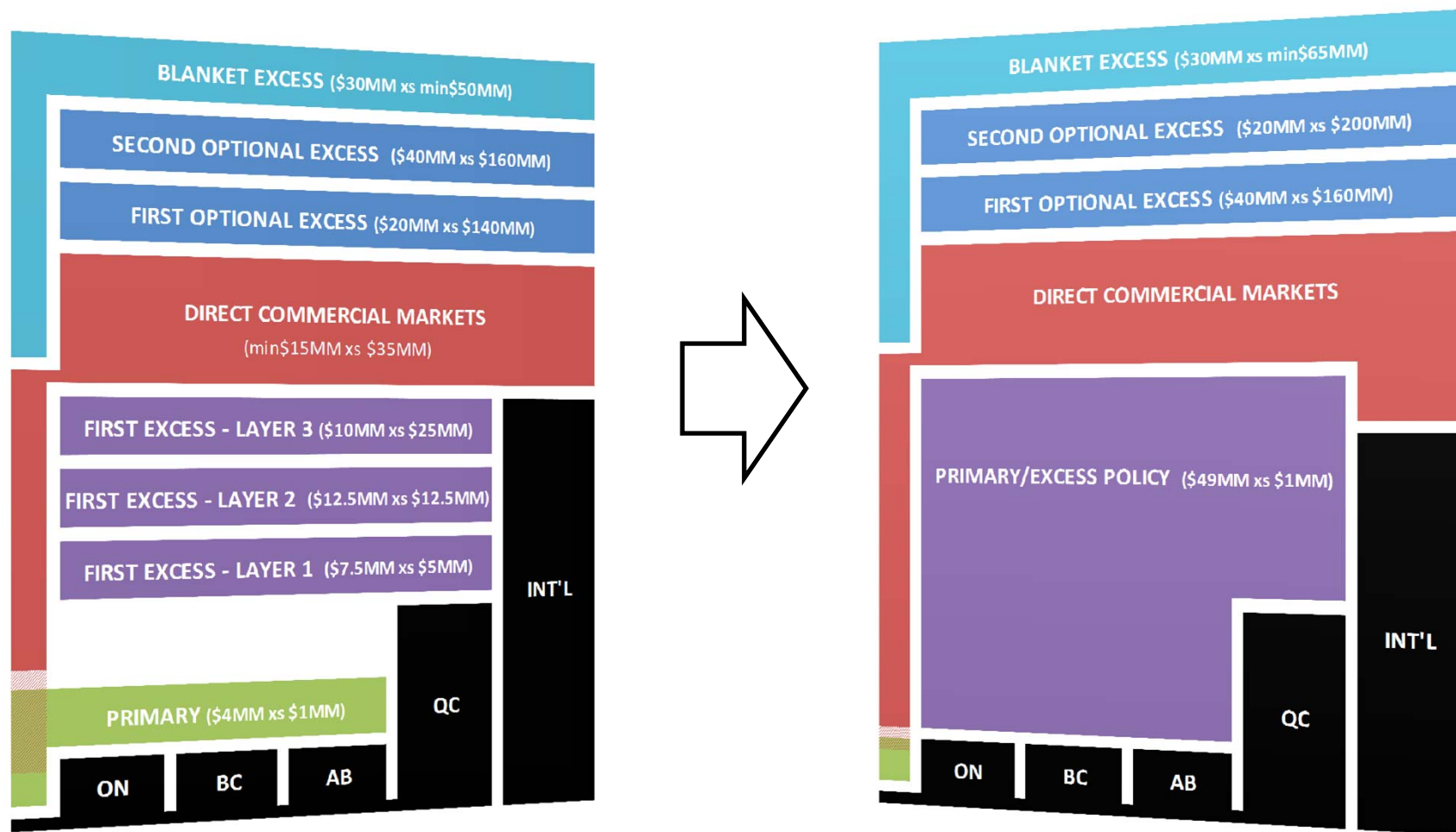
# Outline

- Renewal Overview
  - Structure Change
  - Board-Approved Market Approach
  - Board-Approved Return of Surplus
- Renewal Results
  - Market Changes
  - Primary Structure
  - Rate Comparisons
  - Final Rate Adjustments
  - Final Rate Comparisons
- Summary

# Renewal Overview

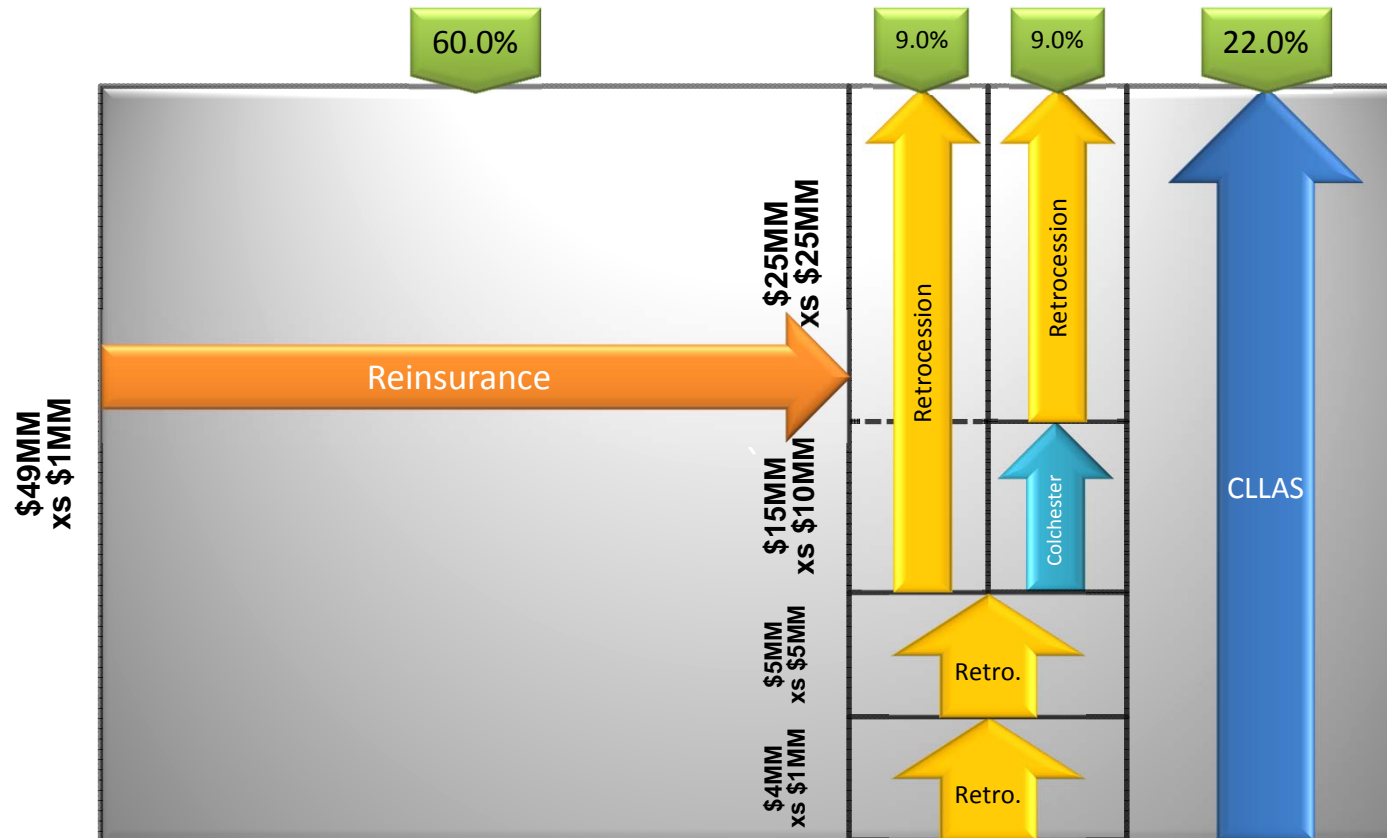
- Mandate from board to achieve market rates
  - Required out-of-the-box re-thinking of CLLAS placement
    - Market rates provided by Bob Wilson/Pro-Form
    - Scaled-back actuarial support
    - Layers consolidated into single “super” layer
    - Use of key incumbent reinsurers
- Maintain prior year return of surplus
- Operating within regulatory constraints
  - Max 75% reinsurance
  - Max 25% unregistered reinsurance
- Stay within the \$15,000,000 CLLAS Retention as per Subscribers' Agreement

# Structure Change





# Board-Approved Market Approach



CLLAS Total Premium:  
 Premium per lawyer:  
 CLLAS/Colchester Retention:  
 Percent Reinsurance:  
 Percent Unlicensed:

\$17,201,175 (\$5,565,369 savings)  
 \$3,584 (\$1,159 savings)  
 \$13,105,000 ✓  
 74% ✓  
 20% ✓

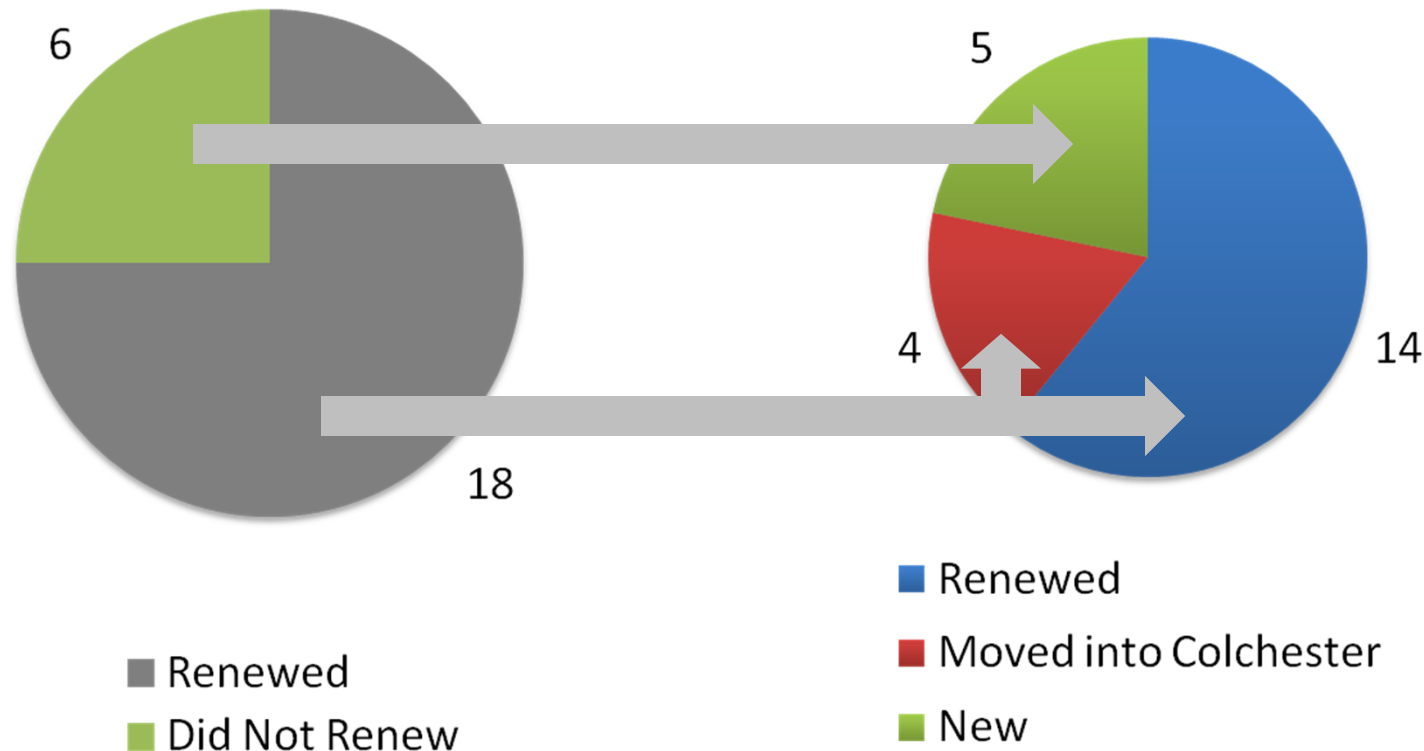
# Board Approved Return of Surplus

Return of surplus for 2011/2012 is arrived at using the following three sources:

CLLAS Investment Income on Surplus:	\$582,000
Colchester Investment Income on Surplus:	\$618,000
Board Directed Surplus Disbursement:	<u>\$1,000,000</u>
	\$2,200,000

# Market Changes

Not all incumbent markets renewed, 6 non-renewals were replaced by 5 new markets



# Market Changes (cont'd)

## Markets in detail:

### Lloyd's Syndicates

	2010/2011	2011/2012
A.G. Dore - AGD 2526	✓	✓
Amlin - AML2001	✓	✓
Antares - AUL 1274		✓
Ark - ARK 4020	✓	
Argo - AMA 1200		✓
Beazley - AFB 2623	✓	✓
Brit - BRT 2987	✓	✓
Catlin - SJC 2003	✓	✓
Faraday - FDY 435	✓	✓
Hiscox - HIS 33	✓	✓
Liberty - LIB 4472	✓	✓
Markel - MKL 3000	✓	✓
Marketform - MKM 2468	✓	
Meacock - SAM 727	✓	
Pembroke - PEM 4000	✓	✓

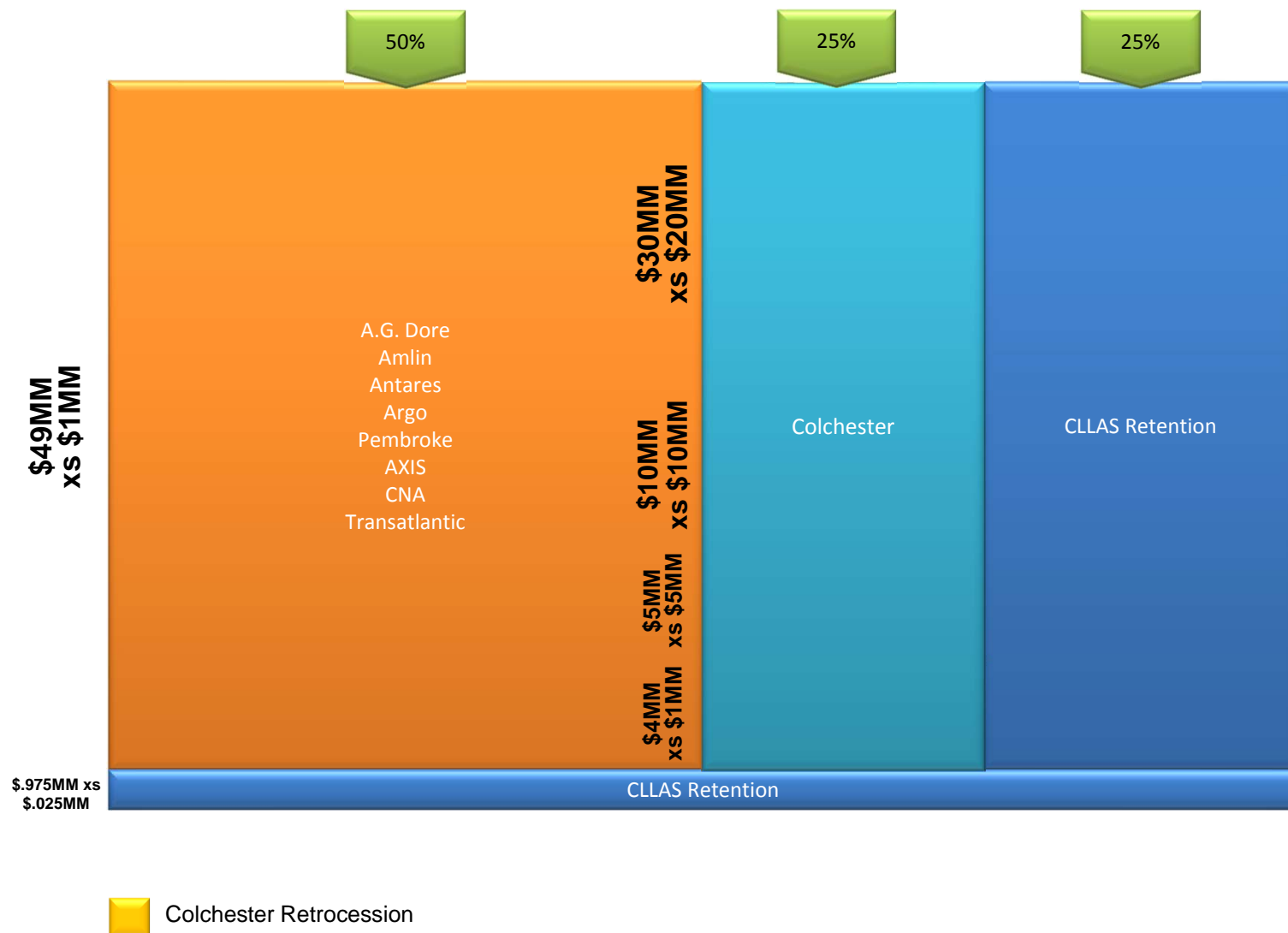
### Stand Alone Reinsurers

	2010/2011	2011/2012
Arch	✓	✓
Aspen Re	✓	
AWAC (not Can. Lic.)	✓	✓
AXIS Re		✓
CNA		✓
Colchester (not Can. Lic.)	✓	✓
CRC (not Can. Lic.)	✓	
GCAN	✓	✓
Hannover Re	✓	✓
Munich Re		✓
Scor Re	✓	✓
Swiss Re	✓	✓
TOA Re.	✓	
Transatlantic Re	✓	✓

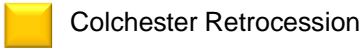
 Non-Renewing Markets

 New Markets

# Primary Structure in Detail (Part 1)

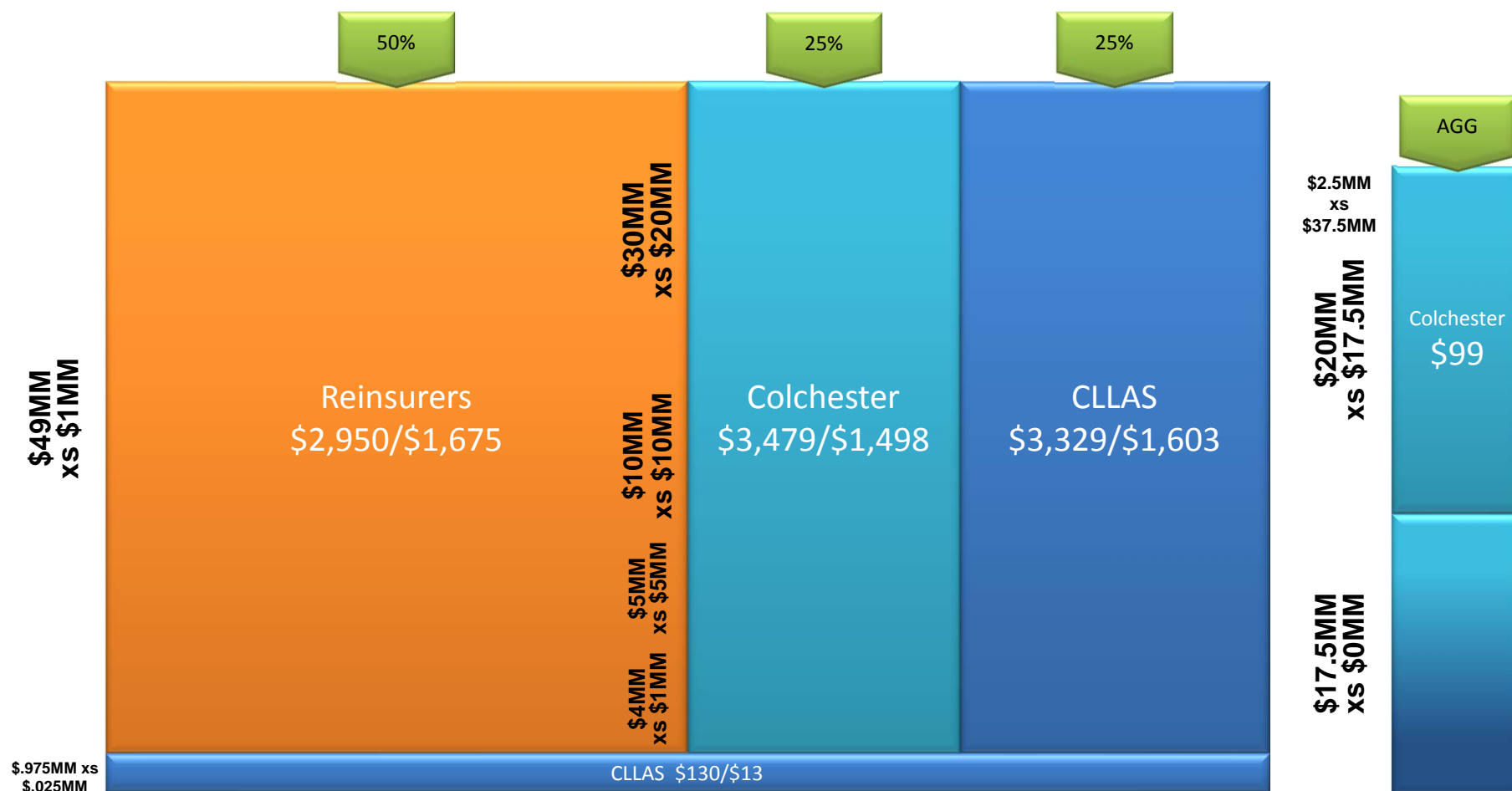


## Primary Structure in Detail (Part 2)

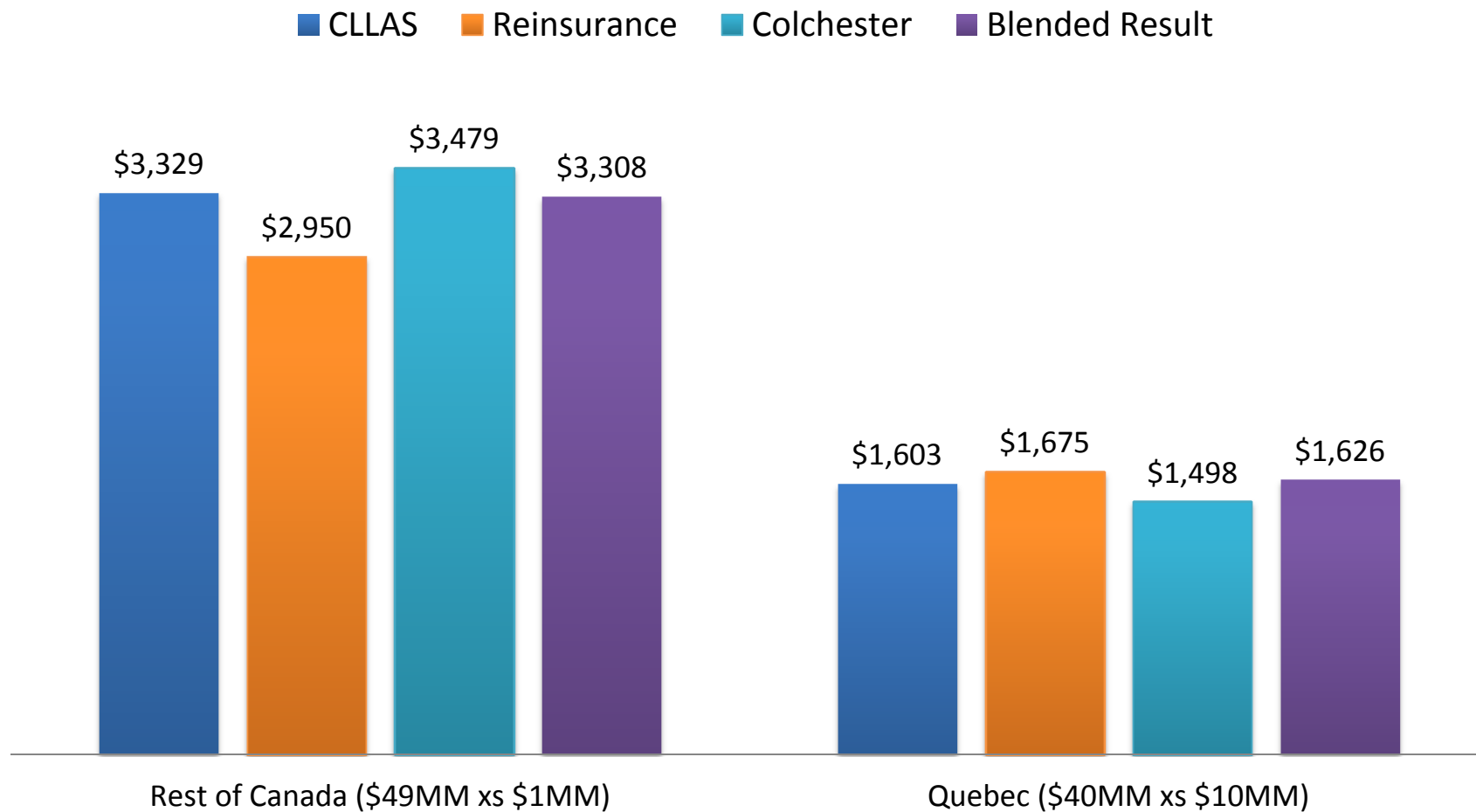




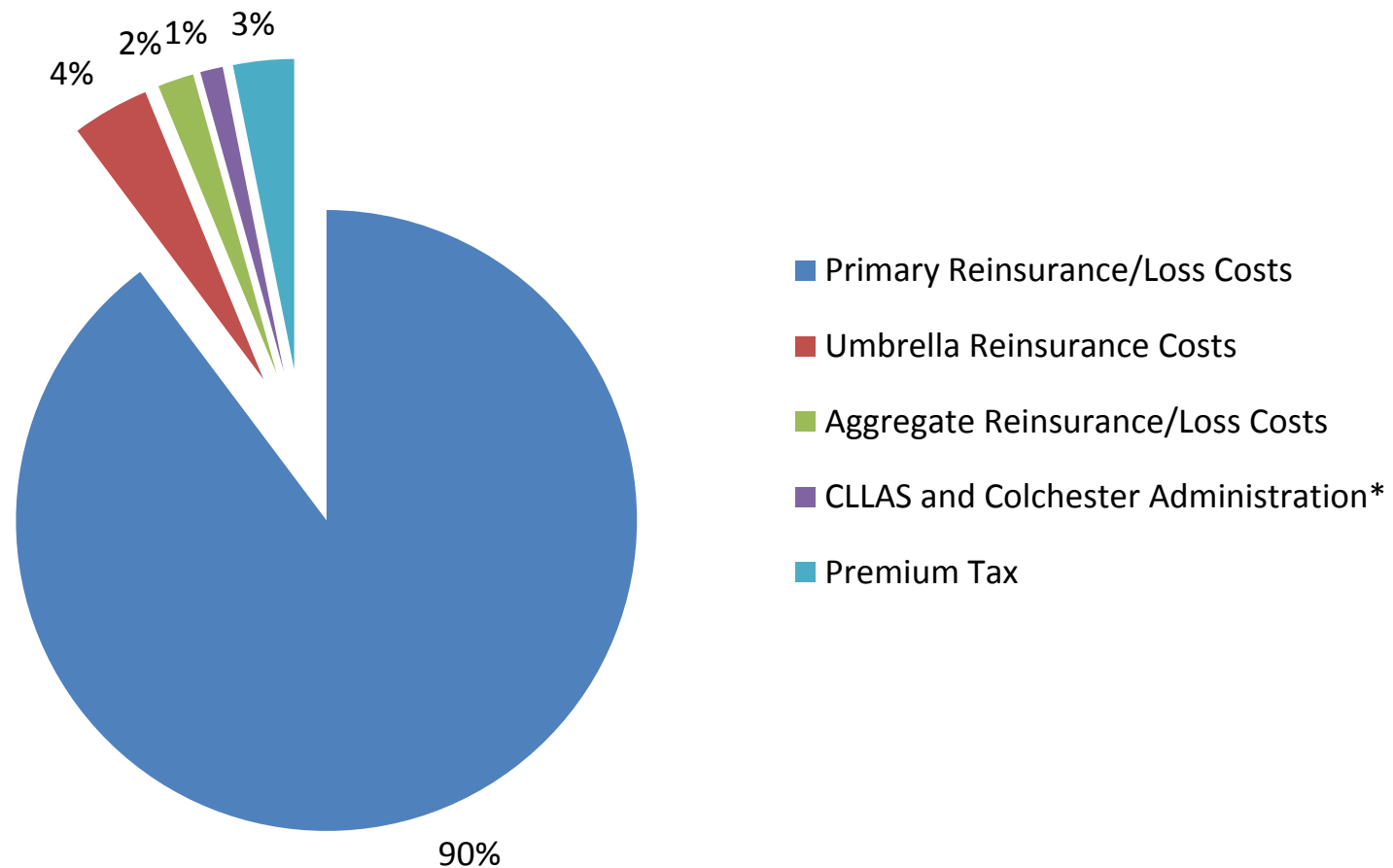
# Primary Structure Reinsurance Rates



# Rate Comparison

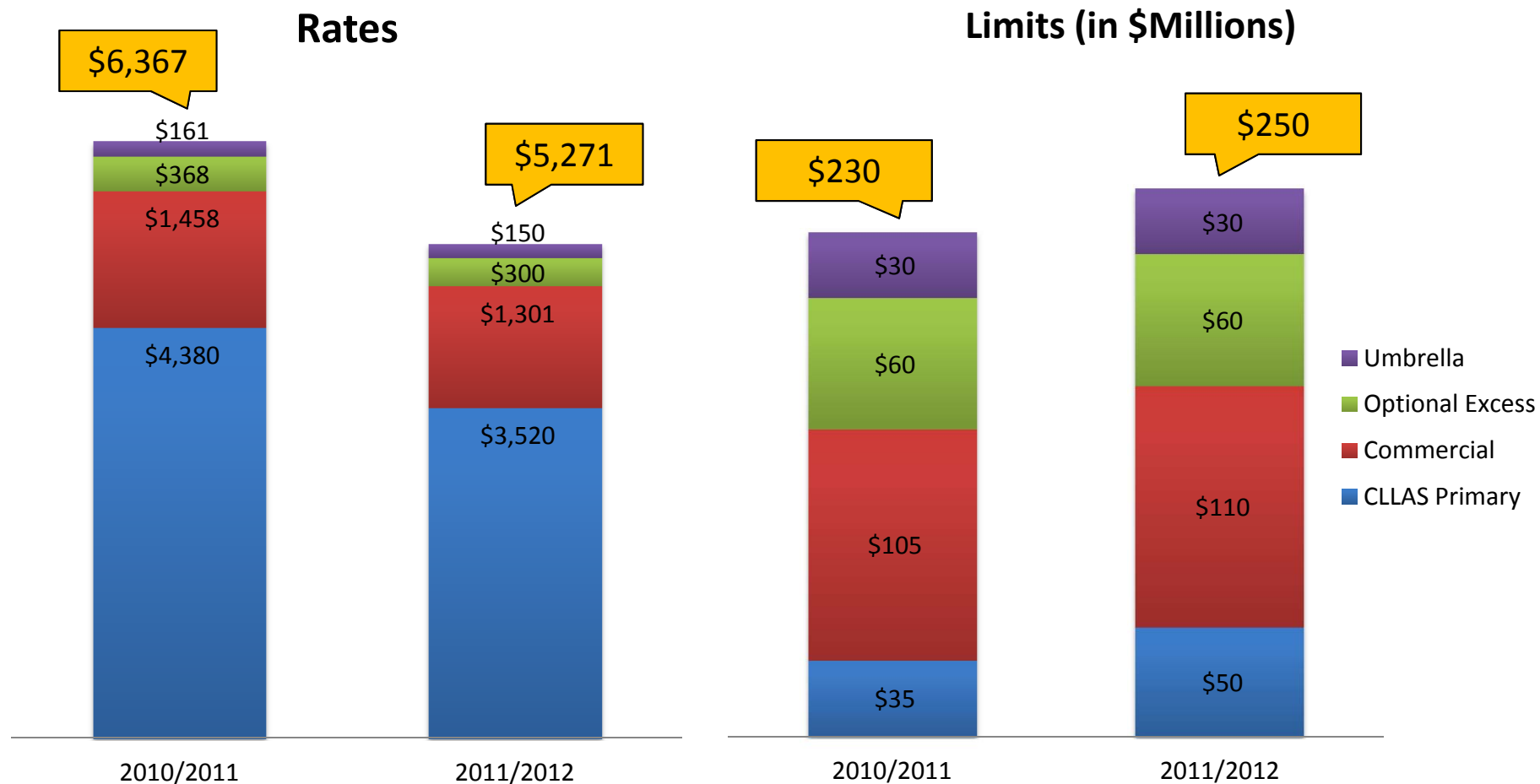


# CLLAS Final Rate Adjustments



*\* CLLAS and Colchester Administration represents 15% of the total CLLAS rate, but return of surplus yields a 14% reduction for a net impact of 1%*

# Final Rate/Limit Comparison\*



\* Rates shown are for non-Quebec lawyers

# Return of Surplus

- Return \$2,200,000 in surplus
  - A near as possible to \$2,200,000 in surplus was returned
  - In order to meet regulatory requirements, Colchester surplus was distributed from Colchester as a premium credit
  - In the final analysis Colchester charged CLLAS the same rate as the other quota-share reinsurers

# Summary

	2010/2011*	2011/2012	\$ Change	% Change
Total Premium	\$ 22,135,822	\$ 16,791,282	\$ (5,344,540)	-24%
Premium per Lawyer*	\$ 4,751	\$ 3,604	\$ (1,147)	-24%
Percent Reinsured	61%	70%	n/a	15%
Percent Unlicensed	16%	24%	n/a	50%
Per Claim Retention	\$ 14,475,000	\$ 14,225,000	\$ (250,000)	-2%

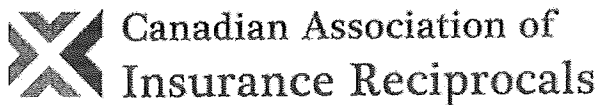
*\* The 2011/2012 lawyer count (813 in Quebec and 3,846 in the rest of Canada) is applied to the 2010/2011 policy year for the purposes of this summary. The Premium per Lawyer amount is a simple average of total premium divided by total number of lawyers (4,659), which yields a result higher than actual for Quebec lawyers, and lower than actual for lawyers in the rest of Canada.*



# Final Remarks

The Objectives established by the Board were achieved and CLLAS members have achieved a 24% reduction in the blended rate and an annual savings of approximately \$5,344,540.

This will put CLLAS in a very good position for next year



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Toronto, Ontario  
M2N 6K8  
Tel: 416-733-2773  
Fax: 416-733-8346

#### Board of Directors

Peter Flattery  
HIROC  
*Chair*

Charlie Macaluso  
The MEARIE Group  
*Vice-Chair*

Jim Sami  
OSBIE  
*Secretary-Treasurer*

Linda Boyle  
OMEX

Keith Shakespeare  
CURIE

#### Media Release:

**DECEMBER 6, 2010**

#### **Announcing the Canadian Association of Insurance Reciprocals**

The Canadian Association of Insurance Reciprocals was recently formed to be a collective voice of insurance reciprocals across Canada.

This not-for-profit Association will raise awareness of the value of insurance reciprocals and represent its members' interests to governments, and others, around issues that impact reciprocals.

The founding members include:

- The MEARIE Group
- Ontario Municipal Insurance Exchange
- Canadian Universities Reciprocal Insurance Exchange
- Ontario School Boards' Insurance Exchange
- Healthcare Insurance Reciprocal of Canada

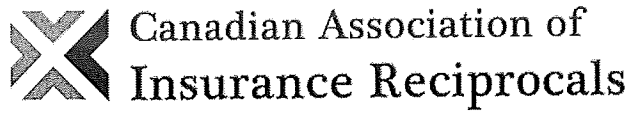
Membership in the Association is open to all not-for-profit insurance reciprocals that are licensed to operate in Canada.

At its first Board meeting on November 1, Peter Flattery, President and CEO of Healthcare Insurance Reciprocal of Canada, was elected Chair of the Board of Directors. Charlie Macaluso, CEO of The MEARIE Group, was elected Vice-Chair, and Jim Sami, CEO and Attorney-in-Fact, Ontario School Boards' Insurance Exchange, was elected as Secretary-Treasurer.

An insurance reciprocal is an unincorporated group of organizations, in a similar sector or industry, with similar risks that agree to share those risks and to share in each others' losses. Reciprocals are provincially licensed insurers and, as not-for-profit organizations, do not pay income tax or brokerage fees. Reciprocals have the added benefit of being able to tailor insurance products to meet the specific needs of their members and ensure availability of coverage independent of conventional insurance markets.

For more information about this announcement and to arrange an interview, please contact:

Victoria Musgrave  
Tel: 416-730-3085  
vmusgrave@hiroc.com



## **CANADIAN ASSOCIATION OF INSURANCE RECIPROCAL**

### **MEMBERSHIP AGREEMENT**

# CANADIAN ASSOCIATION OF INSURANCE RECIPROCALs

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# CANADIAN ASSOCIATION OF INSURANCE RECIPROCAL

## MEMBERSHIP AGREEMENT

THIS MEMBERSHIP AGREEMENT made as of the day of, 20, as amended from time to time.

### A M O N G:

Those Canadian insurance reciprocals that are parties to this Membership Agreement from time to time (each a “**Member**”).

**WHEREAS** the Members wish to form a not-for-profit unincorporated association (the “**Association**”) for the purpose of promoting the interests and rights of Canadian insurance reciprocals, and making representations to the governments on behalf of such parties for the enactment/repeal of relevant legislation that shall be governed by the terms and conditions set out herein;

**NOW THEREFORE THIS MEMBERSHIP AGREEMENT WITNESSETH THAT** in consideration of the mutual covenants of the parties hereinafter contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, it is hereby agreed as follows.

## PART 1 - CONDITIONS OF MEMBERSHIP

### 1.1 Membership

Membership in the Association shall be limited to licensed insurance reciprocals located in Canada and shall consist of any such reciprocal whose application for admission as a Member: (1) demonstrates that the applicant meets the qualifications for membership set out, from time to time, by the Board, and (2) receives the approval of the Board. The Board shall, in its discretion, decide upon all applications for membership. There shall be one class of Member. The first Members of the Association (the “**Founding Members**”) shall be: The MEARIE Group, the Ontario Municipal Insurance Exchange, the Canadian Universities Reciprocal Insurance Exchange, the Ontario School Boards’ Insurance Exchange, and the Healthcare Insurance Reciprocal of Canada.

### 1.2 Dues

The Founding Members shall each pay two thousand dollars (\$2,000) for contribution to start-up costs of the Association. The Board shall, from time to time, set out the annual fees payable by, and other financial obligations of, new and/or existing Members of the Association. The Board shall have, in its discretion, the authority to amend the fees and other financial obligations of Members, and to cancel a Member’s membership upon the failure of a Member to pay such fees or meet such financial obligations.



### 1.3 **Resignation of Membership**

Any Member may withdraw from the Association by delivering to the Secretary of the Association a written resignation.

### 1.4 **Termination of Membership**

Any Member may be required to resign by a vote of three-quarters (3/4) of the Members voting at a meeting of Members, provided that any such Member shall be granted an opportunity to be heard at such meeting.

## **PART 2 - HEAD OFFICE**

### 2.1 **Head Office**

The head office of the Association shall be:

4711 Yonge Street, Suite 1600,

Toronto, Ontario M2N 6K8

or at a location determined by the Board from time to time.

## **PART 3 - BOARD OF DIRECTORS**

### 3.1 **Number of Directors and Qualifications**

The property and business of the Association shall be managed by a board of not less than three (3) and not more than seven (7) directors (the “**Board**”). The number of directors shall be determined from time to time by the Board or, in the case of the first directors, by the Founding Members. Directors must be individuals who are at least eighteen (18) years of age with power under law to contract. Directors must be duly authorized representatives of Members.

### 3.2 **Election and Term of Directors.**

Directors shall be elected for a term of three (3) years by the Members. The first directors shall be elected by the Founding Members at the first meeting of Members. A director may be eligible for re-election but no person shall serve as a director for more than nine (9) consecutive years.

### 3.3 **Vacancies**

The office of director shall be automatically vacated:

- (a) if the director has resigned such office by delivering a written resignation to the Secretary of the Association;
- (b) if the director is found by a court to be of unsound mind;

- (c) if the director becomes bankrupt or suspends payment with his creditors;
- (d) if at a special general meeting of Members a resolution is passed by two-thirds (2/3) of the votes cast by the Members present at the meeting that the director be removed from office;
- (e) on death of the director;
- (f) if the director missed three (3) consecutive Board meetings; or
- (g) the director ceases to be a duly authorized representative of a Member,

provided that if any vacancy shall occur for any reason contained in this paragraph, the Board may fill the vacancy with a qualified person who shall complete the term of the office of the director which has been vacated. If any vacancy prevents the Board from reaching quorum, the Members shall fill the vacancy with a qualified person who shall complete the term of the office of the director which has been vacated.

#### **3.4 Retiring or Terminated Director**

A retiring or terminated director shall remain in office until the dissolution or adjournment of the meeting at which such retirement or termination is accepted.

### **PART 4 - DIRECTORS' MEETINGS**

#### **4.1 Place of Meeting and Notice**

Meetings of the Board may be held at any time and place to be determined by the Board provided that forty-eight (48) hours written notice of such meeting shall be given by fax, e-mail, or personal delivery to each director. Notice by mail shall be sent at least fourteen (14) days prior to the meeting. There shall be at least two (2) meetings of the Board in each financial year. No error or omission in giving notice of any meeting of the Board or any adjourned meeting of the Board shall invalidate such meeting or make void any proceedings taken thereat. Any director may at any time waive notice of any such meeting and may ratify, approve and confirm any or all proceedings taken or had thereat. Each director may exercise one (1) vote. The Chair may call a meeting at any time and place provided that appropriate notice set out above is given. At the commencement of each meeting, the Secretary will record the names of those persons in attendance in person or by electronic communications facilities and the Chair will determine whether a quorum is present.

#### **4.2 Meetings by Teleconference**

The Board and any committee created by the Board may hold meetings by teleconference or by other electronic means that permit all persons participating in the meeting to hear each other, subject to the following qualifications:

- (a) all directors must have reasonable access to the technology required to participate in a meeting held by teleconference or other electronic means;
- (b) the relevant technology must permit all persons participating in the meeting to hear and communicate with each other;
- (c) a director participating in such a meeting by such means is deemed to be present at the meeting;
- (d) the Chair shall determine the method of recording votes thereat, provided that any director present may require all persons present to declare their votes individually; and
- (e) the directors shall take such reasonable precautions as may be necessary to ensure that such communications facilities are secure from unauthorized interception or monitoring.

#### **4.3 Quorum and Resolutions**

Fifty-one percent (51%) of directors in office, from time to time, but no less than two directors, shall constitute a quorum for meetings of the Board. Any meeting of the Board at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions of the Board by or under this Membership Agreement. At all meetings of the Board, every question shall be determined by a majority of votes. The Chair of the meeting shall have a vote and, in the event of a tie, shall not have a second or casting vote. Directors may not vote by proxy at Board meetings.

#### **4.4 Remuneration of Directors**

The directors shall not be entitled to receive remuneration for their positions as directors.

#### **4.5 Agents and Employees**

The Board may appoint such agents and engage such employees as it shall deem necessary from time to time and such persons shall have such authority and shall perform such duties as shall be prescribed by the Board at the time of such appointment.

#### **4.6 Written Resolutions**

A resolution in writing, signed by all the directors entitled to vote on that resolution at a meeting of the Board, is as valid as if it had been passed at a meeting of the Board and such written resolution shall satisfy all requirements relating to meetings of the Board.

### **PART 5 - INTEREST OF DIRECTORS IN CONTRACTS**

#### **5.1 Conflict of Interest**

- (a) Any director of the Association who:

- (i) is a party to a material contract or proposed material contract with the Association, or
- (ii) is a director or officer of or has a material interest in any body corporate or business firm who is a party to a material contract or proposed material contract with the Association,

shall disclose in writing or have entered in the minutes, the nature and extent of such director's interest in such material contract or proposed material contract with the Association.

- (b) The disclosure required by sub-paragraph (a) above, shall be made:
  - (i) at the Board meeting at which a proposed contract is first considered;
  - (ii) if the director was not then interested in a proposed contract, at the first Board meeting after such director becomes so interested; or
  - (iii) if the director becomes interested after a contract is made, at the first Board meeting held after the director becomes so interested.
- (c) If a contract or a proposed contract is one that, in the ordinary course of carrying on the Association's non-pecuniary purpose or purposes, would not require approval by the directors or Members, a director shall disclose in writing the nature and extent of the director's interest at the first Board meeting held after the director becomes aware of the contract or proposed contract.
- (d) A director referred to in sub-paragraph (a) above is liable to account for any profit made on the contract by the director or by a corporate entity or business firm in which the director has a material interest, unless
  - (i) the director disclosed the director's interest in accordance with sub-paragraphs (b) or (c) above or (f) below;
  - (ii) after such disclosure the contract was approved by the directors or Members; and
  - (iii) the contract was reasonable and fair to the Association at the time it was approved.

Provided that a director who has made a declaration of the director's interest in a contract or a proposed contract and has not voted in respect of such contract contrary to the prohibition contained in sub-paragraph (e) below, if such prohibition applies, is not accountable to the Association or any of the Members or creditors by reason only of such director holding that office or of the fiduciary relationship thereby established, for any profit realized by such contract.

- (e) A director referred to in sub-paragraph (a) above shall not vote on any resolution to approve the contract, unless the contract is an arrangement by way of security for money lent to or obligations undertaken by the director for the benefit of the Association.
- (f) For the purposes of this Section 5.1, a general notice to the Board by a director declaring that the person is a director or officer of or has a material interest in a body corporate or business firm and is to be regarded as interested in any contract made therewith, is a sufficient declaration of interest in relation to any contract so made.
- (g) A contract is not void by reason only of the failure of a director to comply with the provisions of this Section 5.1 but the court may upon the application of the Association or a Member, set aside a contract in respect of which a director has failed to comply with the provisions of this Section 5.1, and the court may make any further order it thinks fit.

## **PART 6 - PROTECTION OF OFFICERS AND DIRECTORS**

### **6.1 For the Protection of Directors and Officers**

Any director or officer of the Association shall not be liable for any act, receipt, neglect or default of any other director, officer or employee or for any loss, damage or expense happening to the Association through any deficiency of title to any property acquired by the Association or for any deficiency of any security upon which any moneys of the Association shall be invested or for any loss or damage arising from bankruptcy, insolvency or tortious act of any person including any person with whom any moneys, securities or effects shall be deposited or for any loss, conversion, or misappropriation of or any damage resulting from any dealings with any moneys, securities or other assets belonging to the Association or for any other loss, damage or misfortune which may happen in the execution of the duties of such director's or officer's respective office unless such occurrence is as a result of such director's or officer's own wilful neglect or default.

### **6.2 Insurance**

Subject to approval by the Board, the Association will purchase and maintain a reasonable and adequate level of insurance for the directors and officers of the Association against any liability incurred by the directors and officers, in the capacity as a director or officer of the Association.

## **PART 7 - INDEMNITIES TO DIRECTORS AND OTHERS**

### **[7.1 Indemnities to Directors and Others**

A director or officer of the Association or other person, who has undertaken or is about to undertake any liability on behalf of the Association, and such person's heirs, executors and

administrators, shall from time to time and at all times, be indemnified and saved harmless by Members, or former Members if the Association ceases to exist, from and against:

- (a) all costs, charges and expenses which such director, officer or other person sustains or incurs in or about any action, suit or proceedings which is brought, commenced or prosecuted against him or her, or in respect of any act, deed, matter or thing whatsoever, made, done or permitted by him or her, in or about the execution of the duties of his or her office or in respect of any such liability; and
- (b) all other costs, charges and expenses which the director, officer or other person sustains or incurs in or about or in relation to the affairs thereof, except such costs, charges or expenses as are occasioned by their own wilful neglect or default,

provided that the person has acted honestly and in good faith with a view to the best interests of the Association.

## **PART 8 - POWERS OF DIRECTORS**

### **8.1 Powers**

The Board may administer the affairs of the Association in all things and make or cause to be made for the Association, on its behalf, any kind of contract which the Board may lawfully enter into and, save as hereinafter provided, generally, may exercise all such other powers and do all such other acts and things as necessary for the furtherance of the Association, including owning real and personal property on behalf of the Association.

### **8.2 Committees**

The Board may appoint committees whose members will hold their offices at the will of the Board. The members of any committee need not be directors of the Association. The Board shall determine the duties of such committees and may fix by resolution any remuneration to be paid.

### **8.3 Expenditures**

The Board shall have power to authorize expenditures on behalf of the Association from time to time and may delegate by resolution to an officer or officers of the Association the ability to manage the expenditures on behalf of the Association.

## **PART 9 - OFFICERS**

### **9.1 Appointment**

The officers of the Association, which may include the offices of Chair, Vice-Chair, Secretary, and Treasurer and any such other officers as the Board may determine, shall be appointed by

resolution of the Board. Officers must be directors. A person may hold more than one office. If one person holds the titles of Secretary and Treasurer, such person can be referred to as the Secretary-Treasurer.

## **9.2 Term and Removal of Officers**

The officers of the Association shall hold office until the earlier of the date they resign; the date they are removed; and the date their successors are elected or appointed in their stead. Officers shall be subject to removal by resolution of the Board at any time.

# **PART 10 - DUTIES OF OFFICERS**

## **10.1 Chair**

The Chair shall preside at all meetings of the Members and of the Board and shall perform such other duties as may from time to time be imposed upon the Chair by the Board.

## **10.2 Vice-Chair**

The Vice-Chair shall, in the absence or disability of the Chair, perform the duties and exercise the powers of the Chair and shall perform such other duties as may from time to time be imposed upon the Vice-Chair by the Board.

## **10.4 Treasurer**

The Treasurer shall have the custody of the funds and securities of the Association and shall keep full and accurate accounts of all assets, liabilities, receipts and disbursements of the Association in the books belonging to the Association and shall deposit all monies, securities and other valuable effects in the name and to the credit of the Association in such chartered bank or trust company, or, in the case of securities, in such registered dealer in securities as may be designated by the Board from time to time. The Treasurer shall disburse the funds of the Association as may be directed by proper authority, taking proper vouchers for such disbursements, and shall render to the Chair and directors at a regular meeting of the Board, or whenever they may require it, an accounting of all the transactions and a statement of the financial position of the Association. The Treasurer shall perform such other duties as may from time to time be imposed upon the Treasurer by the Board.

## **10.5 Secretary**

The Secretary shall attend all meetings and act as clerk thereof and record all votes and minutes of all proceedings in the books to be kept for that purpose. The Secretary shall give or cause to be given notice of all meetings of the Members and of the Board and shall perform such other duties as may be imposed upon the Secretary by the Board, under whose supervision the Secretary shall be.



## **10.6 Duties of Other Officers**

The duties of all other officers of the Association shall be such as the terms of their engagement call for or the Board requires of them.

## **PART 11 - EXECUTION OF DOCUMENTS**

### **11.1 Execution of Documents**

Contracts, documents or any instruments in writing requiring the signature of the Association, shall be signed by any two officers or directors or a combination thereof and all contracts, documents and instruments in writing so signed shall be binding upon the Association without any further authorization or formality. The Board shall have power from time to time by resolution to appoint an officer or officers on behalf of the Association to sign specific contracts, documents and instruments in writing. The Board may give the Association's power of attorney to any registered dealer in securities for the purposes of the transferring of and dealing with any stocks, bonds, and other securities of the Association.

## **PART 12 - MEMBERS' MEETINGS**

### **12.1 Time and Place of Meetings**

Meetings of the Members shall be held at the head office of the Association or at any place in Canada as the Board may determine and on such day as the Board shall appoint.

### **12.2 Meetings**

The Members may consider and transact any business either special or general at any meeting of the Members.

Where the term of a director has expired, the Board shall present the Members with a list of individuals nominated and recommended to the Board by an ad hoc nominating committee established by the Board and the Members shall elect a person or persons from such list to fill any and all vacancies on the Board.

The Board shall call a special general meeting of Members on written requisition of Members carrying not less than five percent (5%) of the voting rights. A Members' meeting shall be open to any number of authorized representatives of a Member, but only one authorized representative shall have the ability to vote on behalf of each Member.

### **12.3 Quorum**

Fifty-one percent (51%) of the Members, represented by duly-appointed representatives, will constitute a quorum. Such majority shall be either present in person by duly-authorized representative or represented by proxy at such meeting, with at least two (2) duly-authorized representatives of Members being present in person. At the commencement of each meeting, the

Secretary will ensure that a recording of the names of those persons in attendance in person or by electronic communications facilities is made and the Chair will determine whether a quorum is present.

#### 12.4 Notice

Fourteen (14) days' written notice shall be given to each Member of any meeting of Members. Notice of any meeting where special business will be transacted shall contain sufficient information to permit the Member to form a reasoned judgment on the decision to be taken. Notice of each meeting of Members must remind the Member that the Member has the right to vote by proxy.

#### 12.5 Voting of Members and Proxies

Each Member present at a meeting shall have the right to exercise one vote. A Member may, by means of a written proxy, appoint a proxyholder to attend and act at a specific meeting of Members, in the manner and to the extent authorized by the proxy. A proxyholder must be a Member or a director, officer, or employee of a Member and may be the proxy for more than one Member. At all meetings of Members, every question shall be determined by a majority of votes. Every person appointed by proxy shall have one vote for each Member who is entitled to vote at the meeting and who is represented by such proxyholder.

A proxy shall be executed in writing and may be in the following form:

The undersigned Member of Canadian Association of Insurance Reciprocity appoints \_\_\_\_\_, or failing the person appointed above, \_\_\_\_\_, as the proxy of the undersigned to attend and act at the \_\_\_\_\_ meeting of Members of the said Association to be held on the \_\_\_\_\_ day of \_\_\_\_\_, 2\_\_\_\_, and at any adjournment or adjournments thereof in the same manner, to the same extent and with the same power as if the undersigned were present at the said meeting or such adjournment or adjournments thereof.

DATED this \_\_\_\_\_ day of \_\_\_\_\_, 2\_\_\_\_.

\_\_\_\_\_  
Signature of Member

The Board may from time to time make regulations regarding the lodging of proxies at some place(s) other than the place at which a meeting or adjourned meeting of Members is to be held and for particulars of such proxies to be sent by facsimile, electronic communications (including with electronic signatures), or in writing before the meeting or adjourned meeting to the Association or any agent of the Association for the purposes of receiving such particulars and providing that proxies so lodged may be voted upon as though the proxies themselves were produced at the meeting or adjourned meeting and votes given in accordance with such regulations shall be valid and shall be counted. The Chair may, subject to any regulations made as aforesaid, in the Chair's discretion, accept facsimile, electronic, or written communications as to the authority of any person claiming to vote on behalf of and to represent a Member

notwithstanding that no proxy conferring such authority has been lodged with the Association, and any votes given in accordance with such facsimile, electronic, or written communication accepted by the chair of the meeting shall be valid and shall be counted.

#### **12.6 Resolutions**

Subject to Sections 1.4, 3.3(d) and 14.1, resolutions will be passed by a majority of the participating Members by a vote recorded by the Secretary.

#### **12.7 Error or Omissions in Giving Notice**

No error or omission in giving notice of any meeting or any adjourned meeting of the Members shall invalidate such meeting or make void any proceedings taken thereat and any Member may at any time waive notice of any such meeting and may ratify, approve, and confirm any or all proceedings taken or had thereat. For purpose of sending notice to any Member, director, or officer for any meeting or otherwise, the address of the Member, director, or officer shall be his last address recorded on the books of the Association.

#### **12.8 Written Resolutions**

A resolution in writing, signed by all the Members entitled to vote on that resolution at a meeting of Members, is as valid as if it had been passed at a meeting of Members and such written resolution shall satisfy all requirements relating to meetings of Members.

#### **12.9 Meetings by Teleconference**

The Members may hold meetings by teleconference or by other electronic means that permit all persons participating in the meeting to hear each other, subject to the following qualifications:

- (a) all Members must have equal access to the technology required to participate in a meeting held by teleconference or other electronic means;
- (b) the relevant technology must permit all persons participating in the meeting to hear and communicate with each other;
- (c) a Member participating in such a meeting by such means is deemed to be present at the meeting;
- (d) the Chair shall determine the method of recording votes thereat, provided that any Member present may require all persons present to declare their votes individually; and
- (e) the Chair shall take such reasonable precautions as may be necessary to ensure that such communications facilities are secure from unauthorized interception or monitoring.

## **PART 13 - FINANCIAL MATTERS**

### **13.1 Financial Year**

Unless otherwise ordered by the Board, the fiscal year-end of the Association shall be the last day of March in each year.

### **13.2 Income**

The Association shall not distribute or otherwise make available for the personal benefit of a Member any of its income.

### **13.3 Assets on Termination**

In the event of the termination of this Membership Agreement, all the remaining assets of the Association after payment of its liabilities shall be distributed among the Members at the time of such termination, in proportion to the amount of annual fees payable by such Members.

## **PART 14 - AMENDMENT OF / COUNTERPARTS TO MEMBERSHIP AGREEMENT**

### **14.1 Repeal or Amendment of Membership Agreement**

This Membership Agreement may be terminated or amended by a majority of the directors at a meeting of the Board and sanctioned by at least two-thirds (2/3) of the Members voting at a meeting duly called for the purpose of considering the termination or amendment.

### **14.2 Counterparts to Membership Agreement**

Each new Member chosen in accordance with this Membership Agreement shall, before becoming a Member, sign a counterpart to this Membership Agreement, agreeing to all of the terms and conditions set out herein.

## **PART 15 - BOOKS AND RECORDS**

### **15.1 Books and Records**

The Board shall ensure that all necessary books and records of the Association required by this Membership Agreement or by any applicable statute or law are regularly and properly kept.

## **PART 16 - RULES AND REGULATIONS**

### **16.1 Rules and Regulations**

The Board may prescribe such rules and regulations not inconsistent with this Membership Agreement relating to the management and operation of the Association as they deem expedient.

**CANADIAN ASSOCIATION OF INSURANCE RECIPROCAL  
APPLICATION FOR MEMBERSHIP**

1. Name of Applicant Insurance Reciprocal:

\_\_\_\_\_

2. Business Address:

\_\_\_\_\_  
\_\_\_\_\_

3. Name of Attorney-in-Fact: \_\_\_\_\_

4. Name of CEO/Executive Director/President, if different than item 3 above:

\_\_\_\_\_

5. Telephone, Fax Number: \_\_\_\_\_ / \_\_\_\_\_

6. Email Address: \_\_\_\_\_

7. State the nature of operation of Applicant Insurance Reciprocal, by whom it was formed,  
and by whom it is owned:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

8. What is the makeup of Board of Applicant Insurance Reciprocal (subscribers, external  
Directors, etc.)?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

9. What lines/classes of insurance are underwritten by the Applicant Insurance Reciprocal?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

10. What is the Annual Gross Written Premium of the last fiscal year of the Applicant Insurance  
Reciprocal?

\_\_\_\_\_  
\_\_\_\_\_

11. What Provinces, Territories is the applicant Insurance Reciprocal currently licensed to operate as an Insurance Reciprocal?

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*Date:* \_\_\_\_\_

*Signature:* \_\_\_\_\_

*Title:* \_\_\_\_\_

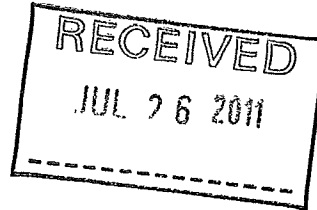
Please return the completed application form by mail, fax or email to the attention of:

Victoria Musgrave  
C/o Healthcare Insurance Reciprocal of Canada  
4711 Yonge Street, Suite 1600  
Toronto, Ont. M2N 6K8  
Tel: 416-730-3085  
Fax: 416-733-2438  
Email: vmusgrave@hiroc.com

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

July 21, 2011



Mr. Patrick Mahoney,  
Dion, Durrell + Associates Inc.,  
2900 - 250 Yonge St.,  
Toronto, ON M5B 2L7

Dear Mr. Mahoney:

**Re: Canadian Lawyers Liability Assurance Society**

Please find enclosed our quarterly investment report on CLLAS for the period ending June 30 last. 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 second quarter.

The originals of the two separate accounts for the Short and the Long Term Investment Funds have been sent to the RBC Dexia Investor Services for payment.

It was a fairly good period in the domestic bond market as yields trended gradually lower throughout the quarter and bond prices, on balance, more than recouped the ground lost during the previous quarter. At the end of June, the Long Term Investment Fund's holdings had recorded a net capital gain of \$403,639 since the end of last March.

Activity during the period involved the reinvestment of a bond maturity in the Long Term Investment Fund and the rollover of money market securities in the Short Term Investment Fund.

Please let me know if there are any questions or comments on the report.

With best regards,

Yours sincerely,

RWB: sc  
Enclosures



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

July 21, 2011.

In account with

**Canadian Lawyers Liability Assurance Society**  
**- Short Term Investment Fund**

---

Valuation of Short Term Investment Fund  
at June 30, 2011

\$19,481,234

Investment Counsel Fee for the period  
April 1 to June 30, 2011  
at .025% (1/4 of .10% per annum)

\$4,870.31

Harmonized Sales Tax (HST) at 13%

633.14

\$5,503.45

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  
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TORONTO  
M5E 1G9

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

July 21, 2011.

In account with

**Canadian Lawyers Liability Assurance Society**  
**- Long Term Investment Fund**

---

Valuation of Long Term Investment Fund  
at June 30, 2011

\$44,235,457

Investment Counsel Fee for the period  
April 1 to June 30, 2011  
at .0625% (1/4 of .25% per annum)

\$27,647.16

Harmonized Sales Tax (HST) at 13%

3,594.13

\$31,241.29

Please return this account when  
making payment so that it may be

**CLLAS**  
***CANADIAN LAWYERS LIABILITY***  
***ASSURANCE SOCIETY***

INVESTMENT REPORT  
FOR QUARTER ENDING JUNE 30, 2011

**MARTIN, LUCAS & SEAGRAM LTD.**  
INDEPENDENT INVESTMENT COUNSEL

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

Tel.: 416-363-6216  
Fax: 416-363-4538  
e-mail: [info@mlsinvest.com](mailto:info@mlsinvest.com)

***CLLAS***  
**CANADIAN LAWYERS LIABILITY**  
**ASSURANCE SOCIETY**

**COMMENTARY FOR THE QUARTER ENDING JUNE 30, 2011**

**Review of Market Yields**

Following an uptick early in April, bond yields moved in a gradual downward trend until late in the quarter when yields abruptly turned higher and retraced part of the decline. With the exception of 3 month Treasury Bills, which held level, bond yields across all maturities ended the quarter lower. The most significant reduction was 44 basis points for 5-year issues, while the yield on longer term bonds fell back 25 basis points on average.

As a result of these shifts, the yield curve flattened during the second quarter and, at the end of June, the yield advantage of the 10-year issue over the Treasury Bill shrunk 24 basis points to 218 basis points compared to 242 basis points at the end of March.

	<b>Jan. 1/95</b>	<b>Dec. 31/10</b>	<b>Mar. 31/11</b>	<b>June 30/11</b>
3-Month Treasury Bills	6.80%	0.97%	0.93%	0.93%
5-year Canadas	8.99%	2.41%	2.77%	2.33%
10-year Canadas	9.09%	3.11%	3.35%	3.11%

During the second quarter, the valuation of the Long Term Investment Fund increased \$403,639 or 0.9% on a capital basis.

At June 30, 2011, the average term to maturity of the Long Term Investment Fund stood at 3.7 years, compared to 3.8 years three months earlier.

During the quarter, in the Long Term Investment Fund a Canada bond matured and the proceeds were used to increase a provincial position and a corporate holding.

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

<b><i>Distribution as at June 30, 2011</i></b>	<b><i>Valuation</i></b>	<b><i>%</i></b>
Short Term Investment Fund	\$19,481,234	30.6%
Long Term Investment Fund	44,235,457	69.4%
<b>TOTAL COMBINED VALUATION</b>	<b>\$63,716,691</b>	<b>100.0%</b>

***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 and Long Term Investment Funds  
Listed and Valued Separately as at June 30, 2011
- Security Purchases and Sales
- Cash Reconciliations

# CLLAS

## LONG TERM INVESTMENT FUND

### SUMMARY OF CAPITAL PERFORMANCE SINCE THE STARTING DATE OF JANUARY 1, 1995

	Jan. 1/95	Dec. 31/10	Mar. 31/11	June 30/11
<b><i>Valuation of Long Term Investment Fund</i></b>	<b><i>\$3,466,369</i></b>	<b><i>\$38,937,683</i></b>	<b><i>\$43,844,010</i></b>	<b><i>\$44,235,457</i></b>
Cumulative Capital Added (Net) since January 1, 1995		\$33,555,000	\$38,808,970	\$38,796,778

Quarterly Capital Change		-\$ 563,727	-\$ 347,643	+\$ 403,639
Quarterly Capital % Change		- 1.4%	- 0.9%	+ 0.9%

## LONG TERM INVESTMENT FUND

### TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIODS ENDING JUNE 30, 2011 (ANNUALIZED)

	Five Years	Four Years	Three Years	Two Years	One Year	Last 3 Months
<b><i>Long Term Investment Fund</i></b>	<b><i>5.3</i></b>	<b><i>5.7</i></b>	<b><i>5.3</i></b>	<b><i>3.9</i></b>	<b><i>3.5</i></b>	<b><i>1.9</i></b>
DEX Canada Short Bond Index	4.9	5.1	4.5	2.9	2.6	1.4
DEX Provincial Short Bond Index	5.2	5.5	5.2	3.8	3.6	1.8

## ***CLLAS***

### **LONG TERM INVESTMENT FUND**

#### **TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIOD ENDING JUNE 30, 2011**

	Since Inception Oct. 1/08 *	Two Years *	One Year	Last 3 Months
<i>Long Term Investment Fund – Gross of Fees</i>	<i>5.37</i>	<i>3.93</i>	<i>3.51</i>	<i>1.86</i>
<i>Long Term Investment Fund – Net of Fees</i>	<i>5.09</i>	<i>3.65</i>	<i>3.22</i>	<i>1.79</i>
<b>Benchmark Portfolio **</b>	<b>5.64</b>	<b>4.27</b>	<b>3.88</b>	<b>2.14</b>

\* 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 JUNE 30, 2011**

	Since Inception Oct. 1/08 *	Two Years *	One Year	Last 3 Months
<i>Short Term Investment Fund – Gross of Fees</i>	<i>0.75</i>	<i>0.58</i>	<i>0.84</i>	<i>0.23</i>
<i>Short Term Investment Fund – Net of Fees</i>	<i>0.60</i>	<i>0.45</i>	<i>0.73</i>	<i>0.20</i>
<b>Benchmark Portfolio **</b>	<b>0.65</b>	<b>0.49</b>	<b>0.78</b>	<b>0.23</b>

\* 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)

SINCE THE JANUARY 1, 1995, STARTING DATE

	Jan. 1/95	Dec. 31/10	Mar. 31/11	June 30/11
<b>Bonds, Treasury Bills &amp; Cash</b> Less than 1 year term	29.0%	14.4%	9.7%	12.4%
<b>Canadas</b> Greater than 1 year term	54.7%	38.3%	39.4%	34.3%
<b>Provincials</b> Greater than 1 year term	16.3%	35.8%	36.1%	37.8%
<b>Corporates</b> Greater than 1 year term	-	11.5%	14.8%	15.5%
<b>TOTAL PORTFOLIO</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**LONG TERM INVESTMENT FUND**

**DISTRIBUTION OF SECURITIES BY MATURITY**

(Based on Market Values)

SINCE THE JANUARY 1, 1995, STARTING DATE

	Jan. 1/95	Dec. 31/10	Mar. 31/11	June 30/11
Under 1 year	29.0%	14.4%	9.7%	12.4%
1 - 3 years	19.8%	33.3%	34.1%	31.2%
3 - 5 years	29.3%	30.0%	34.7%	34.9%
5 - 7 years	11.4%	13.7%	13.2%	11.6%
7 - 10 years	10.5%	8.6%	8.3%	9.9%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Average Maturity (yrs)</b>	<b>2.6</b>	<b>3.5</b>	<b>3.8</b>	<b>3.7</b>
<b>Average Duration</b>	<b>2.3</b>	<b>3.1</b>	<b>3.4</b>	<b>3.3</b>



# CLLAS

## COMPLIANCE WITH INVESTMENT POLICY STATEMENT

### COMPLIANCE REPORT AT JUNE 30, 2011

	Investment Limits	Investment Funds	Compliance
<b><i>Short Term Investment Fund</i></b>			
Maximum Term of Any Issue	1 year	0.21 years	Yes
Minimum Size	20% of Total	30.6%	Yes
Minimum Canada & Provincial Percentage	50%	53.6%	Yes
Minimum Provincial Quality	A	A Hi	Yes
Minimum Bank CD & BA Quality	R1	R1	Yes
<b><i>Long Term Investment Fund</i></b>			
Maximum Term of Any Issue	10 years	8.47 years	Yes
Minimum Cda and Cda Guarantee Percentage	40%	44.1%	Yes
Maximum Provincial Percentage	40%	40.5%	Yes
Minimum Provincial Quality *	A	A	Yes
Maximum Corporate Percentage	20%	15.4%	Yes
Minimum Corporate Quality *	A	A	Yes

*\* At time of purchase*

This will confirm that during the quarter the portfolio and its components were managed in compliance with the Investment Policy Statement dated October 2008.

At June 30, the Short Term Investment Fund represented 30.6% of the two Funds combined, which is above the 20% minimum required. At June 30, none of the bond holdings' current credit ratings was below the minimum requirement.

*"At the end of the quarter, the lowest rated bonds were:"*

Provincial Bonds: Quebec and Manitoba @ A Hi

Corporate Bonds: Canadian Utilities Inc. @ A

Enbridge Gas Distribution @ A

Martin, Lucas & Seagram Ltd.  
**PERFORMANCE REPORT**  
**GROSS OF FEES**  
***CLLAS - LONG TERM INVESTMENT FUND***  
*From 03-31-11 to 06-30-11*

Portfolio Value on 03-31-11	43,844,010
Accrued Interest	342,065
Contributions	1,004,547
Withdrawals	-1,452,293
Realized Gains	-8,060
Unrealized Gains	411,699
Interest	435,555
Dividends	0
Change in Accrued Interest	-18,418
Portfolio Value on 06-30-11	44,235,457
Accrued Interest	323,647
Average Capital	44,032,351
Total Gain before Fees	820,775
<b>IRR for 0.25 Years</b>	<b>1.86%</b>

## BOND MARKET COMMENTARY AND FUTURE POLICY

Since the North American economic recovery began almost two year ago, overall growth has remained below historical norms and the rate of improvement continues to ebb and flow. Similar to the slowdown experienced last spring, the expansion has recently hit another soft patch. In the U.S., first quarter growth was a disappointing 1.8% and since then economic data has fallen short of expectations. Weak spots include industrial production, unemployment, which has ticked higher, slower job growth and a double-dip in the housing sector, where prices have sunk to their lowest point in nine years. Meanwhile, the Canadian economy had been performing noticeably better, with GDP growth of 3.9% in the first quarter. However, much of this strength was due to exports and inventory accumulation. Domestic demand, on the other hand, softened under the weight of elevated debt levels and higher food and energy prices. Preliminary results for the second quarter have also been muted due to weakness in the manufacturing sector.

Developments offshore have also been weighing on the global recovery. In Europe, the sovereign debt crisis has escalated. Borrowing costs among the peripheral Euro-zone nations have climbed to record levels and sovereign debt markets in Spain and Italy have also come under significant pressure. For the time being, Greece has avoided an outright default following their adoption of extreme austerity measures and the release of additional short term funding from the European Union. However, given the need for more support to cover ongoing requirements and maturing obligations, Greece's debt problems are far from resolved. An eventual restructuring of their debt, which would be a technical default, now appears to be the most likely outcome. While a default through an extension of their debt maturities would alleviate Greece's financing pressures, this could destabilize the European banking system and raises the spectre of a banking crisis, particularly if these measures prove necessary for other bailed-out nations, namely Ireland and Portugal.

In addition to the economic contractions experienced by Europe's periphery nations, aggregate economic activity has also fallen in Japan and the U.K. Furthermore, growth rates among the leading developing nations have also moderated. In China, industrial production and retail sales have been below expectations and credit growth has also slowed. While this loss of momentum has contributed to the global slowdown, less buoyant conditions in China and other emerging economies do have some positive implications since some easing in their growth rates helps to alleviate global imbalances. Rising inflation rates have been a particular concern and the adoption of tighter monetary policies in these regions seems to be having the desired effect of cooling upward pressure on commodity and food costs.

In the wake of these developments, there has been an outflow of funds from stocks to bonds, and North American bond yields have moved gradually lower during the second quarter. Multiple signs of a slowing global economy have raised concerns that economic growth will remain lackluster for the balance of the year and the current slowdown may even portend an end to the recovery. In response to these concerns, coupled with ongoing turmoil in the European sovereign debt markets, investors have sought the relative safety of U.S. and Canadian government bonds.

We have felt for some time that the recovery from the longest and deepest recession since the depression would most likely be a slow and drawn-out affair. The elevated risks to the expansion due to recent shocks, the considerable slack in the economy coupled with a lack of pass-through from higher commodity prices into core inflation rates, and the likelihood that administered rate hikes will be deferred for some time have provided a favourable environment for bond prices.

However, some of the factors that have been weighing on growth are expected to be transitory. Supply shocks related to the earthquake in Japan are easing more quickly than initially feared, and commodity prices, including energy, have cooled which should help consumers and ease inflationary concerns. Furthermore, soft patches are to be expected during an expansion phase and, while growth has slowed, underlying financial conditions continue to gradually improve. Corporate profits are still on the rise, bank lending has started to recover, household finances are improving and the monetary authorities remain committed to very low interest rates.

As a result, we believe the expansion will endure, although persistent headwinds suggest the recovery will remain subpar. Over the near term, the subdued economic backdrop should remain supportive of the bond market, and we expect prices will remain range-bound over the shorter term. However, the risk of considerable price volatility in both directions remains elevated due to U.S. legislators' inability to raise their debt ceiling with the deadline fast approaching and the questions surrounding how European leaders will address the debt contagion now spreading to the core economies of Italy and Spain.

Looking further ahead, with the global economy expected to regain its footing during the second half, we think bond prices will come under some modest downward pressure and that yields across all maturities will gradually back up to levels seen earlier this year. As a result, we think it is still prudent to follow a conservative strategy by concentrating on the stronger credits and spreading the maturity structure fairly evenly over the next 1 to 8 years while maintaining the Long Term Investment Fund's below benchmark duration.

RWB: sc

July 21, 2011

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*As stipulated in our Investment Management Agreement, please let ML&S know if there are major changes in the financial circumstances, income needs or risk tolerance in order for us to review the suitability of the Funds' investment objectives.*

Martin, Lucas & Seagram Ltd.  
**DATE TO DATE GAINS AND LOSSES**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*From 03-31-11 to 06-30-11*

Security	03-31-11 Market Value	Additions Withdrawals	06-30-11 Market Value	06-30-11 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
<b>CASH</b>								
Cash Account	0	0	0	0				
<b>GOVERNMENT BONDS</b>								
Canada 6% due June 1, 2011	1,008,060	-1,030,000	0	0	-37,325	-8,060	0	0
Canada Housing Trust Sr. 14 4.60% due September 15, 2011	1,523,250	0	1,510,260	1,526,100	0	0	-15,840	-12,990
Farm Credit Canada 4.20% due February 15, 2012	512,470	0	509,315	506,006	0	0	3,310	-3,155
Canada Housing Trust Sr. 16 4.00% due June 15, 2012	2,263,624	-44,000	2,255,308	2,212,456	0	0	42,852	-8,316
Canada Housing Trust Sr. 18 4.55% due December 15, 2012	784,380	-17,063	782,618	770,425	0	0	12,193	-1,763
Canada Housing Trust Sr. 19 3.60% due June 15, 2013	931,122	-16,200	933,147	898,840	0	0	34,307	2,025
Canada Housing Trust Sr. 22 3.55% due September 15, 2013	930,870	0	934,974	946,117	0	0	-11,143	4,104
Canada Housing Trust Sr. 24 2.70% due December 15, 2013	1,671,764	-22,275	1,684,667	1,654,203	0	0	30,464	12,903
Canada Housing Trust Sr. 26 2.20% due March 15, 2014	1,495,515	0	1,511,610	1,497,053	0	0	14,558	16,095
Canada Housing Trust Sr. 28 3.15% due June 15, 2014	1,023,220	-15,750	1,033,120	999,460	0	0	33,660	9,900
Canada Housing Trust Sr. 29 2.75% due September 15, 2014	1,513,020	0	1,531,260	1,527,285	0	0	3,975	18,240
Canada Mtge & Housing 4.30% due April 1, 2015	635,832	-12,900	643,158	605,700	0	0	37,458	7,326
Canada Mtge & Housing Corp. 4.10% due October 1, 2015	684,385	-13,325	694,077	639,525	0	0	54,552	9,692
Canada 3.00% due December 1, 2015	1,014,860	-15,000	1,032,200	1,024,060	0	0	8,140	17,340
Canada Housing Trust 2.75% Series 39 due December 15, 2015	993,730	-13,110	1,012,840	993,510	0	0	19,330	19,110
Canada 4% due June 1, 2016	1,060,420	-20,000	1,077,480	995,820	0	0	81,660	17,060
Canada Housing Trust Sr. 23 4.10% due December 15, 2018	782,550	-15,375	799,800	783,840	0	0	15,960	17,250
Canada Housing Trust No. 1 Sr. 30 3.75% due March 15, 2020	1,517,490	0	1,549,740	1,559,825	0	0	-10,085	32,250
<b>GOVERNMENT BONDS Total</b>	<b>20,346,562</b>		<b>19,495,573</b>	<b>19,140,224</b>	<b>-37,325</b>	<b>-8,060</b>	<b>355,349</b>	<b>157,071</b>

Martin, Lucas & Seagram Ltd.  
**DATE TO DATE GAINS AND LOSSES**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*From 03-31-11 to 06-30-11*

Security	03-31-11 Market Value	Additions Withdrawals	06-30-11 Market Value	06-30-11 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
PROVINCIAL BONDS								
Ontario 4.4% due December 2, 2011	1,224,564	-26,400	1,215,900	1,212,190	0	0	3,710	-8,664
Ontario 4.50% due December 2, 2012	1,303,900	-28,125	1,301,350	1,292,133	0	0	9,217	-2,550
Ontario 4-3/4% due June 2, 2013	1,346,375	-30,281	1,347,089	1,304,990	0	0	42,098	714
Manitoba 5.05% due December 3, 2013	1,071,810	-25,250	1,074,870	1,016,075	0	0	58,795	3,060
Ontario 5% due March 8, 2014	804,668	0	808,515	769,700	0	0	38,815	3,848
Ontario 3.25% due September 8, 2014	510,690	0	516,755	499,180	0	0	17,575	6,065
Alberta 2.75% due December 1, 2014	804,832	-11,000	815,496	813,148	0	0	2,348	10,664
Manitoba 4.80% due December 3, 2014	806,205	-18,000	813,990	783,425	0	0	30,565	7,785
Ontario 4.5% due March 8, 2015	1,435,982	0	1,453,208	1,371,933	0	0	81,275	17,226
Ontario 3.15% due September 8, 2015	907,470	0	924,174	924,198	0	0	-24	16,704
Ontario 4.4% due March 8, 2016	1,854,073	0	1,886,693	1,789,410	0	0	97,283	32,620
Ontario 3.20% due September 8, 2016	749,385	0	765,930	749,618	0	0	16,313	16,545
Ontario 4.30% due March 8, 2017	1,838,988	0	1,877,155	1,776,025	0	0	101,130	38,168
Ontario 4.20% due March 8, 2018	1,037,690	0	1,059,930	1,003,315	0	0	56,615	22,240
British Columbia 4.10% due December 18, 2019	356,304	669,806	1,039,510	1,036,047	0	0	3,463	5,094
British Columbia 3.70% due December 18, 2020	977,760	-18,500	998,770	998,345	0	0	425	21,010
PROVINCIAL BONDS Total	17,030,693		17,899,334	17,339,732	0	0	559,602	190,528
CORPORATE BONDS								
CIBC 5.00% Senior Dep Nts due September 10, 2012	312,225	0	311,463	300,690	0	0	10,773	-762
Wells Fargo Financial Canada MTN 4.40% due December 12, 2012	412,644	-8,800	413,380	399,120	0	0	14,260	736
Toronto Dominion Bank Dep. Note 4.854% due February 13, 2013	785,903	0	786,045	760,125	0	0	25,920	143
Bank of Nova Scotia 4.56% due October 30, 2013	262,135	-5,700	263,468	250,175	0	0	13,293	1,333
Wells Fargo Financial Canada MTN 4.33% due December 6, 2013	310,281	-6,495	312,279	299,920	0	0	12,359	1,998
Enbridge Gas Distribution 5.570% due January 29, 2014	269,110	0	269,375	267,610	0	0	1,765	265
Canadian Utilities Inc. 5.096% due November 18, 2014	268,233	-6,370	269,760	263,910	0	0	5,850	1,528
CIBC 4.75% due December 22, 2014	529,520	-11,875	534,055	508,980	0	0	25,075	4,535
GE Capital Cda Fndg 4.65% due February 11, 2015	313,941	0	316,206	306,600	0	0	9,606	2,265

Martin, Lucas & Seagram Ltd.  
**DATE TO DATE GAINS AND LOSSES**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*From 03-31-11 to 06-30-11*

Security	03-31-11 Market Value	Additions Withdrawals	06-30-11 Market Value	06-30-11 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
Royal Bank 3.18% due March 16, 2015	501,040	0	509,285	510,755	0	0	-1,470	8,245
Royal Bank 3.36% due January 11, 2016	298,182	0	303,663	301,620	0	0	2,043	5,481
CIBC Dep Nts 3.40% due January 14, 2016	298,704	0	304,194	301,998	0	0	2,196	5,490
Bank of Nova Scotia Dep. Note 3.61% due February 22, 2016	402,160	0	408,932	406,596	0	0	2,336	6,772
Bank of Montreal 3.103% due March 10, 2016	393,072	0	400,420	398,028	0	0	2,392	7,348
Royal Bank 3.66% Sr. Dep. Note due January 25, 2017	499,070	0	508,140	507,323	0	0	818	9,070
CIBC Dep Note 3.95% due July 14, 2017	402,412	314,241	718,494	720,496	0	0	-2,002	6,386
Bank of Montreal 4.55% due August 1, 2017	208,124	0	211,392	199,882	0	0	11,510	3,268
CORPORATE BONDS Total	6,466,755		6,840,551	6,703,827	0	0	136,723	64,100
<b>TOTAL PORTFOLIO</b>	<b>43,844,010</b>		<b>44,235,457</b>	<b>43,183,782</b>	<b>-37,325</b>	<b>-8,060</b>	<b>1,051,674</b>	<b>411,699</b>
TOTAL DATE TO DATE GAIN OR LOSS								403,639
% CHANGE DURING PERIOD								0.92

**CLLAS - SHORT TERM INVESTMENT FUND**

**Portfolio Holdings at June 30, 2011**

<b>Quantity</b>	<b>Security</b>	<b>Unit Cost</b>	<b>Price</b>	<b>Market Value</b>	<b>Annual Income</b>
<b>CASH</b>					
	Cash Account			5,795	0
<b>MONEY MARKET ISSUES</b>					
1,550,000	Canada Treasury Bill .76% due July 7, 2011	99.94	99.98	1,549,721	11,773
300,000	CIBC BA 1.00% due July 14, 2011	99.83	99.96	299,881	2,995
500,000	CIBC BA 1.05% due July 14, 2011	99.74	99.96	499,802	5,236
1,240,000	Canada Treasury Bill .82% due July 21, 2011	99.81	99.95	1,239,343	10,149
600,000	Royal Bank BA 1.00% due July 22, 2011	99.94	99.93	599,557	5,996
775,000	Toronto Dominion Bank BA 1.00% due July 25, 2011	99.76	99.93	774,426	7,731
1,850,000	Bank of Nova Scotia BA 1.05% due July 26, 2011	99.83	99.92	1,848,609	19,391
1,000,000	FirstBank BA 1.0% due July 29, 2011	99.84	99.92	999,151	9,984
1,200,000	Canada Treasury Bill .83% due August 4, 2011	99.81	99.91	1,198,932	9,941
150,000	CIBC BA .95% due August 5, 2011	99.88	99.88	149,817	1,423
1,000,000	CIBC BA 1% due August 5, 2011	99.84	99.88	998,778	9,984
1,500,000	Toronto Dominion Bank BA 1.05% due August 9, 2011	99.74	99.88	1,498,163	15,709
600,000	Canada Treasury Bill .75% due August 18, 2011	99.89	99.88	599,250	4,494
550,000	CIBC BA 1.00% due August 26, 2011	99.84	99.84	549,143	5,491
2,685,000	Canada Treasury Bill .85% due September 1, 2011	99.81	99.84	2,680,704	22,777
860,000	CIBC BA 1.05% due September 8, 2011	99.75	99.77	858,015	9,008
				16,343,289	152,084
<b>GOVERNMENT BONDS</b>					
3,140,000	Canada Housing Trust Res. due September 15, 2011	99.70	99.75	3,132,150	0
<b>TOTAL PORTFOLIO</b>				<b>19,481,234</b>	<b>152,084</b>



Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
*From 04-01-11 To 06-30-11*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
<b>PURCHASES</b>					
04-05-11	04-06-11	325,000	Royal Bank BA 1.00% due June 7, 2011	99.83	324,448.81
04-06-11	04-07-11	1,000,000	Toronto Dominion Bank BA .94% due May 10, 2011	99.91	999,142.00
04-07-11	04-08-11	1,000,000	Toronto Dominion Bank BA .95% due June 3, 2011	99.85	998,545.00
04-12-11	04-13-11	800,000	CIBC BA 1.00% due June 7, 2011	99.85	798,796.00
04-14-11	04-15-11	500,000	CIBC BA 1.05% due July 14, 2011	99.74	498,709.00
04-14-11	04-15-11	1,000,000	Toronto Dominion Bank BA .95% due June 3, 2011	99.87	998,726.00
04-18-11	04-19-11	850,000	CIBC BA 1.00% due June 14, 2011	99.85	848,697.80
04-26-11	04-27-11	775,000	Toronto Dominion Bank BA 1.00% due July 25, 2011	99.76	773,115.20
04-27-11	04-28-11	1,240,000	Canada Treasury Bill .82% due July 21, 2011	99.81	1,237,663.84
05-05-11	05-06-11	1,140,000	Canada Housing Trust Res. due September 15, 2011	99.64	1,135,849.26
05-09-11	05-10-11	1,000,000	Toronto Dominion Bank BA 1.05% due August 9, 2011	99.74	997,390.00
05-11-11	05-12-11	300,000	CIBC BA 1.00% due July 14, 2011	99.83	299,483.10
05-11-11	05-12-11	1,200,000	Canada Treasury Bill .83% due August 4, 2011	99.81	1,197,712.80
05-11-11	05-12-11	815,000	Royal Bank BA .95% due June 9, 2011	99.93	814,406.69
05-11-11	05-12-11	500,000	Toronto Dominion Bank BA 1.05% due August 9, 2011	99.74	498,723.00
05-25-11	05-26-11	1,850,000	Bank of Nova Scotia BA 1.05% due July 26, 2011	99.83	1,846,762.50
05-31-11	06-01-11	1,000,000	FirstBank BA 1.0% due July 29, 2011	99.84	998,413.00
06-01-11	06-02-11	2,000,000	Canada Housing Trust Res. due September 15, 2011	99.74	1,994,824.00
06-02-11	06-03-11	1,150,000	Royal Bank BA .95% due June 30, 2011	99.93	1,149,192.70
06-06-11	06-07-11	1,185,000	Canada Treasury Bill .85% due September 1, 2011	99.80	1,182,659.63
06-08-11	06-09-11	1,000,000	CIBC BA 1% due August 5, 2011	99.84	998,441.00

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
*From 04-01-11 To 06-30-11*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
06-08-11	06-09-11	1,550,000	Canada Treasury Bill .76% due July 7, 2011	99.94	1,549,096.35
06-08-11	06-09-11	1,500,000	Canada Treasury Bill .85% due September 1, 2011	99.82	1,497,243.00
06-13-11	06-14-11	860,000	CIBC BA 1.05% due September 8, 2011	99.75	857,877.52
06-20-11	06-21-11	150,000	CIBC BA .95% due August 5, 2011	99.88	149,815.35
06-23-11	06-24-11	600,000	Canada Treasury Bill .75% due August 18, 2011	99.89	599,322.60
06-29-11	06-30-11	550,000	CIBC BA 1.00% due August 26, 2011	99.84	549,142.55
06-29-11	06-30-11	600,000	Royal Bank BA 1.00% due July 22, 2011	99.94	599,638.80
					<b>26,393,837.50</b>
<b>SALES</b>					
04-06-11	04-06-11	300,000	Royal Bank BA .90% due April 6, 2011	100.00	300,000.00
04-07-11	04-07-11	1,000,000	CIBC BA .95% due April 7, 2011	100.00	1,000,000.00
04-08-11	04-08-11	1,000,000	CIBC BA 1.05% due April 8, 2011	100.00	1,000,000.00
04-13-11	04-13-11	800,000	CIBC BA 1.05% due April 13, 2011	100.00	800,000.00
04-14-11	04-14-11	1,500,000	Toronto Dominion Bank BA .95% due April 14, 2011	100.00	1,500,000.00
04-19-11	04-19-11	500,000	Toronto Dominion Bank BA 1.00% due April 19, 2011	100.00	500,000.00
04-19-11	04-19-11	350,000	Toronto Dominion Bank BA 1.00% due April 19, 2011	100.00	350,000.00
04-27-11	04-27-11	800,000	CIBC BA 1.00% due April 27, 2011	100.00	800,000.00
04-28-11	04-28-11	700,000	Canada Treasury Bill .77% due April 28, 2011	100.00	700,000.00
04-28-11	04-28-11	540,000	Canada Treasury Bill .83% due April 28, 2011	100.00	540,000.00
05-05-11	05-05-11	815,000	CIBC BA .95% due May 5, 2011	100.00	815,000.00
05-05-11	05-05-11	320,000	CIBC BA 1.05% due May 5, 2011	100.00	320,000.00
05-10-11	05-10-11	1,000,000	Toronto Dominion Bank BA .94% due May 10, 2011	100.00	1,000,000.00
05-12-11	05-12-11	1,750,000	Canada Treasury Bill .81% due May 12, 2011	100.00	1,750,000.00

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
*From 04-01-11 To 06-30-11*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
05-12-11	05-12-11	340,000	Canada Treasury Bill .82% due May 12, 2011	100.00	340,000.00
05-12-11	05-12-11	710,000	Canada Treasury Bill .83% due May 12, 2011	100.00	710,000.00
05-25-11	05-25-11	650,000	FirstBank BA 1.00% due May 25, 2011	100.00	650,000.00
05-26-11	05-26-11	1,200,000	Canada Treasury Bill .83% due May 26, 2011	100.00	1,200,000.00
06-02-11	06-02-11	2,000,000	Ontario Coupon due June 2, 2011	100.00	2,000,000.00
06-03-11	06-03-11	1,000,000	Toronto Dominion Bank BA .95% due June 3, 2011	100.00	1,000,000.00
06-03-11	06-03-11	1,000,000	Toronto Dominion Bank BA .95% due June 3, 2011	100.00	1,000,000.00
06-07-11	06-07-11	800,000	CIBC BA 1.00% due June 7, 2011	100.00	800,000.00
06-07-11	06-07-11	325,000	Royal Bank BA 1.00% due June 7, 2011	100.00	325,000.00
06-09-11	06-09-11	1,475,000	Canada Treasury Bill .83% due June 9, 2011	100.00	1,475,000.00
06-09-11	06-09-11	1,750,000	Canada Treasury Bill .83% due June 9, 2011	100.00	1,750,000.00
06-09-11	06-09-11	815,000	Royal Bank BA .95% due June 9, 2011	100.00	815,000.00
06-14-11	06-14-11	850,000	CIBC BA 1.00% due June 14, 2011	100.00	850,000.00
06-24-11	06-24-11	550,000	CIBC BA 1.05% due June 24, 2011	100.00	550,000.00
06-30-11	06-30-11	1,150,000	Royal Bank BA .95% due June 30, 2011	100.00	1,150,000.00
					<b>25,990,000.00</b>

Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - SHORT TERM INVESTMENT FUND***  
*From 04-01-11 To 06-30-11*

Cash Balance at April 1, 2011			9,370.99
ADD:	Proceeds from Sales	25,990,000.00	
	Interest on Balance	27.54	
	Bond Interest Credited (from Long Term Investment Fund)	452,293.34	
	Bond Interest Credited (from Short Term Investment Fund)	<u>0.00</u>	<u>26,442,320.88</u>
			26,451,691.87
LESS:	Cost of Purchases	26,393,837.50	
	Transfer to Long Term Investment Fund	4,547.00	
	Investment Counsel Fees - Short Term Investment Fund	5,378.09	
	Investment Counsel Fees - Long Term Investment Fund	30,964.84	
	Trust Company Charges	<u>11,169.29</u>	<u>26,445,896.72</u>
Cash Balance at June 30, 2011			<b>5,795.15</b>

**CLLAS - LONG TERM INVESTMENT FUND**

**Portfolio Holdings at June 30, 2011**

<b>Quantity</b>	<b>Security</b>	<b>Unit Cost</b>	<b>Price</b>	<b>Market Value</b>	<b>Annual Income</b>
<b>GOVERNMENT BONDS</b>					
1,500,000	Canada Housing Trust Sr. 14 4.60% due September 15, 2011	101.74	100.68	1,510,260	69,000
500,000	Farm Credit Canada 4.20% due February 15, 2012	101.20	101.86	509,315	21,000
2,200,000	Canada Housing Trust Sr. 16 4.00% due June 15, 2012	100.57	102.51	2,255,308	88,000
750,000	Canada Housing Trust Sr. 18 4.55% due December 15, 2012	102.72	104.35	782,618	34,125
900,000	Canada Housing Trust Sr. 19 3.60% due June 15, 2013	99.87	103.68	933,147	32,400
900,000	Canada Housing Trust Sr. 22 3.55% due September 15, 2013	105.12	103.89	934,974	31,950
1,650,000	Canada Housing Trust Sr. 24 2.70% due December 15, 2013	100.25	102.10	1,684,667	44,550
1,500,000	Canada Housing Trust Sr. 26 2.20% due March 15, 2014	99.80	100.77	1,511,610	33,000
1,000,000	Canada Housing Trust Sr. 28 3.15% due June 15, 2014	99.95	103.31	1,033,120	31,500
1,500,000	Canada Housing Trust Sr. 29 2.75% due September 15, 2014	101.82	102.08	1,531,260	41,250
600,000	Canada Mtge & Housing 4.30% due April 1, 2015	100.95	107.19	643,158	25,800
650,000	Canada Mtge & Housing Corp. 4.10% due October 1, 2015	98.39	106.78	694,077	26,650
1,000,000	Canada 3.00% due December 1, 2015	102.41	103.22	1,032,200	30,000
1,000,000	Canada Housing Trust 2.75% Series 39 due December 15, 2015	99.35	101.28	1,012,840	27,500
1,000,000	Canada 4% due June 1, 2016	99.58	107.75	1,077,480	40,000
750,000	Canada Housing Trust Sr. 23 4.10% due December 15, 2018	104.51	106.64	799,800	30,750
1,500,000	Canada Housing Trust No. 1 Sr. 30 3.75% due March 15, 2020	103.99	103.32	1,549,740	56,250
				<b>19,495,573</b>	<b>663,725</b>
<b>PROVINCIAL BONDS</b>					
1,200,000	Ontario 4.4% due December 2, 2011	101.02	101.33	1,215,900	52,800
1,250,000	Ontario 4.50% due December 2, 2012	103.37	104.11	1,301,350	56,250
1,275,000	Ontario 4-3/4% due June 2, 2013	102.35	105.65	1,347,089	60,563

**CLLAS - LONG TERM INVESTMENT FUND**

**Portfolio Holdings at June 30, 2011**

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
1,000,000	Manitoba 5.05% due December 3, 2013	101.61	107.49	1,074,870	50,500
750,000	Ontario 5% due March 8, 2014	102.63	107.80	808,515	37,500
500,000	Ontario 3.25% due September 8, 2014	99.84	103.35	516,755	16,250
800,000	Alberta 2.75% due December 1, 2014	101.64	101.94	815,496	22,000
750,000	Manitoba 4.80% due December 3, 2014	104.46	108.53	813,990	36,000
1,350,000	Ontario 4.5% due March 8, 2015	101.62	107.65	1,453,208	60,750
900,000	Ontario 3.15% due September 8, 2015	102.69	102.69	924,174	28,350
1,750,000	Ontario 4.4% due March 8, 2016	102.25	107.81	1,886,693	77,000
750,000	Ontario 3.20% due September 8, 2016	99.95	102.12	765,930	24,000
1,750,000	Ontario 4.30% due March 8, 2017	101.49	107.27	1,877,155	75,250
1,000,000	Ontario 4.20% due March 8, 2018	100.33	105.99	1,059,930	42,000
1,000,000	British Columbia 4.10% due December 18, 2019	103.60	103.95	1,039,510	41,000
1,000,000	British Columbia 3.70% due December 18, 2020	99.83	99.88	998,770	37,000
				17,899,334	717,213
<b>CORPORATE BONDS</b>					
300,000	CIBC 5.00% Senior Dep Nts due September 10, 2012	100.23	103.82	311,463	15,000
400,000	Wells Fargo Financial Canada MTN 4.40% due December 12, 2012	99.78	103.35	413,380	17,600
750,000	Toronto Dominion Bank Dep. Note 4.854% due February 13, 2013	101.35	104.81	786,045	36,405
250,000	Bank of Nova Scotia 4.56% due October 30, 2013	100.07	105.39	263,468	11,400
300,000	Wells Fargo Financial Canada MTN 4.33% due December 6, 2013	99.97	104.09	312,279	12,990
250,000	Enbridge Gas Distribution 5.570% due January 29, 2014	107.04	107.75	269,375	13,925
250,000	Canadian Utilities Inc. 5.096% due November 18, 2014	105.56	107.90	269,760	12,740

**CLLAS - LONG TERM INVESTMENT FUND**

**Portfolio Holdings at June 30, 2011**

<b>Quantity</b>	<b>Security</b>	<b>Unit Cost</b>	<b>Price</b>	<b>Market Value</b>	<b>Annual Income</b>
500,000	CIBC 4.75% due December 22, 2014	101.80	106.81	534,055	23,750
300,000	GE Capital Cda Fndg 4.65% due February 11, 2015	102.20	105.40	316,206	13,950
500,000	Royal Bank 3.18% due March 16, 2015	102.15	101.86	509,285	15,900
300,000	Royal Bank 3.36% due January 11, 2016	100.54	101.22	303,663	10,080
300,000	CIBC Dep Nts 3.40% due January 14, 2016	100.67	101.40	304,194	10,200
400,000	Bank of Nova Scotia Dep. Note 3.61% due February 22, 2016	101.65	102.23	408,932	14,440
400,000	Bank of Montreal 3.103% due March 10, 2016	99.51	100.11	400,420	12,412
500,000	Royal Bank 3.66% Sr. Dep. Note due January 25, 2017	101.46	101.63	508,140	18,300
700,000	CIBC Dep Note 3.95% due July 14, 2017	102.93	102.64	718,494	27,650
200,000	Bank of Montreal 4.55% due August 1, 2017	99.94	105.70	211,392	9,100
				6,840,551	275,842
<b>TOTAL PORTFOLIO</b>				<b>44,235,457</b>	<b>1,656,780</b>

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*From 04-01-11 To 06-30-11*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
<b>PURCHASES</b>					
05-31-11	06-03-11	650,000	British Columbia 4.10% due December 18, 2019	104.33	678,112.50
05-31-11	06-03-11	300,000	CIBC Dep Note 3.95% due July 14, 2017	103.23	309,696.00
					<b>987,808.50</b>
<b>SALES</b>					
06-01-11	06-01-11	1,000,000	Canada 6% due June 1, 2011	100.00	1,000,000.00
					<b>1,000,000.00</b>



Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - LONG TERM INVESTMENT FUND***  
*From 04-01-11 To 06-30-11*

Cash Balance at April 1, 2011			0.00
ADD:			
Proceeds from Sale	1,000,000.00		
Transfer from Short Term Investment Fund	<u>4,547.00</u>	<u>1,004,547.00</u>	
			1,004,547.00
LESS:			
Cost of Purchases	987,808.50		
Accrued Bond Interest on Purchases	<u>16,738.50</u>	<u>1,004,547.00</u>	
Cash Balance at June 30, 2011			0.00

Martin, Lucas & Seagram Ltd.  
**DATE TO DATE GAINS AND LOSSES**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*From 03-31-11 to 06-30-11*

Security	03-31-11 Market Value	Additions Withdrawals	06-30-11 Market Value	06-30-11 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
<b>CASH</b>								
Cash Account	0	0	0	0				
<b>GOVERNMENT BONDS</b>								
Canada 6% due June 1, 2011	1,008,060	-1,030,000	0	0	-37,325	-8,060	0	0
Canada Housing Trust Sr. 14 4.60% due September 15, 2011	1,523,250	0	1,510,260	1,526,100	0	0	-15,840	-12,990
Farm Credit Canada 4.20% due February 15, 2012	512,470	0	509,315	506,006	0	0	3,310	-3,155
Canada Housing Trust Sr. 16 4.00% due June 15, 2012	2,263,624	-44,000	2,255,308	2,212,456	0	0	42,852	-8,316
Canada Housing Trust Sr. 18 4.55% due December 15, 2012	784,380	-17,063	782,618	770,425	0	0	12,193	-1,763
Canada Housing Trust Sr. 19 3.60% due June 15, 2013	931,122	-16,200	933,147	898,840	0	0	34,307	2,025
Canada Housing Trust Sr. 22 3.55% due September 15, 2013	930,870	0	934,974	946,117	0	0	-11,143	4,104
Canada Housing Trust Sr. 24 2.70% due December 15, 2013	1,671,764	-22,275	1,684,667	1,654,203	0	0	30,464	12,903
Canada Housing Trust Sr. 26 2.20% due March 15, 2014	1,495,515	0	1,511,610	1,497,053	0	0	14,558	16,095
Canada Housing Trust Sr. 28 3.15% due June 15, 2014	1,023,220	-15,750	1,033,120	999,460	0	0	33,660	9,900
Canada Housing Trust Sr. 29 2.75% due September 15, 2014	1,513,020	0	1,531,260	1,527,285	0	0	3,975	18,240
Canada Mtge & Housing 4.30% due April 1, 2015	635,832	-12,900	643,158	605,700	0	0	37,458	7,326
Canada Mtge & Housing Corp. 4.10% due October 1, 2015	684,385	-13,325	694,077	639,525	0	0	54,552	9,692
Canada 3.00% due December 1, 2015	1,014,860	-15,000	1,032,200	1,024,060	0	0	8,140	17,340
Canada Housing Trust 2.75% Series 39 due December 15, 2015	993,730	-13,110	1,012,840	993,510	0	0	19,330	19,110
Canada 4% due June 1, 2016	1,060,420	-20,000	1,077,480	995,820	0	0	81,660	17,060
Canada Housing Trust Sr. 23 4.10% due December 15, 2018	782,550	-15,375	799,800	783,840	0	0	15,960	17,250
Canada Housing Trust No. 1 Sr. 30 3.75% due March 15, 2020	1,517,490	0	1,549,740	1,559,825	0	0	-10,085	32,250
<b>GOVERNMENT BONDS</b>	20,346,562		19,495,573	19,140,224	-37,325	-8,060	355,349	157,071
<b>Total</b>								

Martin, Lucas & Seagram Ltd.  
**DATE TO DATE GAINS AND LOSSES**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*From 03-31-11 to 06-30-11*

Security	03-31-11 Market Value	Additions Withdrawals	06-30-11 Market Value	06-30-11 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
PROVINCIAL BONDS								
Ontario 4.4% due December 2, 2011	1,224,564	-26,400	1,215,900	1,212,190	0	0	3,710	-8,664
Ontario 4.50% due December 2, 2012	1,303,900	-28,125	1,301,350	1,292,133	0	0	9,217	-2,550
Ontario 4-3/4% due June 2, 2013	1,346,375	-30,281	1,347,089	1,304,990	0	0	42,098	714
Manitoba 5.05% due December 3, 2013	1,071,810	-25,250	1,074,870	1,016,075	0	0	58,795	3,060
Ontario 5% due March 8, 2014	804,668	0	808,515	769,700	0	0	38,815	3,848
Ontario 3.25% due September 8, 2014	510,690	0	516,755	499,180	0	0	17,575	6,065
Alberta 2.75% due December 1, 2014	804,832	-11,000	815,496	813,148	0	0	2,348	10,664
Manitoba 4.80% due December 3, 2014	806,205	-18,000	813,990	783,425	0	0	30,565	7,785
Ontario 4.5% due March 8, 2015	1,435,982	0	1,453,208	1,371,933	0	0	81,275	17,226
Ontario 3.15% due September 8, 2015	907,470	0	924,174	924,198	0	0	-24	16,704
Ontario 4.4% due March 8, 2016	1,854,073	0	1,886,693	1,789,410	0	0	97,283	32,620
Ontario 3.20% due September 8, 2016	749,385	0	765,930	749,618	0	0	16,313	16,545
Ontario 4.30% due March 8, 2017	1,838,988	0	1,877,155	1,776,025	0	0	101,130	38,168
Ontario 4.20% due March 8, 2018	1,037,690	0	1,059,930	1,003,315	0	0	56,615	22,240
British Columbia 4.10% due December 18, 2019	356,304	669,806	1,039,510	1,036,047	0	0	3,463	5,094
British Columbia 3.70% due December 18, 2020	977,760	-18,500	998,770	998,345	0	0	425	21,010
PROVINCIAL BONDS Total	17,030,693		17,899,334	17,339,732	0	0	559,602	190,528
CORPORATE BONDS								
CIBC 5.00% Senior Dep Nts due September 10, 2012	312,225	0	311,463	300,690	0	0	10,773	-762
Wells Fargo Financial Canada MTN 4.40% due December 12, 2012	412,644	-8,800	413,380	399,120	0	0	14,260	736
Toronto Dominion Bank Dep. Note 4.854% due February 13, 2013	785,903	0	786,045	760,125	0	0	25,920	143
Bank of Nova Scotia 4.56% due October 30, 2013	262,135	-5,700	263,468	250,175	0	0	13,293	1,333
Wells Fargo Financial Canada MTN 4.33% due December 6, 2013	310,281	-6,495	312,279	299,920	0	0	12,359	1,998
Enbridge Gas Distribution 5.570% due January 29, 2014	269,110	0	269,375	267,610	0	0	1,765	265
Canadian Utilities Inc. 5.096% due November 18, 2014	268,233	-6,370	269,760	263,910	0	0	5,850	1,528
CIBC 4.75% due December 22, 2014	529,520	-11,875	534,055	508,980	0	0	25,075	4,535
GE Capital Cda Fndg 4.65% due February 11, 2015	313,941	0	316,206	306,600	0	0	9,606	2,265

Martin, Lucas & Seagram Ltd.  
**DATE TO DATE GAINS AND LOSSES**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*From 03-31-11 to 06-30-11*

Security	03-31-11 Market Value	Additions Withdrawals	06-30-11 Market Value	06-30-11 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
Royal Bank 3.18% due March 16, 2015	501,040	0	509,285	510,755	0	0	-1,470	8,245
Royal Bank 3.36% due January 11, 2016	298,182	0	303,663	301,620	0	0	2,043	5,481
CIBC Dep Nts 3.40% due January 14, 2016	298,704	0	304,194	301,998	0	0	2,196	5,490
Bank of Nova Scotia Dep. Note 3.61% due February 22, 2016	402,160	0	408,932	406,596	0	0	2,336	6,772
Bank of Montreal 3.103% due March 10, 2016	393,072	0	400,420	398,028	0	0	2,392	7,348
Royal Bank 3.66% Sr. Dep. Note due January 25, 2017	499,070	0	508,140	507,323	0	0	818	9,070
CIBC Dep Note 3.95% due July 14, 2017	402,412	314,241	718,494	720,496	0	0	-2,002	6,386
Bank of Montreal 4.55% due August 1, 2017	208,124	0	211,392	199,882	0	0	11,510	3,268
CORPORATE BONDS Total	6,466,755		6,840,551	6,703,827	0	0	136,723	64,100
<b>TOTAL PORTFOLIO</b>	<b>43,844,010</b>		<b>44,235,457</b>	<b>43,183,782</b>	<b>-37,325</b>	<b>-8,060</b>	<b>1,051,674</b>	<b>411,699</b>
TOTAL DATE TO DATE GAIN OR LOSS								403,639
% CHANGE DURING PERIOD								0.92