

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

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

**Tuesday, February 24, 2008**

**Present:**

Nicholas Leblovic (Chairman)	Davies Ward Phillips & Vineberg LLP
Glenn Leslie	Blake Cassels & Graydon LLP
Robert Love	Borden Ladner Gervais LLP
Gord Goodman	Cassels Brock & Blackwell LLP
Donald Milner	Fasken Martineau DuMoulin LLP
Chris Woodbury	Fraser Milner Casgrain LLP
Gale Rubenstein	Goodmans LLP
Malcolm Mercer	McCarthy Tetrault LLP
Julia Holland	Torys LLP
Les O'Connor	WeirFoulds LLP
Frank Palmay	Lang Michener LLP
Patrick Mahoney	Dion, Durrell + Associates
Norma Ibbetson	Dion, Durrell + Associates
Joe Tontini	Dion, Durrell + Associates
Ryan Durrell	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 December 9, 2008 Meeting of the Advisory Board**

**It was moved by Chris Woodbury and seconded by Gale Rubenstein that the minutes of the December 9, 2008 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**

*Website:*

Ryan Durrell was introduced. A demo of the website is to be held at the end of the meeting.

*General Liability:*

Joe Tontini will be reviewing the results of this project later in the meeting. Each firm will receive a report personalized to their firm.

*Commercial Market Update:*

Prior to the meeting, the Chair circulated a memo from Bob Wilson providing a market update. CLLAS is well positioned with the two-year policy.

*Reinsurance Ratings and Security:*

Joe Tontini will provide an update later in the meeting. Part of the up-coming renewal process will be an analysis on security of our reinsurers – both incumbents and new markets. This analysis may result in the desire to shift market share amongst reinsurers. The London trip to meet with reinsurers is planned for May.

*Restructuring:*

There is a further meeting planned with advisor to review options.

*Annual Dinner:*

There was a brief discussion on venue and timing. The Chair requested feedback with respect to the dinner and a possible move to April.

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

*Financial Statements Quarter Ending December 31, 2008*

Patrick Mahoney reported to the Board.

Overall CLLAS had a good year. Premiums were reduced as reinsurance costs came down. A \$2.8 million underwriting gain (i.e. premiums less claims and expenses) was experienced. Investment income overall was similar to last year.

The market melt-down which occurred in the latter part of the year had little effect on CLLAS as bonds did well during the period. Accumulated Other Comprehensive Income (Loss) shows the unrealized gains and losses imbedded in CLLAS' investment portfolio. At December 31, 2008, CLLAS had unrealized gains of \$1.4 million, up from previous year's \$92,000

Mr. Mahoney pointed out the reinsurance recoverable of \$10.7 million, which was largely attributable to the reinsurance arbitration. He noted that dates for the arbitration were being set in the Fall of 2009.

#### *Actuarial Report*

Copies of the Valuation Report and the presentation of the Actuary were distributed to the Board.

#### *Appointment of the Actuary for 2009*

**It was moved by Gordon Goodman and seconded by Gail Rubenstein that Julie-Linda Laforce of Dion Durrell + Associates Inc. be appointed the Actuary for 2009. The motion was carried unanimously.**

#### *2009 Budget*

(Joe Tontini joined the meeting.)

Patrick Mahoney reviewed the attachment which provides comparables between the budget and the actual for FY08 as well as the proposal for FY09.

**It was moved by Gordon Goodman and seconded by Les O'Connor that the 2009 Budget be approved. The motion was carried unanimously.**

#### *Surplus Management/Financial Modeling*

The static surplus policy has not been updated to reflect increase in retention. The Peer Review undertaken by Towers Perrin last year also included recommendations to perform regular capital adequacy testing (DCAT) and a regular evaluation of CLLAS' reinsurance exposure.

The Board materials included a proposal from Dion Durrell for enhancing the financial modeling of CLLAS. The expectation is to complete the work in advance of the reinsurance renewal.

**It was moved by Frank Palmay and seconded by Gale Rubenstein that the financial modeling proposal be approved. The motion was carried unanimously.**

#### *Reinsurance Ratings*

Joe Tontini discussed an exhibit showing the updated security ratings for the current CLLAS reinsurers under his February 9, 2009 memo to the Board. He was asked whether we can track summary by branch – i.e. Canadian branches vs. Canadian companies. He indicated that he would work with Miller on providing additional analysis.

Mr. Tontini mentioned that OSFI was reviewing its rules with respect to unlicensed insurers and “doing business in Canada” and that this review might adversely affect Lloyds, among others. Dion Durrell was reviewing the situation and discussing with Lloyds and other potentially affected reinsurers. The target date for implementation is January 2010 meaning that the up-coming July 1, 2009 renewal is affected. More information will be forthcoming.

#### *General Liability Policy Review*

Joe Tontini reviewed his handout, “Comparison of Limits and Rates”. The consensus was to use the information provided on an individual basis for existing renewals and look at further options at the

September meeting. Nick Leblovic will circulate the e-mail and firms can report back to Joe Tontini on their renewals.

*Patent and Trademark Cover*

Some firms still buy their Patent and Trademark cover separately while others utilize the CLLAS cover. Consideration is being given to broadening the definition of the incidental practice to cover the patent and trademark filings. Mr. Tontini and Mr. Leblovic are to work on coverage definition for July 1, 2009.

(Mr. Tontini left the meeting.)

**8. Report of the Claims Committee**

Patrick Mahoney reported on the Claims Activity.

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

Bill Scott circulated a memo providing an update. The Committee is working on the appropriate policy for “re-auditing” firms that have been audited by John Walker. One possibility is targeted audits, i.e. audits dependent on claim frequency or other issues. It was noted that the Committee had discussed the policy on Guidelines for Securities Trading and had concluded that it was not appropriate to mandate that each firm have such a policy in place.

**10. Report of the Audit Committee**

Donald Milner reported that the notes to the financial statements had been changed to reflect new accounting requirements. He said that Deloitte had issued a clean audit opinion.

**It was moved by Donald Milner and seconded by Gordon Goodman that the financials statements at December 31, 2008 be adopted. The motion was carried unanimously.**

**It was moved by Donald Milner and seconded by Frank Palmay that Deloitte be appointed auditor for the 2009 fiscal year. The motion was carried unanimously.**

It was noted that FSCO was requiring a status report on the impact of International Financial Reporting Standards by the end of February with updates every six months. The 2009 Business Plan will also need to be filed with the FSCO before the end of February. Both filings were included in the Board materials.

**11. Report of the Policy Committee**

Patrick Mahoney reported that the Committee is looking into processing some issues driven by the management of claims.

**12. Report of the Restructuring Committee**

There was nothing to report at this time.

**13. December 31, 2008 Investment Manager's Report – Confirmation of Investment Guidelines**

Patrick Mahoney reported. Included in the Board material is a report from the investment managers commenting on security of individual bonds and how security selections are made, as well as a summary of the benchmarking changes made subsequent to the Board approval to implement changes at the December 2008 meeting.

**14. Other Business**

There was a demonstration of the CLLAS Website which is slated to be live by the end of June 2009.

**15. Next Meeting**

The next regularly scheduled meeting of the Board will be on June 16, 2009.

There being no further business, the meeting was terminated.

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Chairman

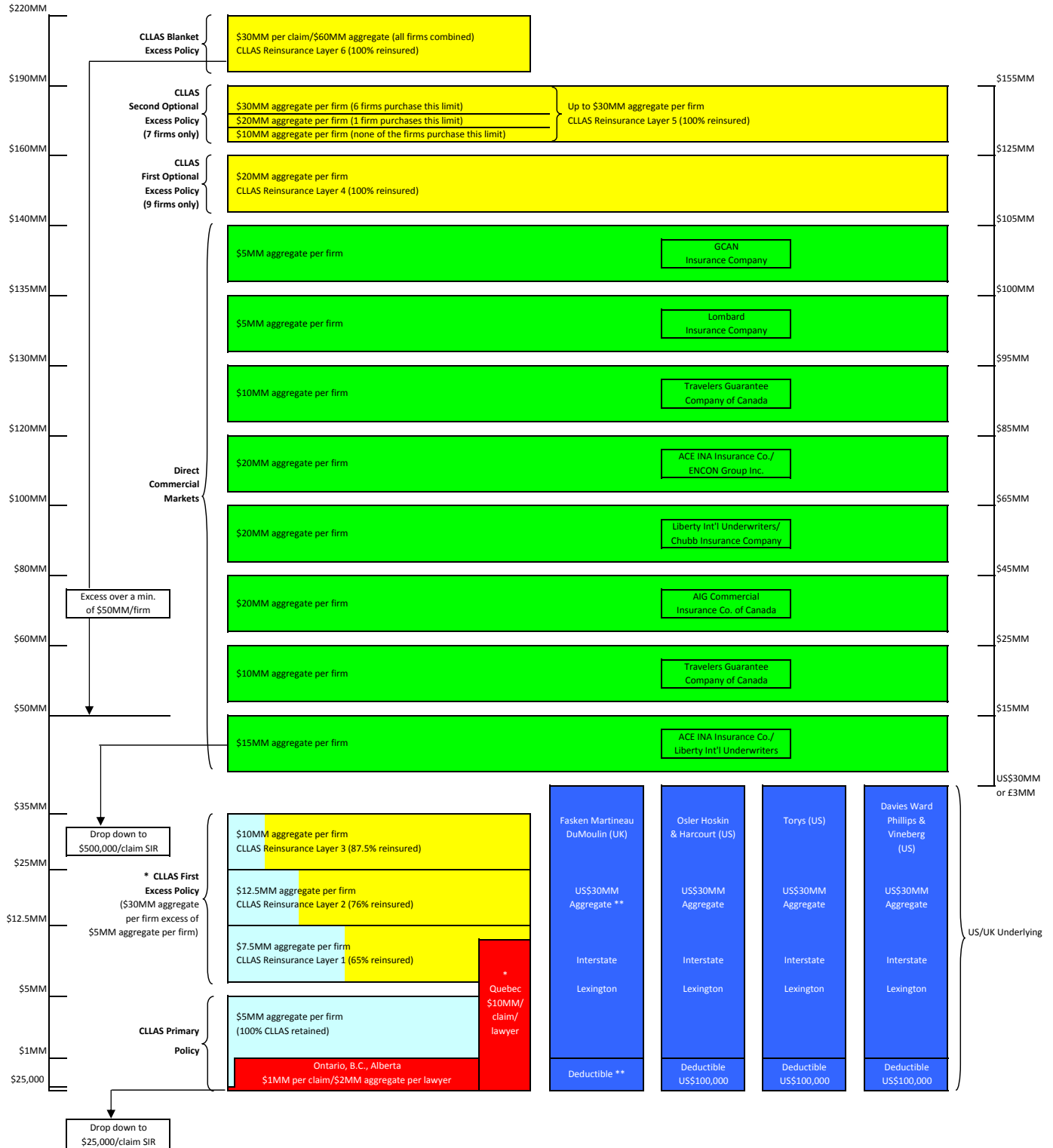
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Secretary

**CLLAS LIMIT STRUCTURE**  
**JULY 1, 2008 - JULY 1, 2009**

**Canadian Exposures**

**US Exposures**



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

\*\* US\$30MM limit with a UK indemnity limit of E3MM (provided by Lloyd's).  
 Deductibles: US\$75,000 for UK work, US\$250,000 for US work, US\$50,000 for other work.

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

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

2008-2009 REINSURANCE CASH FLOW/PAYMENT SCHEDULE - REVISED MAY 1, 2009 DUE TO MCMILLAN LLP MERGER \1

LAYER 1 \$7.5MM XS \$5MM		LAYER 2 \$12.5MM XS \$12.5MM		LAYER 3 \$10MM XS \$25MM		LAYER 4 \$20MM XS \$140MM		LAYER 5 UP TO \$30MM XS \$160MM				LAYER 6 \$30/60MM XS MIN \$50MM			
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NLC = Non-lawyer Consultant

NOTES: \1 This is an information document, not an accounting ledger.

\2 Semi-annual instalment for Canadian Companies and Colchester.

\3 Quarterly instalment for Miller. Fund should be sent to Miller with about 2 weeks lead time.

\4 Semi-annual instalment for Canadian Companies and Colchester and quarterly instalment for Miller. Fund should be sent to Miller with about 2 weeks lead time.

\5 These are OHF, Torts &amp; DWPV lawyers in the US and FMD lawyers in UK. They are not covered by Layers 1, 2, 3, 6 and Colchester.

\6 For Layers 1, 2 and 3, the rate for NLC in all provinces is the same as the rate for lawyers in provinces other than Quebec.

\7 Applicable in all provinces.

\8 McMillan LLP merger with Thackray Burgess.

\9 Pro-rata additional premium payable as a result of Note \8 above.

SPECIAL NOTE: CLLAS RETAINED 100% OF THE FIRST \$4MM XS \$1MM LAYER SINCE JULY 1, 2002.

Colchester Aggregate Stop-Loss Protection





**CLLAS Reinsurance**

**Top 25 Reinsurers by % of Current Liability**

**ALL YEARS**

Watch	Name	Jurisdiction	Reg'd?	LAYERS								TOTAL	All-time Percent of Total	Curr. Year Percent of Total	Move- ment?
				\$ .975MM	\$4MM	\$7.5MM	\$12.5MM	\$10MM	\$30/60MM	\$20MM	\$10-30MM				
				XS \$.025MM	XS \$1MM	XS \$5MM	XS \$12.5MM	XS \$25MM	XS \$50MM	XS \$140MM	XS \$160MM				
➡	Underwriters at Lloyd's	London	Yes*	0	1,250,502	6,524,708	3,580,028	3,574,043	524,614	74,037	28,423	15,556,355	19.5%	16.6%	Down
➡	Transatlantic Reinsurance Company	Combined	Yes	0	0	2,538,598	3,716,211	130,913	0	0	0	6,385,721	8.0%	5.1%	Down
➡	Transatlantic Reinsurance Company (UK)	London	Yes	0	0	2,538,598	2,214,061	130,913	0	0	0	4,883,571	6.1%	3.6%	Down
	AFB 623/2623	Lloyd's	Yes	0	0	4,328,252	0	0	43,495	0	0	4,371,747	5.5%	6.5%	Up
	Aspen Re	London	Yes*	0	0	1,742,947	1,309,395	497,470	0	0	0	3,549,812	4.4%	6.1%	Up
➡	AGM 2488	Lloyd's	Yes	0	0	1,438,640	1,388,854	6,996	49,593	5,068	0	2,889,151	3.6%	0.0%	Zero
➡	Swiss Re	Combined	Mix	0	0	0	61,956	2,207,423	299,922	103,195	14,212	2,686,708	3.4%	2.7%	Down
	MKM 2468	Lloyd's	Yes	0	0	0	994,776	1,366,699	0	0	11,210	2,372,685	3.0%	3.7%	Up
➡	Hannover Ruck	London	Yes*	0	0	0	2,358,511	0	0	284	0	2,358,795	3.0%	3.3%	Up
	Scor Re.	Canada	Yes	0	0	58,809	886,279	1,049,592	68,228	5,203	0	2,068,111	2.6%	3.5%	Up
	MKL 3000	Lloyd's	Yes	0	0	0	586,821	1,438,024	5,073	0	3,746	2,033,665	2.5%	2.8%	Up
➡	Swiss Re (Canada)	Canada	Yes	0	0	0	61,956	1,279,997	221,205	64,993	14,212	1,642,362	2.1%	2.7%	Up
➡	Transatlantic Reinsurance Company (Canada)	Canada	Yes	0	0	0	1,502,150	0	0	0	0	1,502,150	1.9%	1.6%	Down
	Arch	Canada	Yes	0	0	1,405,914	0	0	0	0	0	1,405,914	1.8%	2.9%	Up
	CRC (Bermuda) Reinsurance Ltd.	Bermuda	No	0	0	810,967	510,341	0	0	0	0	1,321,307	1.7%	2.5%	Up
➡	Swiss Re (UK)	London	No	0	0	0	0	927,427	78,717	38,202	0	1,044,346	1.3%	0.0%	Zero
	TOA Re.	Canada	Yes	0	0	442,233	383,541	0	0	0	0	825,774	1.0%	1.2%	Up
	DJM 839	Lloyd's	Yes	0	599,118	25,788	22,081	9,768	0	0	0	656,754	0.8%	0.0%	Zero
	AML 2001	Lloyd's	Yes	0	0	0	322,663	271,599	0	2,333	0	596,595	0.7%	1.0%	Up
	SAM 727	Lloyd's	Yes	0	0	596,404	0	0	0	0	0	596,404	0.7%	0.8%	Up
	Munich Reinsurance Company of Canada	Canada	Yes	0	348,683	98,113	80,495	38,192	13,537	0	0	579,020	0.7%	0.0%	Zero
	HIS 33	Lloyd's	Yes	0	0	0	0	379,216	84,905	16,524	0	480,645	0.6%	0.7%	Up
	Prudential Re	Canada	Yes	0	1,742	285,599	116,345	0	18,161	0	0	421,848	0.5%	0.0%	Zero
	CML 1173	Lloyd's	Yes	0	212,357	26,521	22,761	25,600	0	2,026	0	289,266	0.4%	0.0%	Zero
	PJG 79	Lloyd's	Yes	0	159,268	37,591	27,646	17,086	6,292	4,922	0	252,805	0.3%	0.0%	Zero
➡	AWAC	Bermuda	No	0	0	0	0	0	0	246,686	0	246,686	0.3%	0.0%	Down
	American Re.	Canada	Yes	0	0	102,234	76,669	61,567	2,421	3,676	0	246,567	0.3%	0.0%	Zero
➡	BRT 2987	Lloyd's	Yes	0	0	0	0	0	201,451	0	9,351	210,802	0.3%	0.1%	Down

Total Current Liabilities	1,892,647	33,181,596	18,634,147	16,116,089	8,639,087	934,119	440,713	56,846	\$79,895,244						
Proportional Reinsurance:															
London	0	1,364,864	10,845,578	9,495,792	5,129,853	607,485	112,723	28,423	27,584,718	34.5%	29.7%	Down			
Canada	0	350,425	2,392,903	3,107,435	2,429,348	326,634	81,304	28,423	8,716,472	10.9%	11.9%	Up			
Bermuda	0	0	810,967	510,341	0	0	246,686	0	1,567,993	2.0%	2.5%	Up			
Total	0	1,715,289	14,049,447	13,113,567	7,559,201	934,119	440,713	56,846	37,869,182	47.4%	44.1%	Down			
CLLAS Proportional Retention	1,892,647	31,466,307	4,584,699	3,002,522	1,079,886	0	0	0	42,026,062	52.6%	55.9%	Up			
➡ Colchester Aggregate									10,237,076	12.8%	5.6%	Down			
CLLAS Net Retention									31,788,986	39.8%	50.3%	Up			

\* These markets are registered in Canada but will have to prove that they meet certain indicia to satisfy the new OSFI guidelines

## CLLAS Reinsurance

### Reinsurers by % of Current Liability

CURRENT YEAR (2008/2009)

CURRENT YEAR (2008/2009)			LAYERS								Percent of Total		
			\$ .975MM XS	\$4MM XS	\$7.5MM XS	\$12.5MM XS	\$10MM XS	\$30/60MM XS	\$20MM XS	\$10-30MM XS			
Watch	Name	Jurisdiction	Reg'd?	\$ .025MM	\$1MM	\$5MM	\$12.5MM	\$25MM	\$50MM	\$140MM	\$160MM	TOTAL	
➔	Underwriters at Lloyd's	London	Yes*	0	0	592,792	399,729	343,888	9,706	650	1,344	1,348,108	16.6%
	AFB 623/2623	Lloyd's	Yes	0	0	529,278	0	0	690	0	0	529,968	6.5%
	Aspen Re	London	Yes*	0	0	254,054	167,683	76,410	0	0	0	498,147	6.1%
➔	Transatlantic Reinsurance Company	Combined	Yes	0	0	211,711	203,252	0	0	0	0	414,963	5.1%
	MKM 2468	Lloyd's	Yes	0	0	0	169,377	127,350	0	0	530	297,257	3.7%
➔	Transatlantic Reinsurance Company (UK)	London	Yes	0	0	211,711	76,220	0	0	0	0	287,931	3.6%
	Scor Re.	Canada	Yes	0	0	58,809	118,564	105,075	1,765	0	0	284,212	3.5%
➔	Hannover Ruck	London	Yes*	0	0	0	271,003	0	0	0	0	271,003	3.3%
	Arch	Canada	Yes	0	0	235,235	0	0	0	0	0	235,235	2.9%
	MKL 3000	Lloyd's	Yes	0	0	0	99,085	127,350	690	0	177	227,303	2.8%
➔	Swiss Re	Combined	Mix	0	0	0	0	210,149	6,176	1,477	672	218,475	2.7%
➔	Swiss Re (Canada)	Canada	Yes	0	0	0	0	210,149	6,176	1,477	672	218,475	2.7%
	CRC (Bermuda) Reinsurance Ltd.	Bermuda	No	0	0	117,617	84,688	0	0	0	0	202,306	2.5%
➔	Transatlantic Reinsurance Company (Canada)	Canada	Yes	0	0	0	127,033	0	0	0	0	127,033	1.6%
	TOA Re.	Canada	Yes	0	0	58,809	42,344	0	0	0	0	101,153	1.2%
	AML 2001	Lloyd's	Yes	0	0	0	46,579	38,247	0	48	0	84,874	1.0%
	PEM 4000	Lloyd's	Yes	0	0	0	84,688	0	0	95	0	84,783	1.0%
	SAM 727	Lloyd's	Yes	0	0	63,513	0	0	0	0	0	63,513	0.8%
	HIS 33	Lloyd's	Yes	0	0	0	0	50,940	1,526	271	0	52,737	0.7%
➔	BRT 2987	Lloyd's	Yes	0	0	0	0	0	4,590	0	442	5,032	0.1%
➔	AWAC	Bermuda	No	0	0	0	0	0	0	3,782	0	3,782	0.0%
	LIB 4472	Lloyd's	Yes	0	0	0	0	0	690	236	106	1,032	0.0%
	FDY 435	Lloyd's	Yes	0	0	0	0	0	829	0	88	918	0.0%
	SJC 2003	Lloyd's	Yes	0	0	0	0	0	690	0	0	690	0.0%
	GCAN	Canada	Yes	0	0	0	0	0	0	0	672	672	0.0%

Total Current Liabilities	297,351	2,895,541	2,352,347	1,693,767	840,597	17,647	5,909	2,687	\$8,105,847		
Proportional Reinsurance:											
London	0	0	1,058,556	914,634	420,299	9,706	650	1,344	2,405,189	29.7%	
Canada	0	0	352,852	287,940	315,224	7,941	1,477	1,344	966,778	11.9%	
Bermuda	0	0	117,617	84,688	0	0	3,782	0	206,087	2.5%	
Total	0	0	1,529,026	1,287,263	735,522	17,647	5,909	2,687	3,578,054	44.1%	
CLLAS Proportional Retention	297,351	2,895,541	823,322	406,504	105,075	0	0	0	4,527,792	55.9%	
➔ Colchester Aggregate									452,779	5.6%	
CLLAS Net Retention									4,075,013	50.3%	

\* These markets are registered in Canada but will have to prove that they meet certain indicia to satisfy the new OSFI guidelines

## CLLAS Reinsurance

### Reinsurers by % of Single Claim Exposure

#### CURRENT YEAR (2008/2009)

Watch	Name	Jurisdiction	Reg'd?	LAYERS								TOTAL	Percent of Total
				\$ .975MM	\$4MM	\$7.5MM	\$12.5MM	\$10MM	\$30/60MM	\$20MM	\$10-30MM		
				XS	XS	XS	XS	XS	XS	XS	XS		
				\$ .025MM	\$1MM	\$5MM	\$12.5MM	\$25MM	\$50MM	\$140MM	\$160MM		
➔	Underwriters at Lloyd's	London	Yes*	0	0	1,890,000	2,950,000	4,091,000	16,500,000	2,200,000	15,000,000	42,631,000	37.1%
➔	Swiss Re	Combined	Mix	0	0	0	0	2,500,000	10,500,000	5,000,000	7,500,000	25,500,000	22.2%
➔	Swiss Re (Canada)	Canada	Yes	0	0	0	0	2,500,000	10,500,000	5,000,000	7,500,000	25,500,000	22.2%
➔	AWAC	Bermuda	No	0	0	0	0	0	0	12,800,000	0	12,800,000	11.1%
➔	BRT 2987	Lloyd's	Yes	0	0	0	0	0	7,803,000	0	4,935,000	12,738,000	11.1%
	MKM 2468	Lloyd's	Yes	0	0	0	1,250,000	1,515,000	0	0	5,916,000	8,681,000	7.6%
	GCAN	Canada	Yes	0	0	0	0	0	0	0	7,500,000	7,500,000	6.5%
	MKL 3000	Lloyd's	Yes	0	0	0	731,250	1,515,000	1,173,000	0	1,977,000	5,396,250	4.7%
	Scor Re.	Canada	Yes	0	0	187,500	875,000	1,250,000	3,000,000	0	0	5,312,500	4.6%
	HIS 33	Lloyd's	Yes	0	0	0	0	606,000	2,595,000	916,660	0	4,117,660	3.6%
	LIB 4472	Lloyd's	Yes	0	0	0	0	0	1,173,000	800,000	1,185,000	3,158,000	2.7%
	Aspen Re	London	Yes*	0	0	810,000	1,237,500	909,000	0	0	0	2,956,500	2.6%
	AFB 623/2623	Lloyd's	Yes	0	0	1,687,500	0	0	1,173,000	0	0	2,860,500	2.5%
	FDY 435	Lloyd's	Yes	0	0	0	0	0	1,410,000	0	987,000	2,397,000	2.1%
➔	Transatlantic Reinsurance Company	Combined	Yes	0	0	675,000	1,500,000	0	0	0	0	2,175,000	1.9%
➔	Hannover Ruck	London	Yes*	0	0	0	2,000,000	0	0	0	0	2,000,000	1.7%
➔	Transatlantic Reinsurance Company (UK)	London	Yes	0	0	675,000	562,500	0	0	0	0	1,237,500	1.1%
	SJC 2003	Lloyd's	Yes	0	0	0	0	0	1,173,000	0	0	1,173,000	1.0%
	CRC (Bermuda) Reinsurance Ltd.	Bermuda	No	0	0	375,000	625,000	0	0	0	0	1,000,000	0.9%
	AML 2001	Lloyd's	Yes	0	0	0	343,750	455,000	0	163,340	0	962,090	0.8%
	PEM 4000	Lloyd's	Yes	0	0	0	625,000	0	0	320,000	0	945,000	0.8%
➔	Transatlantic Reinsurance Company (Canada)	Canada	Yes	0	0	0	937,500	0	0	0	0	937,500	0.8%
	Arch	Canada	Yes	0	0	750,000	0	0	0	0	0	750,000	0.7%
	TOA Re.	Canada	Yes	0	0	187,500	312,500	0	0	0	0	500,000	0.4%
	SAM 727	Lloyd's	Yes	0	0	202,500	0	0	0	0	0	202,500	0.2%

Maximum Exposure Any One Claim	975,000	4,000,000	7,500,000	12,500,000	10,000,000	30,000,000	20,000,000	30,000,000	\$114,975,000	
Proportional Reinsurance:										
London	0	0	3,375,000	6,750,000	5,000,000	16,500,000	2,200,000	15,000,000	48,825,000	42.5%
Canada	0	0	1,125,000	2,125,000	3,750,000	13,500,000	5,000,000	15,000,000	40,500,000	35.2%
Bermuda	0	0	375,000	625,000	0	0	12,800,000	0	13,800,000	12.0%
Total	0	0	4,875,000	9,500,000	8,750,000	30,000,000	20,000,000	30,000,000	103,125,000	89.7%
CLLAS Proportional Retention	975,000	4,000,000	2,625,000	3,000,000	1,250,000	0	0	0	11,850,000	10.3%
➔ Colchester Aggregate									0	0.0%
CLLAS Net Retention									11,850,000	10.3%

\* These markets are registered in Canada but will have to prove that they meet certain indicia to satisfy the new OSFI guidelines

## **CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

### **ACTUARIAL PROJECTION OF 2009/2010 TREATY YEAR LOSS COSTS**

**Prepared by Julie-Linda Laforce, F.C.I.A., F.C.A.S.**

**April 28, 2009**

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## SECTION I - INTRODUCTION AND SCOPE

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### INTRODUCTION

The purpose of this report is to provide updated claims information to management and underwriters of reinsurance for the Canadian Lawyers Liability Assurance Society ("CLLAS").

This report summarizes the analysis by Dion, Durrell + Associates Inc. ("DD+A") of the reported claims information as at December 31st, 2008. It also provides an estimate of the ultimate settlement value of ground-up claims for the prospective treaty year starting July 1<sup>st</sup>, 2009 and its allocation as loss costs by layer of coverage provided by CLLAS.

This report is strictly for the use of CLLAS, its advisors, and underwriters of reinsurance in the context of their work for CLLAS. Any other use or disclosure should be discussed first with Dion, Durrell + Associates Inc. If our report is distributed further, the report must be distributed in its entirety.

Any questions regarding this report should be addressed to Ms. Julie-Linda Laforce, the author of this report. Ms. Laforce's contact information is as follows:

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## **SCOPE**

This report provides an assessment of the estimated ultimate settlement value of the claims incurred by the current CLLAS subscribers as at December 31<sup>st</sup>, 2008 as well as an estimate of the projected ultimate value of claims to be incurred and/or reported during the prospective reinsurance coverage period of July 1<sup>st</sup>, 2009 to June 30<sup>th</sup>, 2010.

The estimates developed by DD+A for CLLAS are developed on a basis gross of all applicable reinsurance which is then layered by range of values and traditional layers of reinsurance purchased by CLLAS to provide an overall assessment of the potential ground-up cost of all claims incurred on or prior to December 31<sup>st</sup>, 2008 and claims expected for the prospective reinsurance coverage period of July 1<sup>st</sup>, 2009 to June 30<sup>th</sup>, 2010.

## **OPERATIONS**

### **General**

CLLAS was formed in 1986 and licensed as an insurer in 1987 with the first policies issued with an effective date of July 1, 1987. CLLAS provides professional liability insurance to subscribing law firms in excess of the compulsory coverage provided by the various law societies. Since inception, coverage provided by CLLAS has been on a claims made basis. For the first policy term (i.e. July 1, 1987 to June 30, 1988), coverage was in excess of \$600,000. Coverage in subsequent policy terms is in excess of \$1,000,000 (for lawyers practicing in Québec, coverage is in excess of \$5,000,000 for policy year up to and including 2002/2003 and \$10,000,000 thereafter).

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

<b>Table 1.0</b> <b>CLLAS Historical Coverage Summary</b>	
<b>Coverage Period</b>	<b>Coverage Provided (in million \$)</b>
July 1, 1987 to June 30, 1988	\$24.4 excess of \$0.6
July 1, 1988 to June 30, 1989 to July 1, 1989 to June 30, 1990	\$24.0 excess of \$1.0
July 1, 1990 to June 30, 1991	\$24.0 excess of \$1.0* plus \$25.0 excess of \$50.0
July 1, 1991 to June 30, 1992 to July 1, 1996 to June 30, 1997	\$34.0 excess of \$1.0* plus \$25.0 excess of a minimum of \$50.0
July 1, 1997 to June 30, 1998	\$34.0 excess of \$1.0* plus \$25.0 excess of a minimum of \$50.0 \$15.0 excess of \$120.0 (optional layer)
July 1, 1998 to June 30, 1999	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$130.0 (optional layer)
July 1, 1999 to June 30, 2000 **	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$130.0 (optional layer)
July 1, 2000 to June 30, 2001 to July 1, 2002 to June 30, 2003 **	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$140.0 (optional layer)
July 1, 2003 to June 30, 2004 to July 1, 2005 to June 30, 2006 ***	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$140.0 (optional layer)
July 1, 2006 to June 30, 2007 to July 1, 2007 to June 30, 2008 ***	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$140.0 (optional layer 1) \$20.0 excess of \$160.0 (optional layer 2)
July 1, 2008 to June 30, 2009 ***	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$140.0 (optional layer 1) \$10.0/20.0/30.0 excess of \$160.0 (optional layer 2)

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

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

\*\*\* For Québec, for policy years 2003/2004 and after, CLLAS coverage is provided \$25 million in excess of a \$10 million retention

The umbrella layer of coverage (\$30 million excess of a minimum of \$50 million) is subject to an annual aggregate of \$60 million for all law firms combined. Coverage between the basic coverages described above (\$34 million excess of \$1 million) and the minimum attachment point of \$50 million of the umbrella layer is not provided by CLLAS, but left to individual subscribers to arrange.





As of July 1, 2008, CLLAS began offering an option of \$10 million excess of \$160 million, \$20 million excess of \$160 million or \$30 million excess of \$160 million in optional layer 2.

#### **Reinsurance**

The coverage provided by CLLAS is divided into layers with varying amounts of proportional reinsurance purchased in each layer. The size and the number of layers have varied over time. Effective July 1, 2002, CLLAS retains 100% of its losses in the layer \$4 million excess of \$1 million. In previous policy years the retained portion has been 50% in said layer. In addition, beginning July 1, 1989 reinsurance on the aggregate retention of CLLAS, after reflection of the proportional reinsurance, has been purchased from Colchester Reinsurance Limited ("Colchester"). Colchester is an unlicensed reinsurer which is domiciled in Barbados.

#### **Membership/Management Changes**

The number of insured lawyers has increased from approximately 1,479 to 4,785 (including patent and trademark agents and non-lawyer consultants) from 1988 to 2009. In addition to the 4,785 lawyers in 2009, 132 lawyers practicing in the US or the UK are covered by the optional layers, but are not covered by the shared umbrella layer. CLLAS has been managed by The Wyatt Company from its inception in 1987 up until late 1995 and by Dion, Durrell + Associates Inc. thereafter.

#### **Claims Administration/Reserving**

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

#### **CONDITIONS AND LIMITATIONS**

For the purposes of our analysis, we were provided with data from CLLAS on the claims and exposures under the program. Although we have conducted a number of tests to ensure that the data provided were reasonable, we have relied on such data without formal audit or verification.

DD+A does not assume the responsibility for the result of any error or omission in the data or other materials furnished in the preparation of this report.

By its nature, the program is subject to statistical and other deviations in loss experience. As a result we cannot guarantee our projections of future loss experience as being the maximum extent of the exposure to loss for CLLAS.

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



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

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## SECTION II - ACTUARIAL ANALYSIS

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This section describes the methodology and assumptions used by DD+A to estimate the ultimate settlement value of claims incurred by CLLAS for the treaty year ending June 30<sup>th</sup>, 2009 and the prospective treaty year starting July 1<sup>st</sup>, 2009.

This estimation of ultimate losses is based on the following information reviewed and analyzed by DD+A:

- The coverage provided by CLLAS currently and historically;
- The data collected by CLLAS regarding the underlying exposures; and
- The claims reported as of December 31, 2008 (the "Valuation Date")

The coverage provided by the program was described in Section I and Table 1.0 of this report.

The statistical information reviewed and analyzed for this report includes all claims reported at a ground-up level since the inception of the CLLAS program in 1987. Since inception, 1,297 claims have been reported on account of different treaty years with a total reported incurred ground-up value of \$252MM as shown in Exhibit 1.

### PROCESS

This claims information at the aggregate level by treaty year was used to estimate the ultimate losses for each of those years using a standard actuarial chain-ladder methodology on reported incurred and cumulative paid experience. The projection of ultimate losses is made in Exhibit 1. A summary of the historical claims experience by treaty year at different levels of claims maturity is also included in Exhibit 4 through 6 of this report.

The estimated ultimate losses for each historical treaty year include the following components:

- Cumulative paid losses and loss adjustment expenses recorded up to the Valuation Date ("Cumulative Paid Losses")
- Current case reserves for indemnities and loss adjustment expenses recorded at the Valuation Date ("Current Case Reserves")
- An estimated actuarial provision ("Actuarial Provision") to cover the cost of adverse development on reported but unsettled claims, the costs associated with the re-opening of closed claims and the expected costs of late reported claims not yet recorded by the Valuation Date.

In this review the Actuarial Provision is established on a nominal value basis without consideration for prospective investment income likely to be generated between the Valuation Date and the settlement date of claims and without consideration for the internal unallocated claims administration expenses expected to be incurred by CLLAS to manage the settlement of claims. However, since the paid and incurred experience reported on each claim includes the cost of adjustment expenses incurred at the individual claim level, it does include a provision for the future allocated loss adjustment expenses incurred to settle individual claims.



Ultimate losses for the prospective treaty year were selected on a frequency and severity basis using indications derived from the ultimate historical losses. First the severity for each historical treaty year was adjusted to the level of the prospective treaty year at an 8% trend, compounded annually. The ultimate number of claims (non-zero) was similarly determined using a chain-ladder and trending approach. Because the indicated trend is negative, a trend of 0% was applied. Using the historical indications, as shown in Exhibit 1, the claim frequency and claim severity were selected to project the total expected losses for the prospective treaty year starting July 1<sup>st</sup>, 2009.

To determine the size-of-loss distribution, the underlying age-to-ultimate development factors applicable to each historical treaty year were applied to each open reported claim to develop them to their ultimate value and each claim was trended to its expected value as at January 1<sup>st</sup>, 2010, which represents the middle of the prospective treaty year.

Using the last 15 years of trended and developed claims data prior to 2008 (omitted for credibility reasons) the empirical aggregate size-of-loss distribution was derived.

The same claims data was also used to fit a theoretical distribution to the data. Careful attention was paid to the fit in the “tail” of the distribution where extreme and infrequent losses lie. The Inverse Gaussian distribution was ultimately selected for its more conservative fit of larger losses.

Since claim data is abundant in lower layers, and increasingly sparse in higher layers, a credibility blend of the empirical and theoretical distributions was used. With 100% credibility given to the empirical distribution in the lowest layers and increasing credibility given to the theoretical distribution as data becomes thin in the higher layers. The resulting Selected Cumulative Distribution is found in Exhibit 2 – Sheet 1.

Using the Selected Cumulative Distribution, the total expected losses for the prospective treaty year are split by CLLAS insured layer, those losses are then divided by the number of earned lawyers to determine the loss cost per lawyer.

## RESULTS

As shown in Exhibit 1, the estimated aggregate ground-up experience over the last 5 treaty years is as follows:

**Table 2.0**  
**Estimated Ground-up Ultimate and Trended Losses per Treaty Year since 2004<sup>(1)</sup>**

Treaty Inception Year	Underlying Insured Lawyers	Reported Incurred Losses at 12/31/2008 (\$000's)	Estimated Ultimate and Trended Losses (\$000's)	Estimated Ultimate Claims	Estimated Ultimate and Trended Loss Cost per Lawyer
2004	4,743	\$8,620	\$15,906	47	\$3,353
2005	4,770	\$5,998	\$13,346	42	\$2,798
2006	4,772	\$7,999	\$20,337	52	\$4,262
2007	4,784	\$2,523	\$13,120	44	\$2,743
2008	2,393	\$393	\$4,317	16	\$1,804
2009	4,785	-	\$31,800	53	\$6,646

**Data Source:** Exhibit 1 – Columns [2], [3], [11], [14]

*(1) 2008 is as of 6 months*

The estimated ultimate frequency of claims in the prospective treaty year is equivalent to 1.11% of the lawyers insured resulting in 53 projected claims with an average estimated ultimate claim severity of \$600,000. The total estimated ultimate losses are therefore \$31,800,000.

As shown in Exhibit 2 – Sheet 1, the empirical, theoretical and selected segmentation of aggregate losses is as follows:

**Table 2.1**  
**Segmentation of aggregate ground-up losses by individual limit per claim**

Limit of individual claims	Empirical Cumulative % of Historical Losses at the Limit or Below	Theoretical Cumulative % of Losses at the Limit or Below <sup>(1)</sup>	Selected Cumulative % of Losses at the Limit or Below <sup>(2)</sup>
\$ 1,000,000	27.61%	27.77%	28.33%
\$ 5,000,000	51.66%	54.86%	53.68%
\$12,500,000	67.83%	73.70%	71.04%
\$25,000,000	81.14%	86.52%	84.32%
\$35,000,000	89.29%	91.42%	90.12%
\$50,000,000	97.40%	95.33%	95.15%

**Data Source:** Exhibit 2 – Sheet 1, Columns [4], [9] and [11]

*(1) The theoretical loss distribution is the Inverse Gaussian distribution fitted to the observed historical values*

*(2) The selected loss distribution is based on the selected credibility weighting of the empirical and the theoretical distribution*

As shown in Exhibit 2 – Sheet 2, the estimated prospective and current year aggregate losses are split by coverage layer using the selected distribution as follows:

**Table 2.2**  
**Estimated Loss Cost per Lawyer for current and prospective treaty year**  
**Lawyers practicing in provinces other than Québec (not applicable to Québec lawyers)**

<b>Ground-up losses and loss costs by CLLAS layers</b>	<b>Prior Estimate of Undiscounted Loss Cost for Treaty Year Starting 07/01/2008</b>	<b>Prospective Estimate of Undiscounted Loss Cost of Treaty Year Starting 07/01/2009</b>	<b>Prospective Estimate of Discounted Loss Cost of Treaty Year Starting 07/01/2009 <sup>(1)</sup></b>
Ultimate ground-up losses	\$30,250,000	\$31,800,000	
Ground-up loss cost per lawyer	\$6,235	\$6,646	\$5,871
First \$25,000	\$181	\$184	\$162
\$ .975MM XS \$ .025MM	\$1,643	\$1,699	\$1,501
\$4MM XS \$1MM	\$1,597	\$1,685	\$1,488
\$7.5MM XS \$5MM <sup>(2)</sup>	\$1,154	\$1,153	\$1,019
\$12.5MM XS \$12.5MM <sup>(2)</sup>	\$799	\$883	\$780
\$10MM XS \$25MM <sup>(2)</sup>	\$393	\$385	\$340
\$20MM XS \$140MM (Optional CLLAS coverage)	\$3	\$7	\$6
\$10/20/30MM XS \$160MM (Optional CLLAS coverage)	\$2	\$5	\$4
\$30 XS Minimum \$50MM (Umbrella)	\$8	\$13	\$12
Total cost of layers above \$1MM	\$3,955	\$4,131	\$3,649
Annual increase in the total cost of layers above \$1MM		+4.5%	
Total cost of layers above \$5MM	\$2,358	\$2,446	\$2,161
Annual increase in the total cost of layers above \$5MM		+3.7%	

(1) The estimated discounted loss costs for the prospective treaty year period assume an average discount rate of 3% compounded annually applied to the expected claims payment pattern shown in Exhibit 5

(2) Corresponding layers for lawyers practicing in Québec shown in Table 2.3

As noted in Table 1.0, Québec lawyers are subject to a \$10,000,000 deductible, which is therefore the attachment point for the layers noted in Table 2.2 above. Québec lawyers account for 18% (852 insured lawyers) of CLLAS' estimated exposure for the treaty year beginning July 1, 2009.

Loss costs per lawyer for lawyers practicing in Québec for the current treaty year ending June 30<sup>th</sup>, 2009 and the prospective treaty year starting July 1<sup>st</sup>, 2009 are shown below per Exhibit 2 – Sheet 3:

**Table 2.3**  
**Estimated Loss Cost per Lawyer for current and prospective treaty year**  
**Lawyers practicing in Québec**

<b>Ground-up losses and loss costs by CLLAS layers</b>	<b>Prior Estimate of Undiscounted Loss Cost for Treaty Year Starting 07/01/2008</b>	<b>Prospective Estimate of Undiscounted Loss Cost of Treaty Year Starting 07/01/2009</b>	<b>Prospective Estimate of Discounted Loss Cost of Treaty Year Starting 07/01/2009 <sup>(1)</sup></b>
\$7.5MM XS \$10MM	\$662	\$723	\$639
\$12.5MM XS \$17.5MM	\$624	\$662	\$585
\$10MM XS \$30MM	\$326	\$314	\$277

(1) The estimated discounted loss costs for the prospective treaty year period assume an average discount rate of 3% compounded annually applied to the expected claims payment pattern shown in Exhibit 5

The estimated loss costs shown in Tables 2.2 and 2.3 reflect purely the expected ultimate cost per lawyer to cover the nominal and discounted value of losses and loss adjustment expenses (excluding internal CLLAS loss adjustment expenses).

For the purpose of determining the ultimate rate to charge to each insured lawyer, the estimated loss costs would require additional margins to reflect operating expenses, investment income, cost of capital and taxes.

## **OBSERVATIONS**

As per Table 2.2, the total estimated loss costs (excess of \$1MM) have increased by approximately 4.5% between treaty year starting in 2008 and 2009. This increase reflects the experience of the period beginning January 1, 2008 and ending December 31, 2008 as well as the assumed trend in claims severity of 8%. The smaller increase in estimated loss costs of 4.5% is driven by favourable emergence of claims as illustrated in Exhibit 3. The expected increase in incurred claims during the 2008 calendar year on prior years was \$16.3 million. The actual experience was \$5.2 million which represents a difference (improvement) of \$11.1 million or 4.5% of the value of reported incurred losses of \$246.6 million as of January 1, 2008.

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**EXHIBITS**

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**Canadian Lawyers Liability Assurance Society**  
**Summary of Estimated Ground-Up Ultimate Losses**

Exhibit 1

Treaty Year <sup>(4)</sup>	Exposed Lawyers	Reported Incurred Losses	Age to Ultimate LDF	Estimated (1) Ultimate Losses	Cumulative Paid Losses	Age to Ultimate LDF	Estimated <sup>(1)</sup> Ultimate Losses	Selected <sup>(2)</sup> Ultimate Losses	Trend	Ultimate and Trended Losses	Reported Incurred Non-Zero Claims	Age to Ultimate LDF	Estimated Ultimate Claims	Estimated Ultimate Claims Frequency	Estimated Ultimate Claims Severity
[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]	[13]	[14]	[15]	[16]
1987	1,479	\$255,751	1.000	\$255,751	\$255,751	1.000	\$255,751	\$255,751	5.437	\$1,390,402	24	1.000	24	0.0162	\$57,933
1988	1,807	\$1,673,300	1.000	\$1,673,300	\$1,673,300	1.000	\$1,673,300	\$1,673,300	5.034	\$8,423,115	37	1.000	37	0.0205	\$227,652
1989	2,078	\$2,655,706	1.000	\$2,655,706	\$2,655,706	1.000	\$2,655,706	\$2,655,706	4.661	\$12,378,130	62	1.000	62	0.0298	\$199,647
1990	2,352	\$6,059,360	1.000	\$6,059,360	\$6,059,360	1.000	\$6,059,360	\$6,059,360	4.316	\$26,150,387	86	1.000	86	0.0366	\$304,074
1991	2,400	\$14,328,492	1.000	\$14,328,492	\$14,328,492	1.000	\$14,328,492	\$14,328,492	3.996	\$57,256,932	91	1.000	91	0.0379	\$629,197
1992	2,433	\$5,491,955	1.000	\$5,491,955	\$5,491,955	1.000	\$5,491,955	\$5,491,955	3.700	\$20,320,331	99	1.000	99	0.0407	\$205,256
1993	2,507	\$38,061,289	1.000	\$38,061,289	\$37,347,250	1.000	\$37,347,250	\$38,061,289	3.426	\$130,395,794	131	1.000	131	0.0523	\$995,388
1994	2,514	\$17,620,456	1.000	\$17,620,456	\$17,348,113	1.000	\$17,348,113	\$17,620,456	3.172	\$55,895,068	88	1.000	88	0.0350	\$635,171
1995	2,525	\$10,202,417	1.000	\$10,202,417	\$10,095,481	1.000	\$10,099,695	\$10,202,417	2.937	\$29,966,475	53	1.000	53	0.0210	\$565,405
1996	2,594	\$1,936,471	1.002	\$1,939,802	\$1,936,471	1.007	\$1,949,242	\$1,944,522	2.720	\$5,288,369	52	1.000	52	0.0200	\$101,699
1997	2,640	\$4,378,140	1.005	\$4,399,959	\$4,145,058	1.012	\$4,195,292	\$4,378,140	2.518	\$11,024,901	49	1.000	49	0.0186	\$224,998
1998	2,838	\$26,117,265	1.011	\$26,412,778	\$25,059,847	1.019	\$25,544,636	\$26,117,265	2.332	\$60,896,034	55	1.000	55	0.0194	\$1,107,201
1999	3,229	\$13,361,826	1.022	\$13,658,376	\$13,108,365	1.031	\$13,518,161	\$13,588,269	2.159	\$29,336,053	41	1.000	41	0.0127	\$715,513
2000	4,008	\$6,872,674	1.043	\$7,167,461	\$4,096,401	1.058	\$4,334,085	\$6,872,674	1.999	\$13,738,507	44	1.000	44	0.0110	\$312,239
2001	4,242	\$28,973,685	1.062	\$30,775,900	\$24,670,636	1.095	\$27,004,222	\$28,973,685	1.851	\$53,628,268	54	1.000	54	0.0127	\$993,116
2002	4,523	\$13,385,110	1.119	\$14,982,323	\$6,654,387	1.218	\$8,104,631	\$13,385,110	1.714	\$22,939,726	62	1.000	62	0.0137	\$369,996
2003	4,719	\$35,258,056	1.230	\$37,170,974	\$30,806,582	1.347	\$33,191,131	\$35,258,056	1.587	\$55,950,103	64	1.000	64	0.0136	\$874,220
2004	4,743	\$8,619,872	1.424	\$12,277,060	\$4,057,042	1.595	\$6,469,221	\$10,825,100	1.469	\$15,905,624	47	1.000	47	0.0099	\$338,418
2005	4,770	\$5,998,325	1.739	\$10,432,746	\$2,855,632	2.781	\$7,941,580	\$9,809,955	1.360	\$13,346,335	42	0.990	42	0.0087	\$321,048
2006	4,772	\$7,998,945	2.374	\$18,991,981	\$986,269	7.706	\$7,600,426	\$16,144,092	1.260	\$20,336,906	54	0.970	52	0.0110	\$388,344
2007	4,784	\$2,523,046	4.078	\$10,289,006	\$480,089	29.427	\$14,127,759	\$11,248,694	1.166	\$13,120,477	48	0.909	44	0.0091	\$300,723
2008	2,393	\$392,987	8.623	\$3,388,892	\$6,686	870.534	\$5,820,388	\$3,996,766	1.080	\$4,316,507	14	1.163	16	0.0068	\$265,219
Total	70,348	\$252,165,127		\$288,235,986	\$214,118,875		\$255,060,397	\$278,891,053		\$662,004,444	1,297		1,293	0.0184	\$512,053
Average All <sup>(3)</sup>										\$31,318,473			61	0.0214	\$515,200
Average Last 15 <sup>(3)</sup>										\$35,451,243			59	0.0131	\$605,956
Average Last 10 <sup>(3)</sup>										\$29,919,803			50	0.0122	\$592,977
Average Last 5 <sup>(3)</sup>										\$23,731,889			50	0.0105	\$477,370
2009	4,785									\$31,800,000			53	0.0111	\$600,000

**Data Source:**

Claims emergence history summarized from the recorded individual value of claims reported as at December 31st, 2008 - See Sheet 6 to 8 of this exhibit

**Notes:**

- (1) Data adjustments for chain ladder projections for treaty year 2004 (Hollinger claim value):
- |              |              |
|--------------|--------------|
| Included     | Paid         |
| \$26,942,538 | \$23,942,538 |
- (2) Selection of ultimate losses based on the average of the incurred and paid chain-ladder methodology limited to a minimum value equivalent to the reported incurred losses at December 31st, 2008  
Except for Treaty Years 2004 and 2008 which uses 75% of incurred ultimate and 25% of paid ultimate
- (3) Averages excluding the last year
- (4) Year of inception. Treaty years run from July 1, XX to June 30, XX+1. 2008 is a 6 months period

**Canadian Lawyers Liability Assurance Society**  
**Selected Cumulative Loss Distribution**  
**Treaty Year 2009/2010**

Exhibit 2

Sheet 1

Upper Value of the Ground-up Range	Cumulative <sup>(1)</sup> Recorded Losses Last 15	Cumulative Recorded Claims Last 15	Cumulative Claims Distribution	Cumulative Losses Below the Upper Range	Losses Recorded by range	Density of Losses by range	Cumulative Distribution of losses	Estimated <sup>(2)</sup> Distribution From Generalized Distribution	Selected Cumulative Distribution	Selected Density by Range
[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]
25,000	\$3,421,679	446	50.45%	\$14,371,679	\$14,371,679	2.66%	2.66%	3.19%	2.76%	2.76%
250,000	\$27,192,587	716	81.00%	\$69,192,587	\$54,820,908	10.14%	12.80%	13.69%	13.19%	10.43%
1,000,000	\$73,252,351	808	91.40%	\$149,252,351	\$80,059,764	14.81%	27.61%	27.77%	28.33%	15.14%
5,000,000	\$194,244,036	867	98.08%	\$279,244,036	\$129,991,684	24.05%	51.66%	54.86%	53.68%	25.35%
10,000,000	\$245,595,464	874	98.87%	\$345,595,464	\$66,351,429	12.27%	63.93%	69.13%	66.74%	13.05%
12,500,000	\$266,698,920	876	99.10%	\$366,698,920	\$21,103,456	3.90%	67.83%	73.70%	71.04%	4.30%
17,500,000	\$313,628,532	879	99.43%	\$401,128,532	\$34,429,612	6.37%	74.20%	80.27%	77.62%	6.58%
25,000,000	\$313,628,532	879	99.43%	\$438,628,532	\$37,500,000	6.94%	81.14%	86.52%	84.32%	6.70%
30,000,000	\$342,669,482	880	99.55%	\$462,669,482	\$24,040,949	4.45%	85.59%	89.31%	87.58%	3.25%
35,000,000	\$342,669,482	880	99.55%	\$482,669,482	\$20,000,000	3.70%	89.29%	91.42%	90.12%	2.54%
40,000,000	\$342,669,482	880	99.55%	\$502,669,482	\$20,000,000	3.70%	92.99%	93.04%	92.29%	2.18%
50,000,000	\$426,534,492	882	99.77%	\$526,534,492	\$23,865,011	4.41%	97.40%	95.33%	95.15%	2.86%
60,000,000	\$540,581,368	884	100.00%	\$540,581,368	\$14,046,876	2.60%	100.00%	96.79%	96.76%	1.60%
80,000,000	\$540,581,368	884	100.00%	\$540,581,368	\$0	0.00%	100.00%	98.41%	98.40%	1.64%
90,000,000	\$540,581,368	884	100.00%	\$540,581,368	\$0	0.00%	100.00%	98.87%	98.85%	0.46%
100,000,000	\$540,581,368	884	100.00%	\$540,581,368	\$0	0.00%	100.00%	99.18%	99.17%	0.32%
110,000,000	\$540,581,368	884	100.00%	\$540,581,368	\$0	0.00%	100.00%	99.41%	99.40%	0.23%
120,000,000	\$540,581,368	884	100.00%	\$540,581,368	\$0	0.00%	100.00%	99.57%	99.56%	0.16%
130,000,000	\$540,581,368	884	100.00%	\$540,581,368	\$0	0.00%	100.00%	99.68%	99.68%	0.12%
140,000,000	\$540,581,368	884	100.00%	\$540,581,368	\$0	0.00%	100.00%	99.76%	99.76%	0.08%
150,000,000	\$540,581,368	884	100.00%	\$540,581,368	\$0	0.00%	100.00%	99.82%	99.82%	0.06%
160,000,000	\$540,581,368	884	100.00%	\$540,581,368	\$0	0.00%	100.00%	99.87%	99.87%	0.05%
170,000,000	\$540,581,368	884	100.00%	\$540,581,368	\$0	0.00%	100.00%	99.90%	99.90%	0.03%
180,000,000	\$540,581,368	884	100.00%	\$540,581,368	\$0	0.00%	100.00%	99.93%	99.93%	0.02%
190,000,000	\$540,581,368	884	100.00%	\$540,581,368	\$0	0.00%	100.00%	99.95%	99.94%	0.02%
210,000,000	\$540,581,368	884	100.00%	\$540,581,368	\$0	0.00%	100.00%	99.97%	99.97%	0.02%
220,000,000	\$540,581,368	884	100.00%	\$540,581,368	\$0	0.00%	100.00%	99.98%	99.98%	0.01%

**Notes:**

(1) Compiled from last 15 years (excluding 2008) individual claims reported at December 31<sup>st</sup>, 2008 developed to their ultimate value and trended to their estimated value at 01/01/2010

(2) Estimated from the Generalized Aggregate distribution assuming a Poisson distribution for the frequency of claims and an Inverse Gaussian Inferred distribution for the severity of claims

**Canadian Lawyers Liability Assurance Society**  
**Summary of Undiscounted Loss Costs by Layer of Coverage**  
**Lawyers Practicing in Provinces other than Québec**

Exhibit 2  
Sheet 2

<u>Range of Losses</u>	<u>Excess Layers</u>	<u>Lawyers Distribution</u>	<u>Treaty Year Ending 06/30/2009 Estimated (1) Undiscounted Ultimate Losses</u>	<u>Treaty Year Ending 06/30/2009 Estimated Undiscounted Loss Cost Per Lawyer</u>	<u>Prospective Treaty Year Ending 06/30/2010 Estimated Undiscounted Ultimate Losses</u>	<u>Prospective Treaty Year Ending 06/30/2010 Estimated Undiscounted Loss Cost Per Lawyer</u>
[1]	[2]	[3]	[4]	[5]	[6]	[7]
Up to \$25,000	\$.025M Excess \$0		\$880,082	\$181	\$878,549	\$184
From \$25,000 to \$1,000,000	\$.975M Excess \$.025M		\$7,970,417	\$1,643	\$8,131,660	\$1,699
From \$1,000,000 to \$5,000,000	\$4M Excess \$1M		\$7,748,388	<b>\$1,597</b>	\$8,060,897	<b>\$1,685</b>
From \$5,000,000 to \$12,500,000	\$7.5M Excess \$5M		\$5,599,984	<b>\$1,154</b>	\$5,518,942	<b>\$1,153</b>
From \$12,500,000 to \$25,000,000	\$12.5M Excess \$12.5M		\$3,875,996	<b>\$799</b>	\$4,224,523	<b>\$883</b>
From \$25,000,000 to \$35,000,000	\$10M Excess \$25M		\$1,905,008	<b>\$393</b>	\$1,842,721	<b>\$385</b>
Sub-Total				<b>\$3,943</b>		<b>\$4,106</b>
	\$30M Excess \$50M	0.0%	\$642,728		\$1,031,854	
	\$30M Excess \$60M	4.2%	\$440,740		\$667,099	
	\$30M Excess \$80M	5.6%	\$174,279		\$318,676	
	\$30M Excess \$120M	3.6%			\$83,370	
	\$30M Excess \$160M	28.4%	\$10,701		\$24,240	
	\$30M Excess \$180M	13.0%	\$5,615		\$13,407	
	\$30M Excess \$190M	45.2%			\$10,019	
	Excess Umbrella	100.0%	\$36,968	<b>\$8</b>	\$62,295	<b>\$13</b>
	\$20M Excess \$140M		\$15,948	<b>\$3</b>	\$33,931	<b>\$7</b>
	\$10M Excess \$160M	0.0%			\$10,584	
	\$20M Excess \$160M	22.9%	\$8,760		\$18,419	
	\$30M Excess \$160M	77.1%			\$24,240	
	\$10/\$20/\$30M Excess \$160M	100.0%	\$8,760	<b>\$2</b>	\$22,909	<b>\$5</b>
<b>Total CLLAS coverage above \$1M</b>				<b>\$3,955</b>		<b>\$4,131</b>
Total estimated ground-up ultimate losses for the treaty year:			\$30,250,000	\$6,235	\$31,800,000	\$6,646
Total estimated number of lawyers exposed:			4,852		4,785	
Total estimated ultimate losses above \$1M:			\$21,399,501		\$22,789,791	

Notes:

(1) Total estimate of ground-up ultimate losses obtained from Exhibit 1, Column [9]

**Canadian Lawyers Liability Assurance Society**  
**Summary of Undiscounted Loss Costs by Layer of Coverage**  
**Lawyers Practicing in Québec**

Exhibit 2  
Sheet 3

<u>Range of Losses</u>	<u>Excess Layers</u>	<u>Lawyers Distribution</u>	<u>Treaty Year Ending 06/30/2009 Estimated (1) Undiscounted Ultimate Losses</u>	<u>Treaty Year Ending 06/30/2009 Estimated Undiscounted Loss Cost Per Lawyer</u>	<u>Prospective Treaty Year Ending 06/30/2010 Estimated Undiscounted Ultimate Losses</u>	<u>Prospective Treaty Year Ending 06/30/2010 Estimated Undiscounted Loss Cost Per Lawyer</u>
[1]	[2]	[3]	[4]	[5]	[6]	[7]
From \$10,000,000 to \$17,500,000	\$7.5M Excess \$10M		\$3,212,438	\$662	\$3,460,041	\$723
From \$17,500,000 to \$30,000,000	\$12.5M Excess \$17.5M		\$3,027,705	\$624	\$3,166,514	\$662
From \$30,000,000 to \$40,000,000	\$10M Excess \$30M		\$1,581,269	\$326	\$1,500,442	\$314
Sub-Total				\$1,612		\$1,698
	\$30M Excess \$50M	0.0%	\$642,728		\$1,031,854	
	\$30M Excess \$60M	4.2%	\$440,740		\$667,099	
	\$30M Excess \$80M	5.6%	\$174,279		\$318,676	
	\$30M Excess \$120M	3.6%			\$83,370	
	\$30M Excess \$160M	28.4%	\$10,701		\$24,240	
	\$30M Excess \$180M	13.0%	\$5,615		\$13,407	
	\$30M Excess \$190M	45.2%			\$10,019	
	Excess Umbrella	100.0%	\$36,968	\$8	\$62,295	\$13
	\$20M Excess \$140M		\$15,948	\$3	\$33,931	\$7
	\$10M Excess \$160M	0.0%			\$10,584	
	\$20M Excess \$160M	22.9%	\$8,211		\$18,419	
	\$30M Excess \$160M	77.1%			\$24,240	
	\$10/\$20/\$30M Excess \$160M	100.0%	\$8,211	\$2	\$22,909	\$5
<b>Total CLLAS coverage above \$10M</b>				<b>\$1,625</b>		<b>\$1,723</b>
Total estimated ground-up ultimate losses for the treaty year:			\$30,250,000	\$6,235	\$31,800,000	\$6,646
Total estimated number of lawyers exposed:			4,852		4,785	
Total estimated ultimate losses above \$10M:			\$9,391,967		\$10,577,452	

Notes:

(1) Total estimate of ground-up ultimate losses obtained from Exhibit 1, Column [9]

**Canadian Lawyers Liability Assurance Society**  
**Comparison of Actual Development During 2008 to Expected Development During 2008**

Exhibit 3

<u>Treaty Year</u> [1]	<u>Actual Incurred Losses 12/07</u> [2]	<u>Age to Age LDF</u> [3]	<u>Expected Incurred Losses 12/08</u> [4]	<u>Actual Incurred Losses 12/08</u> [5]	<u>Actual Less Expected</u> [6]	<u>Cumulative Paid Losses 12/07</u> [7]	<u>Age to Age LDF</u> [8]	<u>Expected Paid Losses 12/08</u> [9]	<u>Actual Paid Losses 12/08</u> [10]	<u>Actual Less Expected</u> [11]
1987	\$ 255,751	1.000	\$ 255,751	\$ 255,751	\$ -	\$ 255,751	1.000	\$ 255,751	\$ 255,751	\$ -
1988	\$ 1,673,300	1.000	\$ 1,673,300	\$ 1,673,300	\$ -	\$ 1,673,300	1.000	\$ 1,673,300	\$ 1,673,300	\$ -
1989	\$ 2,655,706	1.000	\$ 2,655,706	\$ 2,655,706	\$ -	\$ 2,655,706	1.000	\$ 2,655,706	\$ 2,655,706	\$ -
1990	\$ 6,059,360	1.000	\$ 6,059,360	\$ 6,059,360	\$ -	\$ 6,059,360	1.000	\$ 6,059,360	\$ 6,059,360	\$ -
1991	\$ 14,328,492	1.000	\$ 14,328,492	\$ 14,328,492	\$ -	\$ 14,328,492	1.000	\$ 14,328,492	\$ 14,328,492	\$ -
1992	\$ 5,491,955	1.000	\$ 5,491,955	\$ 5,491,955	\$ -	\$ 5,491,955	1.000	\$ 5,491,955	\$ 5,491,955	\$ -
1993	\$ 38,061,170	1.000	\$ 38,061,170	\$ 38,061,289	\$ 119	\$ 37,347,131	1.000	\$ 37,347,131	\$ 37,347,250	\$ 119
1994	\$ 17,620,456	1.000	\$ 17,620,456	\$ 17,620,456	\$ -	\$ 17,348,113	1.000	\$ 17,348,113	\$ 17,348,113	\$ -
1995	\$ 10,262,417	1.000	\$ 10,262,417	\$ 10,202,417	\$ (60,000)	\$ 10,095,481	1.005	\$ 10,145,959	\$ 10,095,481	\$ (50,477)
1996	\$ 1,936,471	1.000	\$ 1,936,471	\$ 1,936,471	\$ -	\$ 1,936,471	1.010	\$ 1,955,836	\$ 1,936,471	\$ (19,365)
1997	\$ 4,434,949	1.000	\$ 4,434,949	\$ 4,378,140	\$ (56,809)	\$ 4,017,867	1.025	\$ 4,118,314	\$ 4,145,058	\$ 26,744
1998	\$ 26,126,333	1.000	\$ 26,126,333	\$ 26,117,265	\$ (9,068)	\$ 25,049,099	1.035	\$ 25,925,817	\$ 25,059,847	\$ (865,970)
1999	\$ 13,145,634	1.001	\$ 13,158,780	\$ 13,361,826	\$ 203,046	\$ 10,823,321	1.040	\$ 11,256,254	\$ 13,108,365	\$ 1,852,111
2000	\$ 6,887,787	1.010	\$ 6,956,665	\$ 6,872,674	\$ (83,991)	\$ 3,893,533	1.050	\$ 4,088,210	\$ 4,096,401	\$ 8,191
2001	\$ 28,975,873	1.040	\$ 30,134,908	\$ 28,973,685	\$ (1,161,223)	\$ 24,657,522	1.100	\$ 27,123,274	\$ 24,670,636	\$ (2,452,638)
2002	\$ 13,526,432	1.070	\$ 14,473,282	\$ 13,385,110	\$ (1,088,173)	\$ 5,091,576	1.200	\$ 6,109,891	\$ 6,654,387	\$ 544,496
2003	\$ 34,324,588	1.150	\$ 35,580,831	\$ 35,258,056	\$ (322,775)	\$ 28,682,665	1.400	\$ 29,775,877	\$ 30,806,582	\$ 1,030,705
2004	\$ 8,749,381	1.300	\$ 11,374,195	\$ 8,619,872	\$ (2,754,323)	\$ 3,950,665	1.500	\$ 5,925,997	\$ 4,057,042	\$ (1,868,955)
2005	\$ 4,690,404	1.450	\$ 6,801,086	\$ 5,998,325	\$ (802,762)	\$ 1,189,778	2.000	\$ 2,379,557	\$ 2,855,632	\$ 476,075
2006	\$ 6,155,953	1.700	\$ 10,465,120	\$ 7,998,945	\$ (2,466,175)	\$ 325,820	6.000	\$ 1,954,920	\$ 986,269	\$ (968,651)
2007	\$ 1,265,000	4.000	\$ 5,060,000	\$ 2,523,046	\$ (2,536,954)	\$ 117,432	15.000	\$ 1,761,480	\$ 480,089	\$ (1,281,391)
	\$ 246,627,413		\$ 262,911,228	\$ 251,772,140	\$ (11,139,088)	\$ 204,991,039		\$ 217,681,194	\$ 214,112,189	\$ (3,569,005)

[2] From December 31, 2007 analysis  
[3] From December 31, 2007 analysis  
[4] =[2] x [3], 2004 Adjusted for Hollinger Claim  
[5] From Exhibit 1, Column [3]  
[6] =[5] - [4]

[7] From December 31, 2007 analysis  
[8] From December 31, 2007 analysis  
[9] =[7] x [8]  
[10] From Exhibit 1, Column [6]  
[11] =[10] - [9]



		Age-to-Age Factors																					
Policy Period		6 - 18	18 - 30	30 - 42	42 - 54	54 - 66	66 - 78	78 - 90	90 - 102	102 - 114	114 - 126	126 - 138	138 - 150	150 - 162	162 - 174	174 - 186	186 - 198	198 - 210	210 - 222	222 - 234	234 - 246	246 - 258	To Ult
1987-2									1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1988-1								1.035	0.987	1.000	0.846	0.710	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1988-2								0.998	1.000	1.000	1.000	0.892	1.000	1.125	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1989-1							0.928	1.000	0.911	0.935	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1989-2							1.136	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1990-1						1.084	1.009	0.977	0.995	1.004	1.000	1.000	1.092	0.974	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1990-2						0.989	1.124	1.777	1.297	1.031	1.000	1.000	0.984	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1991-1					0.985	0.785	0.298	0.879	1.294	0.990	1.016	1.006	0.801	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1991-2					1.018	2.513	0.749	1.116	1.021	1.000	0.941	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1992-1				1.297	0.933	1.006	1.052	0.870	0.998	0.976	0.973	0.997	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1992-2				0.785	1.029	0.919	1.679	1.126	1.047	0.988	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1993-1			0.815	0.858	1.466	1.085	1.039	1.002	0.978	0.947	0.996	0.982	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1993-2			1.016	8.598	1.076	1.001	1.165	1.350	0.994	0.998	1.000	1.043	1.000	0.962	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1994-1		2.376	1.330	0.813	0.973	1.039	1.050	1.002	0.997	0.922	1.073	1.000	0.949	0.773	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1994-2		1.946	1.583	1.454	1.012	1.091	0.978	0.874	1.000	1.000	0.993	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1995-1		1.906	3.959	1.226	1.035	0.967	1.001	0.978	0.999	1.000	1.031	1.005	1.000	0.994	0.993	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1995-2		1.651	1.527	1.016	1.050	1.333	1.042	0.999	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1996-1		2.216	0.879	0.864	0.925	1.201	1.232	0.979	0.738	0.973	1.013	1.032	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1996-2		0.920	1.018	0.606	0.904	1.002	0.543	1.051	1.029	1.172	1.000	0.865	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1997-1		1.297	1.681	1.057	0.693	1.083	0.920	1.037	1.018	0.922	0.959	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1997-2		3.867	0.690	0.815	6.752	1.196	1.015	0.819	1.074	0.827	0.942	1.003	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1998-1		0.374	0.954	8.365	0.800	1.000	1.011	1.002	1.000	1.043	1.001	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1998-2		0.523	1.294	65.866	1.155	0.974	1.011	0.997	0.994	1.018	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1999-1		2.352	1.191	0.911	0.995	0.971	0.722	0.721	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1999-2		3.763	1.570	1.043	0.970	4.120	0.968	1.192	0.999	1.021	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
2000-1		1.144	1.637	1.128	1.256	0.955	1.025	0.891	0.999	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
2000-2		5.251	1.320	0.868	1.034	0.964	1.135	1.009	0.998	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
2001-1		1.686	1.221	1.281	0.955	0.966	0.993	1.134	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
2001-2		2.189	2.046	1.202	1.817	0.994	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
2002-1		3.906	1.006	1.135	1.349	0.934	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
2002-2		1.548	1.556	1.070	1.010	0.968	0.883	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
2003-1		1.297	1.011	1.801	1.563	1.126	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
2003-2		2.396	1.350	0.964	1.009	0.990	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
2004-1		9.710	10.168	1.045	0.996	0.974	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
2004-2		1.200	1.277	0.996	0.974	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
2005-1		1.007	0.847	1.074	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
2005-2		0.982	0.770	1.524	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
2006-1		1.006	1.609	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
2006-2		1.577	1.100	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
2007-1		2.835	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
2007-2		1.189	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
2008-1		1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
2008-2		1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	

Averages

		6 - 18	18 - 30	30 - 42	42 - 54	54 - 66	66 - 78	78 - 90	90 - 102	102 - 114	114 - 126	126 - 138	138 - 150	150 - 162	162 - 174	174 - 186	186 - 198	198 - 210	210 - 222	222 - 234	234 - 246	246 - 258	To Ult
Simple Avg																							
All Yrs		2.218	1.658	3.916	1.276	1.188	0.990	1.029	1.014	0.991	0.991	0.978	0.991	0.989	1.000	1.000	1.003	1.000	1.000	1.000	1.000	1.000	1.000
Latest 5		1.518	1.120	1.120	1.110	1.002	1.002	1.045	0.998	0.982	0.980	0.980	1.000	0.944	1.000	1.000	1.008	1.000	1.000	1.000	1.000	1.000	1.000
Latest 10		2.320	2.069	1.209	1.196	1.299	0.975	0.980	0.985	0.997	1.001	0.993	0.995	0.972	1.000	1.000	1.004	1.000	1.000	1.000	1.000	1.000	1.000
Medial Avg																							
All Yrs x1		2.001	1.368	1.661	1.088	1.090	0.990	1.012	1.013	0.990	0.994	0.989	0.996	0.995	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Latest 5x1		1.257	1.074	1.038	1.005	0.984	0.998	1.048	0.999	1.013	0.986	1.001	1.000	0.983	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Latest 10x1		1.563	1.219	1.166	1.149	0.992	0.986	0.986	1.005	0.997	1.000	1.003	1.000	0.994	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Volume Wid																							
All Yrs		1.687	1.652	1.447	1.129	1.092	1.008	1.061	1.004	0.996	0.997	1.013	0.997	0.975	1.000	1.000	1.009	1.000	1.000	1.000	1.000	1.000	1.000
Latest 5		1.332	1.049	1.061	1.074	1.013	1.002	1.047	0.996	1.006	0.993	1.002	1.000	0.962	1.000	1.000	1.011	1.000	1.000	1.000	1.000	1.000	1.000
Latest 10		1.413	1.851	1.137	1.216	1.116	0.992	1.010	0.987	1.001	1.006	1.020	0.997	0.971	1.000	1.000	1.009	1.000	1.000	1.000	1.000	1.000	1.000

### Ground Up Paid Losses (in '000s)

[illegible]



### Age-to-Age Factors

[illegible]

## Averages

	6-18	18-30	30-42	42-54	54-66	66-78	78-90	90-102	102-114	114-126	126-138	138-150	150-162	162-174	174-186	186-198	198-210	210-222	222-234	234-246	246-258	To Uln
Simple Avg																						
All Yrs	74.329	4.368	6.429	1.627	1.264	1.422	1.406	1.047	1.126	1.053	1.036	1.001	1.048	1.000	1.000	1.003	1.000	1.000	1.000	1.000	1.000	1.000
Latest 5	66.119	2.915	1.573	1.135	1.786	1.046	2.750	1.011	1.123	1.047	1.142	1.000	1.129	1.000	1.000	1.008	1.000	1.000	1.000	1.000	1.000	1.000
Latest 10	156.643	7.274	1.838	1.335	1.500	1.039	1.889	1.030	1.090	1.027	1.075	1.001	1.065	1.000	1.000	1.004	1.000	1.000	1.000	1.000	1.000	1.000
Medial Avg																						
All Yrs x1	54.344	2.728	3.751	1.446	1.211	1.168	1.104	1.030	1.098	1.037	1.004	1.001	1.012	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Latest 5x1	8.393	1.547	1.083	1.147	1.667	1.024	1.023	1.004	1.092	1.014	1.016	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Latest 10x1	112.206	2.660	1.560	1.128	1.388	1.029	1.026	1.028	1.070	1.009	1.010	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Volume Wtd																						
All Yrs	9.623	4.537	1.789	1.339	1.234	1.128	1.084	1.036	1.057	1.038	1.009	1.004	1.174	1.000	1.000	1.009	1.000	1.000	1.000	1.000	1.000	1.000
Latest 5	5.018	2.791	1.062	1.033	2.146	1.027	1.243	1.006	1.075	1.014	1.015	1.000	1.276	1.000	1.000	1.011	1.000	1.000	1.000	1.000	1.000	1.000
Latest 10	8.934	7.251	1.216	1.086	1.810	1.018	1.125	1.015	1.051	1.009	1.014	1.005	1.195	1.000	1.000	1.009	1.000	1.000	1.000	1.000	1.000	1.000

### Development Factor Selection

[illegible]

### Non-Zero Incurred Claim Count

Policy Period	6	18	30	42	54	66	78	90	102	114	126	138	150	162	174	186	198	210	222	234	246	258
1987-2								13	13	13	13	13	13	13	13	13	13	13	13	13	13	13
1988-1							12	12	12	12	11	11	11	11	11	11	11	11	11	11	11	11
1988-2							5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
1989-1						34	32	32	32	32	32	32	32	32	32	32	32	32	32	32	32	32
1989-2						15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
1990-1					44	46	46	46	46	46	46	46	47	47	47	47	47	47	47	47	47	47
1990-2					33	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33
1991-1				56	56	54	54	53	53	53	53	53	53	53	53	53	53	53	53	53	53	53
1991-2				40	40	39	39	39	39	39	39	39	39	39	39	39	39	39	39	39	39	39
1992-1			54	51	51	52	51	51	51	51	51	51	51	51	51	51	51	52				
1992-2			35	35	35	36	36	36	36	36	36	36	36	36	36	36	36	36				
1993-1		67	66	64	63	63	63	63	63	63	63	63	63	63	63	63	63	63				
1993-2		58	58	59	58	57	57	57	57	57	57	58	58	58	58	58	58	58				
1994-1	42	75	74	74	74	73	73	73	73	73	73	73	73	73	73	73	73					
1994-2	47	61	61	60	59	59	59	59	59	59	59	59	59	59	59	59	59					
1995-1	43	43	35	32	31	29	29	29	29	29	29	29	29	29	29	29	29					
1995-2	16	26	23	22	22	22	22	22	22	22	22	22	22	22	22	22	22					
1996-1	36	37	32	32	31	31	31	31	31	31	31	31	31	31	31	31	31					
1996-2	28	25	22	18	18	18	17	17	17	17	17	17	17	17	17	17	17					
1997-1	37	32	33	29	37	38	35	35	35	35	35	35	35	35	35	35	35					
1997-2	13	14	10	9	23	23	23	23	23	23	23	23	23	23	23	23	23					
1998-1	23	18	20	28	26	26	26	26	26	26	26	26	26	26	26	26	26					
1998-2	12	14	13	27	27	27	27	27	26	26	26	26	26	26	26	26	26					
1999-1	7	30	32	30	29	29	29	29	29	29	29	29	29	29	29	29	29					
1999-2	22	26	24	21	20	19	19	19	19	19	19	19	19	19	19	19	19					
2000-1	27	26	25	23	24	22	22	22	22	22	22	22	22	22	22	22	22					
2000-2	22	15	13	13	13	13	14	15	15	15	15	15	15	15	15	15	15					
2001-1	24	32	32	32	32	29	29	29	29	29	29	29	29	29	29	29	29					
2001-2	31	28	23	22	22	21	21	21	21	21	21	21	21	21	21	21	21					
2002-1	57	47	40	35	33	33	33	33	33	33	33	33	33	33	33	33	33					
2002-2	52	36	33	31	31	31	31	31	31	31	31	31	31	31	31	31	31					
2003-1	42	41	32	29	31	31	31	31	31	31	31	31	31	31	31	31	31					
2003-2	12	35	31	32	30	30	30	30	30	30	30	30	30	30	30	30	30					
2004-1	18	35	36	36	34	34	34	34	34	34	34	34	34	34	34	34	34					
2004-2	12	27	23	24	24	24	24	24	24	24	24	24	24	24	24	24	24					
2005-1	32	33	26	23	23	23	23	23	23	23	23	23	23	23	23	23	23					
2005-2	22	23	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20					
2006-1	46	26	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23					
2006-2	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24					
2007-1	27	32	32	32	32	32	32	32	32	32	32	32	32	32	32	32	32					
2007-2	11	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15					
2008-1	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12					
2008-2	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14					



June 9, 2009

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

Dear Nick,

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

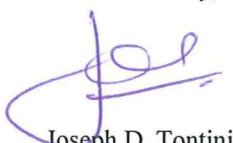
In the past, we had established with CLLAS a minimum reinsurance security rating standard of no less than A- as determined by AM Best and Standard & Poor's. Any deviation from such standard was referred to the CLLAS Advisory Board. For example, when Scor Re was downgraded to below A-, we provided CLLAS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

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

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

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

Yours sincerely,



Joseph D. Tontini  
Consultant



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Chairman  
Canadian Lawyers Liability Assurance Society  
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250 Yonge Street  
Toronto  
Ontario M5B 2L7  
Canada

5th June 2009

Dear Nick

**CLLAS Reinsurance Programme  
Renewal effective 1<sup>st</sup> July 2009**

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

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

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

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

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

Yours sincerely

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

Mark Popple  
Director – Professional Risks

Encl.

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

Reinsurer	Registered Status	A.M. Best					S&P				
		June 5, 2009			September 4, 2008 Rating	September 6, 2007 Rating	June 5, 2009			September 4, 2008 Rating	September 6, 2007 Rating
		Rating	Outlook Implication	Change from Last Rating			Rating	Outlook Implication	Change from Last Rating		
Lloyd's	Note 1	A (Excellent)	Stable	Unchanged	A (Excellent)	A (Excellent)	A+ (Strong)	Stable	Unchanged	A+ (Strong)	A+ (Strong)
Aspen Re	Note 2	A (Excellent)	Stable	Unchanged	A (Excellent)	A (Excellent)	A (Strong)	Stable	Unchanged	A (Strong)	A (Strong)
Hannover Ruck	Note 2	A (Excellent)	Positive	Unchanged	A (Excellent)	A (Excellent)	AA- (Very Strong)	Negative	Unchanged	AA- (Very Strong)	AA- (Very Strong)
Transatlantic Reinsurance Company (UK)	Note 2	A (Excellent)	Negative	Downgraded	A+ (Superior)	A+ (Superior)	A+ (Strong)	Stable	Downgraded	AA- (Very Strong)	AA- (Very Strong)
Arch Insurance Company (Canada Branch)	Registered	A (Excellent)	Stable	Unchanged	A (Excellent)	A (Excellent)	A (Strong)	Stable	Unchanged	A (Strong)	A (Strong)
Allied World Assurance Company Ltd.	Unregistered	A (Excellent)	Stable	Unchanged	A (Excellent)	A (Excellent)	A- (Strong)	Stable	Unchanged	A- (Strong)	A- (Strong)
CRC (Bermuda) Reinsurance Ltd.	Unregistered	A (Excellent)	Stable	Unchanged	A (Excellent)	A (Excellent)	Not Available	N/A	Unchanged	Not Available	Not Available
GCAN Insurance Company	Registered	A (Excellent)	Stable	Unchanged	A (Excellent)	A (Excellent)	BBB (Good)	Not Available	Unchanged	BBB (Good)	BBB (Good)
SCOR Canada Reinsurance Company	Registered	A- (Excellent)	Stable	Unchanged	A- (Excellent)	A- (Excellent)	A (Strong)	Stable	Upgraded	A- (Strong)	A- (Strong)
Swiss Reinsurance Company Ltd. (Canada Branch)	Registered	A (Excellent)	Stable	Downgraded	A+ (Superior)	A+ (Superior)	A+ (Strong)	Stable	Downgraded	AA- (Very Strong)	AA- (Very Strong)
Toa Reinsurance Company of America	Registered	A (Excellent)	Stable	Unchanged	A (Excellent)	A (Excellent)	A+ (Strong)	Stable	Unchanged	A+ (Strong)	A+ (Strong)
Transatlantic Reinsurance Company (Canada)	Registered	A (Excellent)	Negative	Downgraded	A+ (Superior)	A+ (Superior)	A+ (Strong)	Stable	Downgraded	AA- (Very Strong)	AA- (Very Strong)
Colchester Reinsurance Ltd.	Unregistered	Not Available	N/A	Unchanged	Not Available	Not Available	Not Available	N/A	Unchanged	Not Available	Not Available

Note 1: Lloyd's has long been "registered" in Canada but the new OSFI guidelines impose certain conditions that Lloyd's are required to meet in order to be considered as writing "in Canada risks".  
These conditions would be met with Alternative Risk Services Inc. acting as the Lloyd's open market intermediary.

Note 2: While all these companies are "registered" in Canada, we are in the process of determining if they meet the new OSFI guidelines for "in Canada risks".

# Canadian Lawyers Liability Assurance Society (CLLAS)

## Reinsurers' responses to questions regarding the impact of the current economic climate

CLLAS Questions		Reinsurer Responses			
		Beazley (Lloyd's Syndicate 623/2623)	Hannover Reinsurance Company	Transatlantic Reinsurance Company	Marketform (Lloyd's Syndicate 2468)
1	Have you (or any of your affiliates if applicable) had any exposure to sub-prime / ABCP or equivalent investments and what has been the current (or is expected future) impact on your company as a result. Have you seen any sub-prime / ABCP related (re)insurance losses (or similar)?	Group has limited exposure to sub-prime investments. For syndicate see Lloyd's.	Has incurred some sub-prime losses within D&O book but within anticipated losses for the class.	Asset backed fixed maturities represent 4% of investments.	Great American Insurance Group (which purchased 67% of Marketform in January 2008) has minimal exposure to sub-prime investments (USD 57million) out of USD 26 billion total assets as at 31st December 2008. For syndicate see Lloyd's.
2	What has been the financial impact of the current economic conditions on your company (or any of your affiliates if applicable)? Please address all key financial indicators including in particular, profitability, capitalization, liquidity, claims experience, surplus and loss reserves.	Difficult year but a creditable profit has been achieved. Group figures for 2008: 87.2m before tax (2007: 138.5m before tax). Investment returns have fallen due to credit crisis.	Company has sold down its equities portfolio freeing capital. Policyholders' surplus reduced 11.1% to EUR 4.708 bn. Total Assets increased to EUR 38,002 bn. Net investment income for 2008 reduced to EUR 278.5 million due to write-downs and losses realised on equities of EUR 640.9 million with operating profit for 2008 of EUR 148.1 million.	Potential concerns over AIG who own 59% of TRC (HR and pension facilities for UK office were previously outsourced to AIG but are now handled in house). A recent announcement has been made subsequent to meeting with underwriter announcing a sale of a significant portion of the 59% stake.	For Marketform Group in 2007 (latest available figures before being purchased by Great American Insurance Group) return on capital was 15%.
3	Have you seen an impact to your company's insurance portfolio (both generally and in the professional liability area) as a result of the current economic conditions and if so to what degree?	Underwriting portfolio remains robust with application of pricing discipline on larger risks.	Not directly addressed	Other than for selected business lines in E&O / D&O (especially in financial institutions) rates are remaining soft in part due to competitive pressure from AIG.	Some clients requesting significant reductions of 10% - 15% but these are being declined and risks non-renewed.
4	How have you found your retention rate for business in the current year (by number of risks and volume)?	Specialty Lines retention rate 88% by premium.	1st quarter of 2009: 91.7% retention. Company underwriting is conservative and is not under pressure to renew uneconomic business.	TRC UK office has an excellent retention rate, losing only one Australian account.	Maintaining a good retention rate.
5	Have there been any reductions in operational staff of your company and are there any plans for material staff reductions? Has there been any change in the key operational personnel of your company?	No planned reductions in staff. The operation has always been run as a fairly lean company. Andrew Beazley has stepped down as CEO due to ill health and been replaced by Andrew Horton (previously Group Finance Director). Adrian Cox has been appointed as replacement for Johnny Rowell as head of Specialty Lines.	New Chief Financial Officer from 1st April 2009 - change unrelated to performance.	No reduction of staffing levels or key operational personnel.	There has not been a reduction in staff and no intention of doing so.
6	Have there been any adjustments in the (re)insurer's rating with key rating agencies or other indicators from the rating agencies?	Lloyd's - Standard and Poor's A+ (strong) stable outlook.	S&P AA- (very strong) negative outlook from stable.	Downgrade to A+ (strong) stable outlook. S&P rates separately from AIG.	Lloyd's - Standard and Poor's A+ (strong) stable outlook.
7	Please advise if the laws/regulations in the insurer's jurisdiction protect assets or reinsurer from claims of creditors of other members of its financial group (e.g. its parent company) and in particular in the event of a bankruptcy or insolvency of one or more of its affiliated companies.	Lloyd's is registered in Canada. Individual syndicate assets are ring fenced. Ultimately, further protection is provided by Lloyd's through its central fund and other assets.	Hannover Re registered in Canada.	TRC registered in Canada	Lloyd's is registered in Canada. Individual syndicate assets are ring fenced. Ultimately, further protection is provided by Lloyd's through its central fund and other assets.
8	Do you or your affiliated companies have any plans that could materially impact on your relationship with CLLAS (e.g. reorganization, asset sales, mergers etc.)?	No anticipated change for syndicate however, change in corporate structure by establishing a new parent company in Jersey which will be tax resident in the Republic of Ireland - favourable base to develop the group's business.	None. However, a new board member is being appointed with responsibility for the division responsible for the CLLAS account.	Awaiting clarification of whether TRC UK branch is considered registered or unregistered in Canada. Due to regulatory changes in Canada UK branch unlikely to be able to support placement going forwards but will confirm.	None
9	Please outline your target threshold for underwriting a risk (e.g. Combined Ratio, ROE, etc.). What has been your Combined Ratio and ROE over the past two years?	Group combined ratio: 2007 - 90%, 2008 - 90%. Group ROE: 2007 - 28%, 2008 - 16%	Combined ratio in non-life reinsurance 2007 - 99.7%, 2008 - 95.4%. ROE: 2007 - 23.1%, 2008 - (4.1%)	Combined ratio 2007 - 95.3%, 2008 - 98.5%, and ROE 2007 - 15.4%, 2008 - 3.1%	Marketform Group combined ratio 2007 - 92.6%, 2008 GAIG GAAP combined ratio - 87%.
10	How are you seeing the market perform in terms of rates or terms and conditions of cover being offered?	Overall, rates on renewal business fell by 6% in 2008. Credit crisis and US hurricane season have changed the market place and an increase in rates are already apparent in certain business lines.	Believes that 2009 will be profitable. Not seeing a downward pressure on rates but neither increases	Other than for selected business lines in E&O / D&O (especially in financial institutions) rates are remaining soft, in part due to competitive pressure from AIG.	Generally expecting flat premium rates.
11	Is any part of underwriting compensation tied to volume?	None	None	None	Syndicate underwriting is geared to profitability not volume.
12	What is your general strategy to managing the soft insurance cycle currently being experienced?	Pricing discipline being maintained on large risks with diversification into locally sourced US business.	Selective underwriting.	Has selectively reduced exposures (property).	No particular pressure to maintain turnover. 5 year business plan with a premium target of GBP 200,000,000. Stamp of 120 million for 2009. Business will be non-renewed if not profitable.
13	Has your strategy changed or is it changing with respect to reserve adequacy i.e. are your current claims reserves generally felt to be stronger, weaker or the same as in the past?	Robust claims reserving has led group to be able to release reserves of £28 million.	Not directly addressed	Not directly addressed	There have been some adverse reserve movements on old years due to Italian medical malpractice business and foreign currency movements/rates of exchange.
14	Please outline measures used to manage your expenses ratio.	Group expense ratio has reduced as a result of increased net earned premiums, reduced variable incentive costs in line with the reduced profit, and change in business mix reducing combined brokerage.	Company has low expenses ratio and is cost conscious. Advertising is restricted. Internal expense ratio approximately 3%.	Not directly addressed	Not directly addressed

### Notes:

1 Information has been summarised from:

- Comments made by underwriters during meetings in London
- Material provided by underwriters during meetings in London
- Publicly available material obtained by Miller

2 Specific underwriting entity information and data has been provided where possible (and current) otherwise group/parent company information has been used.

3 This exhibit has been prepared by Miller Insurance Services Ltd, which does not assess or guarantee the solvency of any re(insurer).

4 This exhibit is a summary only - detailed report and accounts are available for each entity upon request

5 Information has been provided separately for Lloyd's in addition to each Lloyd's participating syndicate

6 Information is current as at 5 June 2009

# Canadian Lawyers Liability Assurance Society (CLLAS)

## Reinsurers' responses to questions regarding the impact of the current economic climate

CLLAS Questions		Reinsurer Responses			
		Liberty (Lloyd's Syndicate 4472)	Brit (Lloyd's Syndicate 2987)	Swiss Reinsurance Company	Lloyd's
1	Have you (or any of your affiliates if applicable) had any exposure to sub-prime / ABCP or equivalent investments and what has been the current (or is expected future) impact on your company as a result. Have you seen any sub-prime / ABCP related (re)insurance losses (or similar)?	Limited exposure to economic conditions and made overall positive investment result. Has some exposure to Lehman Bonds. For Syndicate see Lloyd's.	Brit has exposure to financial institutions business but started to reduce this 12 to 18 months ago with selective underwriting. Brit Group has small investments in feeder fund to Madoff.	2008 Group annual net loss of CHF 0.9 billion including net realised investment losses of mainly driven by mark-to-market losses as well as impairments and realised losses on the sale of the equity portfolio.	Majority of assets held as cash and Letters of Credit (LOCs), corporate bonds or government debt. 4% of assets are held in equities or other investments. No direct exposure to Madoff and any liability exposure expected to be within normal course of business. Stanford - liability exposure is limited.
2	What has been the financial impact of the current economic conditions on your company (or any of your affiliates if applicable)? Please address all key financial indicators including in particular, profitability, capitalization, liquidity, claims experience, surplus and loss reserves.	End of calendar year for 2008 is a profit of £131,103,000 (more than doubled in comparison with 2007). The Syndicate incurred net claims for number of catastrophes in 2008, largest being hurricanes Ike and Gustav. Despite economic condition and increased uncertainty in the financial markets initiated by the sub-prime mortgage issues in the US housing sector during 2007, investment income after net gains and losses increased by 35% in the year to £72.8m.	Good financial position - 2 years into a 5 year rolling credit facility - £150m which remains undrawn. Had excess capacity in syndicate last year (reached 80%) but expect this year to be more like 98%. Focus is to write for quality not for quantity. Group has seen growth in invested assets - up from 2007 by 18.5%	The first quarter of 2009 saw significant improvement in capital base, a net income of CHF 150 million compared to a profit of CHF 0.6 billion in the first quarter of 2008. The Group reported a net realised investment losses of CHF 0.5 billion in the first quarter of 2009, compared to a loss of CHF 0.4 billion in the first quarter of 2008. This increase was primarily due to impairments of CHF 0.8 billion in the current period. During Qtr 1/ 2009 the Swiss franc depreciated 6% against the US dollar.	Lloyd's have strict criteria on what you can invest in. 2008 total Lloyd's assets £15.264 billion (of which members assets £13.192 billion). Lloyd's solvency surplus £2.5 billion.
3	Have you seen an impact to your company's insurance portfolio (both generally and in the professional liability area) as a result of the current economic conditions and if so to what degree?	Syndicate assesses clients for sub-prime exposure / Madoff or Stanford and is cautious when considering public entity D&O.	In spite of the economic conditions, has lost a small amount of business due to competition on pricing.	Continue strict underwriting discipline to concentrate on business activities that produce quality returns.	Please see individual responses from Lloyd's syndicates.
4	How have you found your retention rate for business in the current year (by number of risks and volume)?	Retention rate is nearly 100%.	Business retention is good. Premium 86.28%. Volume 81.29%.	Not directly addressed.	Please see individual responses from Lloyd's syndicates.
5	Have there been any reductions in operational staff of your company and are there any plans for material staff reductions? Has there been any change in the key operational personnel of your company?	Staffing levels are being maintained - no reductions are expected.	Staffing levels have increased in previous years to support underwriting staff and these levels are being maintained.	Efficiency programme underway. Agostino Galvagni appointed Chief Operating Officer as of 1st May 2009 succeeding Stefan Lippe	Please see individual responses from Lloyd's syndicates.
6	Have there been any adjustments in the (re)insurer's rating with key rating agencies or other indicators from the rating agencies?	Lloyd's - Standard and Poor's A+ (strong) stable outlook.	Lloyd's - Standard and Poor's A+ (strong) stable outlook.	As at 7th May 2009 - Standard and Poor's reduced to A+ stable; Moody's: A1 (good) negative; and AM Best: A (excellent) stable.	Lloyd's - Standard and Poor's: A+ (strong) stable outlook; AM Best: A (excellent) stable outlook; Fitch: A+ (strong) stable outlook.
7	Please advise if the laws/regulations in the insurer's jurisdiction protect assets or reinsurer from claims of creditors of other members of its financial group (e.g. its parent company) and in particular in the event of a bankruptcy or insolvency of one or more of its affiliated companies.	Lloyd's is registered in Canada. Individual syndicate assets are ring fenced. Ultimately, further protection is provided by Lloyd's through its central fund and other assets.	Lloyd's is registered in Canada. Individual syndicate assets are ring fenced. Ultimately, further protection is provided by Lloyd's through its central fund and other assets.	Swiss Re has confirmed that its participations in prior years using either Swiss Re UK, SR International or Palatine Insurance Company were not Canadian registered Companies and therefore were and will continue to be unlicensed. The participations written out of the Canadian office on an ongoing basis will be licensed.	Lloyd's is registered in Canada. Individual syndicate assets are ring fenced. Ultimately, further protection is provided by Lloyd's through its central fund and other assets.
8	Do you or your affiliated companies have any plans that could materially impact on your relationship with CLLAS (e.g. reorganization, asset sales, mergers etc.)?	Nothing planned.	None. Group redomiciling to Netherlands for tax reasons and future net earnings should improve from redomicile. This will not impact relationship with CLLAS.	None	Please see individual responses from Lloyd's syndicates.
9	Please outline your target threshold for underwriting a risk (e.g. Combined Ratio, ROE, etc.). What has been your Combined Ratio and ROE over the past two years?	Combined ratio 2007 - 100%, 2008 - 92%	Brit Group combined ratio for 2007 - 92.7%, 2008 - 99.4%, and ROE for 2007 - 22.1%, 2008 - 9.2%.	Property Casualty combined ratio 90.1% for 2007, 97.9% for 2008 and Group ROE for 2007: 13.5%; ROE for 2008: (3.4%).	Lloyd's combined ratio for 2007 - 84%, 2008: 91.3%.
10	How are you seeing the market perform in terms of rates or terms and conditions of cover being offered?	Most casualty lines have been benign for 3 to 4 years. Rate rises are anticipated by end of 2009 to early 2010.	Rates are static on many lines of professional liability business with reductions being requested (and granted by certain markets) in some cases. Increases are being obtained for some D&O and most financial institution business.	The underwriter believes rates will begin to improve in the medium term.	Please see individual responses from Lloyd's syndicates.
11	Is any part of underwriting compensation tied to volume?	None	None	None	Please see individual responses from Lloyd's syndicates.
12	What is your general strategy to managing the soft insurance cycle currently being experienced?	Business is considered individually and may be written below margin if there are good reasons to do so. An overall assessment of the balance of the account is made continuously and risks may be restricted / non-renewed where necessary.	Selective underwriting where necessary - well positioned to capture any growth. Focus on diversification.	Focus on the core reinsurance business, ensure capital strength and enhance competitive position. The Group expects to benefit from its leading position in the Property & Casualty and Life & Health reinsurance markets. Margin improvements should continue and volumes are expected to rise. The Group's capital position has been restored but it remains exposed to financial market volatility.	Maintaining underwriting discipline. Preserving capital. Capitalising on market opportunities.
13	Has your strategy changed or is it changing with respect to reserve adequacy i.e. are your current claims reserves generally felt to be stronger, weaker or the same as in the past?	No, reserving strategy is conservative.	Reserving continues to be conservative and the Group has seen reserve releases in prior years of account.	Conservative rating and renewal approach.	Please see individual responses from Lloyd's syndicates. Reserve releases being seen on prior years of account.
14	Please outline measures used to manage your expenses ratio.	Expense ratios are reasonable and anecdotally the underwriter believes these to be low relative to his competitors.	Redomicile to Netherlands expected to be earnings enhancing.	Group is adopting an efficiency programme.	Overall net operating expenses have reduced by 7.1% year on year to 2008.

### Notes:

1 Information has been summarised from:

- Comments made by underwriters during meetings in London
- Material provided by underwriters during meetings in London
- Publicly available material obtained by Miller

2 Specific underwriting entity information and data has been provided where possible (and current) otherwise group/parent company information has been used.

3 This exhibit has been prepared by Miller Insurance Services Ltd, which does not assess or guarantee the solvency of any re(insurer).

4 This exhibit is a summary only - detailed report and accounts are available for each entity upon request

5 Information has been provided separately for Lloyd's in addition to each Lloyd's participating syndicate

6 Information is current as at 5 June 2009



**ATTACHMENT A:**

ACE

Financial Statements as at December 31, 2008  
Interim Financial Statements as at March 31, 2009

## CONSOLIDATED BALANCE SHEETS

ACE Limited and Subsidiaries

December 31, 2008 and 2007  
(in millions of U.S. dollars, except share and per share data)

December 31  
2008

December 31  
2007

<b>Assets</b>		
Investments		
Fixed maturities available for sale, at fair value (amortized cost – \$33,109 and \$32,994) (includes hybrid financial instruments of \$239 and \$282)	\$ 31,155	\$ 33,184
Fixed maturities held to maturity, at amortized cost (fair value – \$2,865 and \$3,015)	2,860	2,987
Equity securities, at fair value (cost – \$1,132 and \$1,618)	988	1,837
Short-term investments, at fair value and amortized cost	3,350	2,631
Other investments (cost – \$1,368 and \$880)	1,362	1,140
Total investments	39,715	41,779
Cash	867	510
Securities lending collateral	1,230	2,109
Accrued investment income	443	416
Insurance and reinsurance balances receivable	3,453	3,540
Reinsurance recoverable on losses and loss expenses	13,917	14,354
Reinsurance recoverable on future policy benefits	259	8
Deferred policy acquisition costs	1,214	1,121
Value of business acquired	823	–
Prepaid reinsurance premiums	1,539	1,600
Goodwill and other intangible assets	3,747	2,838
Deferred tax assets	1,835	1,087
Investments in partially-owned insurance companies (cost – \$737 and \$686)	832	773
Other assets	2,183	1,955
Total assets	\$ 72,057	\$ 72,090
<b>Liabilities</b>		
Unpaid losses and loss expenses	\$ 37,176	\$ 37,112
Unearned premiums	5,950	6,227
Future policy benefits	2,904	545
Insurance and reinsurance balances payable	2,841	2,843
Deposit liabilities	345	351
Securities lending payable	1,296	2,109
Payable for securities purchased	740	1,798
Accounts payable, accrued expenses, and other liabilities	2,635	1,825
Income taxes payable	138	111
Short-term debt	471	372
Long-term debt	2,806	1,811
Trust preferred securities	309	309
Total liabilities	57,611	55,413
<b>Commitments and contingencies</b>		
<b>Shareholders' equity</b>		
Preferred Shares	–	2
Common Shares (CHF 33.14 and \$0.041666667 par value, 335,413,501 and 329,704,531 shares issued, 333,645,471 and 329,704,531 shares outstanding)	10,827	14
Common Shares in treasury (1,768,030 and nil shares)	(3)	–
Additional paid-in capital	5,464	6,812
Retained earnings	74	9,080
Deferred compensation obligation	3	3
Accumulated other comprehensive (loss) income	(1,916)	769
Common Shares issued to employee trust	(3)	(3)
Total shareholders' equity	14,446	16,677
Total liabilities and shareholders' equity	\$ 72,057	\$ 72,090

See accompanying notes to consolidated financial statements

# CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

ACE Limited and Subsidiaries

For the years ended December 31, 2008, 2007, and 2006  
(in millions of U.S. dollars, except per share data)

	2008	2007	2006
<b>Revenues</b>			
Gross premiums written	\$ 19,242	\$ 17,740	\$ 17,401
Reinsurance premiums ceded	(6,162)	(5,761)	(5,371)
Net premiums written	13,080	11,979	12,030
Change in unearned premiums	123	318	(205)
Net premiums earned	13,203	12,297	11,825
Net investment income	2,062	1,918	1,601
Net realized gains (losses)	(1,633)	(61)	(98)
Total revenues	13,632	14,154	13,328
<b>Expenses</b>			
Losses and loss expenses	7,603	7,351	7,070
Future policy benefits	399	168	123
Policy acquisition costs	2,135	1,771	1,715
Administrative expenses	1,737	1,455	1,456
Interest expense	230	175	176
Other (income) expense	(39)	81	(35)
Total expenses	12,065	11,001	10,505
Income before income tax and cumulative effect of a change in accounting principle	1,567	3,153	2,823
Income tax expense	370	575	522
Income before cumulative effect of a change in accounting principle	1,197	2,578	2,301
Cumulative effect of a change in accounting principle	–	–	4
<b>Net income</b>	\$ 1,197	\$ 2,578	\$ 2,305
<b>Other comprehensive (loss) income</b>			
Unrealized appreciation (depreciation) arising during the year	(3,948)	(3)	289
Reclassification adjustment for net realized (gains) losses included in net income	1,189	27	64
	(2,759)	24	353
Change in:			
Cumulative translation adjustment	(590)	105	135
Pension liability	23	(4)	20
Other comprehensive (loss) income, before income tax	(3,326)	125	508
Income tax (expense) benefit related to other comprehensive income items	647	(60)	(113)
Other comprehensive (loss) income	(2,679)	65	395
<b>Comprehensive (loss) income</b>	\$ (1,482)	\$ 2,643	\$ 2,700
Basic earnings per share before cumulative effect of a change in accounting principle	\$ 3.57	\$ 7.79	\$ 7.01
Cumulative effect of a change in accounting principle	–	–	0.01
Basic earnings per share	\$ 3.57	\$ 7.79	\$ 7.02
Diluted earnings per share before cumulative effect of a change in accounting principle	\$ 3.53	\$ 7.66	\$ 6.90
Cumulative effect of a change in accounting principle	–	–	0.01
Diluted earnings per share	\$ 3.53	\$ 7.66	\$ 6.91

See accompanying notes to consolidated financial statements

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

ACE Limited and Subsidiaries

For the years ended December 31, 2008, 2007, and 2006  
(in millions of U.S. dollars)

	2008	2007	2006
<b>Preferred Shares</b>			
Balance – beginning year	\$ 2	\$ 2	\$ 2
Preferred Shares redeemed	(2)	–	–
Balance – end of year	–	2	2
<b>Common Shares</b>			
Balance – beginning of year	14	14	13
Exercise of stock options	6	–	–
Common Shares stock dividend	10,985	–	–
Dividends declared on Common Shares-par value reduction	(178)	–	–
Shares issued	–	–	1
Balance – end of year	10,827	14	14
<b>Common Shares in treasury</b>			
Balance – beginning of year	–	–	–
Common Shares issued in treasury, net of net shares redeemed under employee share-based compensation plans	(3)	–	–
Balance – end of year	(3)	–	–
<b>Additional paid-in capital</b>			
Balance – beginning of year	6,812	6,640	6,569
Preferred Shares redeemed	(573)	–	–
Net shares redeemed under employee share- based compensation plans	(14)	(17)	(14)
Exercise of stock options	91	65	67
Share-based compensation expense	126	100	88
Tax benefit on share-based compensation expense	12	24	4
Common Shares stock dividend	(990)	–	–
Reclassification of unearned stock grant compensation	–	–	(69)
Cumulative effect of a change in accounting principle	–	–	(5)
Balance – end of year	5,464	6,812	6,640
<b>Unearned stock grant compensation</b>			
Balance – beginning of year	–	–	(69)
Reclassification of unearned stock grant compensation	–	–	69
Balance – end of year	–	–	–
<b>Retained earnings</b>			
Balance – beginning of year	9,080	6,906	4,965
Effect of partial adoption of FAS 157	(4)	–	–
Effect of adoption of FAS 159	6	–	–
Effect of adoption of FIN 48	–	(22)	–
Effect of adoption of FAS 155	–	12	–
Balance – beginning of year, adjusted for effect of adoption of new accounting principles	9,082	6,896	4,965
Net income	1,197	2,578	2,305
Dividends declared on Common Shares	(186)	(349)	(319)
Dividends declared on Preferred Shares	(24)	(45)	(45)
Common Shares stock dividend	(9,995)	–	–
Balance – end of year	74	9,080	6,906
<b>Deferred compensation obligation</b>			
Balance – beginning of year	3	4	6
Decrease to obligation	–	(1)	(2)
Balance – end of year	\$ 3	\$ 3	\$ 4

See accompanying notes to consolidated financial statements

# **CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (continued)**

ACE Limited and Subsidiaries

For the years ended December 31, 2008, 2007, and 2006  
(in millions of U.S. dollars)

	2008	2007	2006
<b>Accumulated other comprehensive (loss) income</b>			
Net unrealized appreciation (depreciation) on investments			
Balance – beginning of year	\$ 596	\$ 607	\$ 317
Effect of adoption of FAS 159	(6)	–	–
Effect of adoption of FAS 155	–	(12)	–
Balance – beginning of year, adjusted for effect of adoption of new accounting principles	590	595	317
Change in year, net of income tax (expense) benefit of \$457, \$(23), and \$(63)	(2,302)	1	290
Balance – end of year	(1,712)	596	607
Cumulative translation adjustment			
Balance – beginning of year	231	165	73
Change in year, net of income tax (expense) benefit of \$198, \$(39), and \$(43)	(392)	66	92
Balance – end of year	(161)	231	165
Pension liability adjustment			
Balance – beginning of year	(58)	(56)	(58)
Change in year, net of income tax (expense) benefit of \$(8), \$2, and \$(7)	15	(2)	13
Minimum pension liability due to adoption of FAS 158, net of income tax (expense) benefit of \$(25) in 2006	–	–	45
Pension liability adjustment due to adoption of FAS 158, net of income tax (expense) benefit of \$30 in 2006	–	–	(56)
Balance – end of year	(43)	(58)	(56)
Accumulated other comprehensive (loss) income	(1,916)	769	716
<b>Common Shares issued to employee trust</b>			
Balance – beginning of year	(3)	(4)	(6)
Decrease in Common Shares	–	1	2
Balance – end of year	(3)	(3)	(4)
<b>Total shareholders' equity</b>	<b>\$ 14,446</b>	<b>\$ 16,677</b>	<b>\$ 14,278</b>

See accompanying notes to consolidated financial statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

ACE Limited and Subsidiaries

For the years ended December 31, 2008, 2007, and 2006  
(in millions of U.S. dollars)

	2008	2007	2006
<b>Cash flows from operating activities</b>			
Net income	\$ 1,197	\$ 2,578	\$ 2,305
Adjustments to reconcile net income to net cash flows from operating activities:			
Net realized (gains) losses	1,633	61	98
Amortization of premium/discount on fixed maturities	(1)	(6)	10
Deferred income taxes	(141)	25	57
Unpaid losses and loss expenses	1,300	1,194	700
Unearned premiums	(128)	(356)	343
Future policy benefits	212	27	(3)
Insurance and reinsurance balances payable	(26)	298	41
Accounts payable, accrued expenses, and other liabilities	638	242	66
Income taxes payable/receivable	46	(72)	(18)
Insurance and reinsurance balances receivable	(6)	155	(226)
Reinsurance recoverable on losses and loss expenses	(224)	341	765
Reinsurance recoverable on future policy benefits	(9)	2	1
Deferred policy acquisition costs	(185)	(10)	(114)
Prepaid reinsurance premiums	(15)	35	(137)
Other	(190)	187	217
Net cash flows from operating activities	4,101	4,701	4,105
<b>Cash flows used for investing activities</b>			
Purchases of fixed maturities available for sale	(24,537)	(25,195)	(23,281)
Purchases of to be announced mortgage-backed securities	(18,969)	(22,923)	(17,914)
Purchases of fixed maturities held to maturity	(366)	(324)	(533)
Purchases of equity securities	(971)	(929)	(841)
Sales of fixed maturities available for sale	21,087	19,266	17,057
Sales of to be announced mortgage-backed securities	18,340	21,550	16,882
Sales of equity securities	1,164	863	927
Maturities and redemptions of fixed maturities available for sale	2,780	3,232	3,409
Maturities and redemptions of fixed maturities held to maturity	445	365	543
Net proceeds from (payments made on) the settlement of investment derivatives	32	(16)	(40)
Acquisition of subsidiary (net of cash acquired of \$19)	(2,521)	–	–
Other	(608)	(419)	21
Net cash flows used for investing activities	(4,124)	(4,530)	(3,770)
<b>Cash flows from (used for) financing activities</b>			
Dividends paid on Common Shares	(362)	(341)	(312)
Dividends paid on Preferred Shares	(24)	(45)	(45)
Net repayment of short-term debt	(89)	(465)	(300)
Net proceeds from issuance of long-term debt	1,245	500	298
Redemption of Preferred Shares	(575)	–	–
Proceeds from exercise of stock options for Common Shares	97	65	67
Proceeds from Common Shares issued under ESPP	10	9	8
Tax benefit on share-based compensation expense	12	24	–
Net cash flows from (used for) financing activities	314	(253)	(284)
Effect of foreign currency rate changes on cash and cash equivalents	66	27	2
Net increase (decrease) in cash	357	(55)	53
Cash – beginning of year	510	565	512
<b>Cash – end of year</b>	<b>\$ 867</b>	<b>\$ 510</b>	<b>\$ 565</b>
<b>Supplemental cash flow information</b>			
Taxes paid	\$ 403	\$ 561	\$ 477
Interest paid	\$ 226	\$ 177	\$ 186

See accompanying notes to consolidated financial statements



**ACE Limited**  
**Summary Consolidated Balance Sheets**  
(in millions of U.S. dollars, except per share data)

	<b>March 31</b>	<b>December 31</b>
	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Assets</b>		
Fixed maturities available for sale, at fair value	\$ 31,355	\$ 31,155
Fixed maturities held to maturity, at amortized cost	2,824	2,860
Equity securities, at fair value	854	988
Short-term investments, at fair value	3,909	3,350
Other investments	1,298	1,362
Total investments	40,240	39,715
Cash	844	867
Securities lending collateral	1,376	1,230
Insurance and reinsurance balances receivable	3,853	3,453
Reinsurance recoverable on losses and loss expenses	13,713	13,917
Deferred policy acquisition costs	1,268	1,214
Value of business acquired	785	823
Prepaid reinsurance premiums	1,593	1,539
Goodwill and other intangible assets	3,735	3,747
Deferred tax assets	1,952	1,835
Investments in partially owned insurance companies	886	832
Other assets	2,882	2,885
Total assets	\$ 73,127	\$ 72,057
<b>Liabilities</b>		
Unpaid losses and loss expenses	\$ 36,931	\$ 37,176
Unearned premiums	6,186	5,950
Future policy benefits	2,915	2,904
Insurance and reinsurance balances payable	2,981	2,841
Securities lending payable	1,463	1,296
Payable for securities purchased	1,333	740
Accounts payable, accrued expenses, and other liabilities	3,023	3,118
Short-term debt	466	471
Long-term debt	2,802	2,806
Trust preferred securities	309	309
Total liabilities	58,409	57,611
<b>Shareholders' equity</b>		
Total shareholders' equity, excl. AOCI	16,864	16,362
Accumulated other comprehensive income (AOCI)	(2,146)	(1,916)
Total shareholders' equity	14,718	14,446
Total liabilities and shareholders' equity	\$ 73,127	\$ 72,057
<b>Book value per common share <sup>(1)</sup></b>	\$ 43.82	\$ 43.30
<b>Tangible book value per common share <sup>(1)</sup></b>	\$ 32.70	\$ 32.07

(1) See page 28 Non-GAAP Financial Measures.



**ACE Limited**  
**Consolidating Statement of Operations**  
**Three months ended March 31, 2009 and 2008**  
(in millions of U.S. dollars)

	(Unaudited)						
	Insurance - North American	Insurance - Overseas General	Global Reinsurance	Corporate & Other	Consolidated P&C	Life	ACE Consolidated
<b>March 31, 2009</b>							
Gross premiums written	\$ 2,078	\$ 1,693	\$ 379	\$ -	\$ 4,150	\$ 385	\$ 4,535
Net premiums written	1,392	1,327	359	-	3,078	346	3,424
Net premiums earned	1,437	1,184	238	-	2,859	335	3,194
Losses and loss expenses	1,004	613	87	-	1,704	112	1,816
Policy benefits	-	2	-	-	2	97	99
Policy acquisition costs	123	260	51	-	434	47	481
Administrative expenses	140	175	12	35	362	58	420
Underwriting income (loss)	170	134	88	(35)	357	21	378
Net investment income	263	120	72	1	456	46	502
Net realized gains (losses)	(120)	7	11	(28)	(130)	9	(121)
Interest expense	-	-	-	53	53	-	53
Other income (expense)	(4)	(4)	-	(4)	(12)	(2)	(14)
Income tax expense (benefit)	96	46	16	(39)	119	6	125
Net income (loss)	213	211	155	(80)	499	68	567
Net realized gains (losses)	(120)	7	11	(28)	(130)	9	(121)
Net realized gains (losses) in other income (expense)	-	3	-	(3)	-	3	3
Tax expense (benefit) on net realized gains (losses)	(12)	8	-	(9)	(13)	(3)	(16)
Income (loss) excluding net realized gains (losses) <sup>(1)</sup>	\$ 321	\$ 209	\$ 144	\$ (58)	\$ 616	\$ 53	\$ 669
<b>March 31, 2008</b>							
Gross premiums written	\$ 2,181	\$ 1,778	\$ 345	\$ -	\$ 4,304	\$ 105	\$ 4,409
Net premiums written	1,360	1,345	344	-	3,049	105	3,154
Net premiums earned	1,354	1,223	263	-	2,840	100	2,940
Losses and loss expenses	869	593	117	-	1,579	-	1,579
Policy benefits	-	-	-	-	-	63	63
Policy acquisition costs	161	245	54	-	460	8	468
Administrative expenses	135	173	15	39	362	13	375
Underwriting income (loss)	189	212	77	(39)	439	16	455
Net investment income	269	117	73	15	474	15	489
Net realized gains (losses)	(61)	(83)	(45)	22	(167)	(186)	(353)
Interest expense	-	-	-	46	46	-	46
Other income (expense)	-	3	-	(18)	(15)	-	(15)
Income tax expense (benefit)	123	47	4	(19)	155	(2)	153
Net income (loss)	274	202	101	(47)	530	(153)	377
Net realized gains (losses)	(61)	(83)	(45)	22	(167)	(186)	(353)
Net realized gains (losses) in other income (expense)	-	7	-	(35)	(28)	-	(28)
Tax expense (benefit) on net realized gains (losses)	(8)	(22)	(2)	(1)	(33)	-	(33)
Income (loss) excluding net realized gains (losses) <sup>(1)</sup>	\$ 327	\$ 256	\$ 144	\$ (35)	\$ 692	\$ 33	\$ 725

(1) See page 28 Non-GAAP Financial Measures.



**ATTACHMENT B:**

**AWAC**

Financial Statements as at December 31, 2008  
Interim Financial Statements as at March 31, 2009

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD**

**CONSOLIDATED BALANCE SHEETS**

as of December 31, 2008 and 2007

(Expressed in thousands of United States dollars, except share and per share amounts)

	<u>As of December 31, 2008</u>	<u>As of December 31, 2007</u>
<b>ASSETS:</b>		
Fixed maturity investments available for sale, at fair value (amortized cost: 2008: \$5,872,031; 2007: \$5,595,943) . . . . .	\$6,032,029	\$5,707,143
Other invested assets, at fair value . . . . .	69,902	—
Other invested assets available for sale, at fair value (cost: 2008: \$89,229; 2007: \$291,458) . . . . .	<u>55,199</u>	<u>322,144</u>
Total investments . . . . .	6,157,130	6,029,287
Cash and cash equivalents . . . . .	655,828	202,582
Restricted cash . . . . .	50,439	67,886
Securities lending collateral . . . . .	171,026	147,241
Insurance balances receivable . . . . .	347,941	304,499
Prepaid reinsurance . . . . .	192,582	163,836
Reinsurance recoverable . . . . .	888,314	682,765
Accrued investment income . . . . .	50,671	55,763
Deferred acquisition costs . . . . .	135,780	108,295
Goodwill . . . . .	268,532	—
Intangible assets . . . . .	71,410	3,920
Balances receivable on sale of investments . . . . .	12,371	84,998
Net deferred tax assets . . . . .	22,452	4,881
Other assets . . . . .	<u>47,603</u>	<u>43,155</u>
Total assets . . . . .	<u><u>\$9,072,079</u></u>	<u><u>\$7,899,108</u></u>
<b>LIABILITIES:</b>		
Reserve for losses and loss expenses . . . . .	\$4,576,828	\$3,919,772
Unearned premiums . . . . .	930,358	811,083
Unearned ceding commissions . . . . .	49,599	28,831
Reinsurance balances payable . . . . .	95,129	67,175
Securities lending payable . . . . .	177,010	147,241
Balances due on purchase of investments . . . . .	—	141,462
Syndicated loan . . . . .	243,750	—
Senior notes . . . . .	498,796	498,682
Accounts payable and accrued liabilities . . . . .	<u>83,747</u>	<u>45,020</u>
Total liabilities . . . . .	<u><u>\$6,655,217</u></u>	<u><u>\$5,659,266</u></u>
<b>SHAREHOLDERS' EQUITY:</b>		
Common shares, par value \$0.03 per share, issued and outstanding 2008: 49,036,159 shares and 2007: 48,741,927 shares . . . . .	\$ 1,471	\$ 1,462
Additional paid-in capital . . . . .	1,314,785	1,281,832
Retained earnings . . . . .	994,974	820,334
Accumulated other comprehensive income: net unrealized gains on investments, net of tax . . . . .	<u>105,632</u>	<u>136,214</u>
Total shareholders' equity . . . . .	<u><u>\$2,416,862</u></u>	<u><u>\$2,239,842</u></u>
Total liabilities and shareholders' equity . . . . .	<u><u>\$9,072,079</u></u>	<u><u>\$7,899,108</u></u>

See accompanying notes to the consolidated financial statements.

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
for the years ended December 31, 2008, 2007 and 2006  
(Expressed in thousands of United States dollars, except share and per share amounts)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>REVENUES:</b>			
Gross premiums written . . . . .	\$ 1,445,584	\$ 1,505,509	\$ 1,659,025
Premiums ceded . . . . .	<u>(338,356)</u>	<u>(352,399)</u>	<u>(352,429)</u>
Net premiums written . . . . .	1,107,228	1,153,110	1,306,596
Change in unearned premiums . . . . .	<u>9,677</u>	<u>6,832</u>	<u>(54,586)</u>
Net premiums earned . . . . .	1,116,905	1,159,942	1,252,010
Net investment income . . . . .	308,775	297,932	244,360
Net realized investment losses . . . . .	(272,851)	(7,617)	(28,678)
Other income . . . . .	<u>746</u>	<u>—</u>	<u>—</u>
	<u>1,153,575</u>	<u>1,450,257</u>	<u>1,467,692</u>
<b>EXPENSES:</b>			
Net losses and loss expenses . . . . .	641,122	682,340	739,133
Acquisition costs . . . . .	112,569	118,959	141,488
General and administrative expenses . . . . .	186,560	141,641	106,075
Interest expense . . . . .	38,743	37,848	32,566
Foreign exchange (gain) loss . . . . .	<u>(1,421)</u>	<u>(817)</u>	<u>601</u>
	<u>977,573</u>	<u>979,971</u>	<u>1,019,863</u>
Income before income taxes . . . . .	176,002	470,286	447,829
Income tax (recovery) expense . . . . .	<u>(7,633)</u>	<u>1,104</u>	<u>4,991</u>
NET INCOME . . . . .	<u>183,635</u>	<u>469,182</u>	<u>442,838</u>
Other comprehensive (loss) income			
Unrealized (losses) gains on investments arising during the year net of applicable deferred income tax recovery (expense) 2008: \$9,433; 2007: (\$5,839); 2006: (\$342) . . . . .	(198,405)	122,133	3,294
Reclassification adjustment for net realized investment losses included in net income, net of applicable income tax recovery . . . . .	<u>194,085</u>	<u>7,617</u>	<u>28,678</u>
Other comprehensive (loss) income net of tax . . . . .	<u>(4,320)</u>	<u>129,750</u>	<u>31,972</u>
COMPREHENSIVE INCOME . . . . .	<u>\$ 179,315</u>	<u>\$ 598,932</u>	<u>\$ 474,810</u>
<b>PER SHARE DATA</b>			
Basic earnings per share . . . . .	\$ 3.75	\$ 7.84	\$ 8.09
Diluted earnings per share . . . . .	\$ 3.59	\$ 7.53	\$ 7.75
Weighted average common shares outstanding . . . . .	48,936,912	59,846,987	54,746,613
Weighted average common shares and common share equivalents outstanding . . . . .	51,147,215	62,331,165	57,115,172
Dividends declared per share . . . . .	\$ 0.72	\$ 0.63	\$ 0.15

See accompanying notes to the consolidated financial statements.

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
for the years ended December 31, 2008, 2007 and 2006  
(Expressed in thousands of United States dollars)

	<u>Share Capital</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Other Comprehensive (Loss) Income</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Total</u>
December 31, 2005 . . . . .	\$1,505	\$1,488,860	\$ (25,508)	\$ (44,591)	\$1,420,266
Stock issuance in initial public offering . . . . .	304	315,485	—	—	315,789
Net income . . . . .	—	—	—	442,838	442,838
Stock compensation plans . . . . .	—	18,262	—	—	18,262
Dividends . . . . .	—	—	—	(9,043)	(9,043)
Other comprehensive income . . . . .	—	—	31,972	—	31,972
December 31, 2006 . . . . .	<u>\$1,809</u>	<u>\$1,822,607</u>	<u>\$ 6,464</u>	<u>\$389,204</u>	<u>\$2,220,084</u>
Net income . . . . .	—	—	—	469,182	469,182
Stock compensation plans . . . . .	3	22,319	—	—	22,322
Stock acquired . . . . .	(350)	(563,094)	—	—	(563,444)
Dividends . . . . .	—	—	—	(38,052)	(38,052)
Other comprehensive income . . . . .	—	—	129,750	—	129,750
December 31, 2007 . . . . .	<u>\$1,462</u>	<u>\$1,281,832</u>	<u>\$136,214</u>	<u>\$820,334</u>	<u>\$2,239,842</u>
Net income . . . . .	—	—	—	183,635	183,635
Cumulative effect adjustment upon adoption of FAS 159 . . . . .	—	—	(26,262)	26,262	—
Stock compensation plans . . . . .	9	32,953	—	—	32,962
Dividends . . . . .	—	—	—	(35,257)	(35,257)
Other comprehensive (loss) . . . . .	—	—	(4,320)	—	(4,320)
December 31, 2008 . . . . .	<u><u>\$1,471</u></u>	<u><u>\$1,314,785</u></u>	<u><u>\$105,632</u></u>	<u><u>\$994,974</u></u>	<u><u>\$2,416,862</u></u>

See accompanying notes to the consolidated financial statements.

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

for the years ended December 31, 2008, 2007 and 2006

(Expressed in thousands of United States dollars)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:</b>			
Net income . . . . .	\$ 183,635	\$ 469,182	\$ 442,838
Adjustments to reconcile net income to cash provided by operating activities:			
Net realized (gains) losses on sales of investments . . . . .	(17,768)	(37,001)	4,800
Other-than-temporary impairment charges on investments . . . . .	212,897	44,618	23,878
Change in fair value of other invested assets . . . . .	77,722	—	—
Amortization of premiums net of accrual of discounts on fixed maturities . . . . .	(12,006)	(2,960)	11,981
Amortization and depreciation of fixed assets . . . . .	9,619	8,709	4,037
Stock compensation expense . . . . .	28,186	22,491	10,805
Debt issuance expense . . . . .	—	—	724
Amortization of discount and expenses on senior notes . . . . .	459	427	168
Cash settlements on interest rate swaps . . . . .	—	—	7,340
Mark to market on interest rate swaps . . . . .	—	—	(6,896)
Insurance balances receivable . . . . .	(2,809)	(238)	(86,217)
Prepaid reinsurance . . . . .	11,479	(4,117)	(19,120)
Reinsurance recoverable . . . . .	55,621	6,340	27,228
Accrued investment income . . . . .	11,134	(4,651)	(2,129)
Deferred acquisition costs . . . . .	6,640	(7,969)	(5,769)
Net deferred tax assets . . . . .	(14,163)	(5,626)	(1,292)
Other assets . . . . .	21,947	(2,941)	7,987
Reserve for losses and loss expenses . . . . .	96,959	282,775	231,644
Unearned premiums . . . . .	(21,157)	(2,714)	73,706
Unearned ceding commissions . . . . .	(438)	4,917	(3,551)
Reinsurance balances payable . . . . .	3,177	(15,037)	53,645
Accounts payable and accrued liabilities . . . . .	5,809	4,763	15,757
Net cash provided by operating activities . . . . .	<u>656,943</u>	<u>760,968</u>	<u>791,564</u>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES:</b>			
Purchases of fixed maturity investments . . . . .	(4,558,664)	(4,282,638)	(5,663,168)
Purchases of other invested assets . . . . .	(63,357)	(175,770)	(132,011)
Sales of fixed maturity investments . . . . .	4,583,751	3,966,822	4,855,816
Sales of other invested assets . . . . .	158,857	106,713	165,250
Net cash paid for acquisitions . . . . .	(536,195)	—	—
Changes in securities lending collateral received . . . . .	(23,785)	157,501	152,050
Purchases of fixed assets . . . . .	(21,190)	(9,666)	(29,418)
Change in restricted cash . . . . .	17,447	70,337	(96,435)
Net cash used in investing activities . . . . .	<u>(443,136)</u>	<u>(166,701)</u>	<u>(747,916)</u>
<b>CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:</b>			
Dividends paid . . . . .	(35,257)	(38,052)	(9,043)
Proceeds from (payment of ) the exercise of stock options . . . . .	4,046	(168)	—
Stock acquired . . . . .	—	(563,444)	—
Gross proceeds from initial public offering . . . . .	—	—	344,080
Issuance costs paid on initial public offering . . . . .	—	—	(28,291)
Proceeds from issuance of senior notes . . . . .	—	—	498,535
Repayment of long-term debt . . . . .	—	—	(500,000)
Debt issuance costs paid . . . . .	—	—	(3,250)
Proceeds from syndicated loan . . . . .	243,750	—	—
Changes in securities lending collateral . . . . .	29,769	(157,501)	(152,050)
Net cash provided by (used in) financing activities . . . . .	<u>242,308</u>	<u>(759,165)</u>	<u>149,981</u>
Effect of exchange rate changes on foreign currency cash . . . . .	(2,869)	663	809
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS . . . . .	453,246	(164,235)	194,438
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR . . . . .	202,582	366,817	172,379
CASH AND CASH EQUIVALENTS, END OF YEAR . . . . .	<u>\$ 655,828</u>	<u>\$ 202,582</u>	<u>\$ 366,817</u>
<b>Supplemental disclosure of cash flow information:</b>			
— Cash paid for income taxes . . . . .	\$ 3,658	\$ 3,814	\$ 707
— Cash paid for interest expense . . . . .	37,500	38,021	15,495
<b>Supplemental disclosure of non-cash flow information:</b>			
— Change in balance receivable on sale of investments . . . . .	72,627	(68,453)	(12,912)
— Change in balance payable on purchase of investments . . . . .	<u>(141,462)</u>	<u>141,462</u>	<u>—</u>

See accompanying notes to the consolidated financial statements.

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD**  
**CONSOLIDATED BALANCE SHEETS**

	MARCH 31, 2009	DECEMBER 31, 2008
<b>ASSETS</b>		
Fixed maturity investments available for sale, at fair value (amortized cost: 2009: \$5,712,331; 2008: \$5,872,031)	\$ 5,808,176	\$ 6,032,029
Other invested assets available for sale, at fair value (cost: 2009: \$89,250; 2008: \$89,229)	58,305	55,199
Equity securities, at fair value	18,491	21,329
Other invested assets, at fair value	120,708	48,573
Total investments	6,005,680	6,157,130
Cash and cash equivalents	645,070	655,828
Restricted cash	59,349	50,439
Securities lending collateral	-	171,026
Insurance balances receivable	417,694	347,941
Prepaid reinsurance	176,916	192,582
Reinsurance recoverable	880,390	888,314
Accrued investment income	50,507	50,671
Deferred acquisition costs	141,038	135,780
Goodwill	268,532	268,532
Intangible assets	70,345	71,410
Balances receivable on sale of investments	97,907	12,371
Net deferred tax assets	32,383	22,452
Other assets	46,444	47,603
<b>TOTAL ASSETS</b>	<b>\$ 8,892,255</b>	<b>\$ 9,072,079</b>
<b>LIABILITIES</b>		
Reserve for losses and loss expenses	\$ 4,603,078	\$ 4,576,828
Unearned premiums	995,759	930,358
Unearned ceding commissions	47,661	49,599
Reinsurance balances payable	91,659	95,129
Securities lending payable	-	177,010
Balances due on purchase of investments	94,253	-
Dividends payable	8,914	-
Syndicated loan	-	243,750
Senior notes	498,826	498,796
Accounts payable and accrued liabilities	60,245	83,747
<b>TOTAL LIABILITIES</b>	<b>\$ 6,400,395</b>	<b>\$ 6,655,217</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common shares, par value \$0.03 per share: issued and outstanding 2009: 49,522,766; 2008: 49,036,159 shares	\$ 1,486	\$ 1,471
Additional paid-in capital	1,324,702	1,314,785
Retained earnings	1,117,468	994,974
Accumulated other comprehensive income: net unrealized gains on investments, net of tax	48,204	105,632
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>\$ 2,491,860</b>	<b>\$ 2,416,862</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 8,892,255</b>	<b>\$ 9,072,079</b>
Book value per share	\$ 50.32	\$ 49.29
Diluted book value per share	47.40	46.05

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD**  
**CONSOLIDATED STATEMENTS OF OPERATIONS - CONSECUTIVE QUARTERS**

	THREE MONTHS ENDED MARCH 31, 2009	THREE MONTHS ENDED DECEMBER 31, 2008	THREE MONTHS ENDED SEPTEMBER 30, 2008	THREE MONTHS ENDED JUNE 30, 2008	THREE MONTHS ENDED MARCH 31, 2008
<b>Revenues</b>					
Gross premiums written	\$ 479,597	\$ 310,945	\$ 290,981	\$ 446,784	\$ 396,874
Net premiums written	\$ 405,038	\$ 226,503	\$ 233,903	\$ 320,250	\$ 326,572
Net premiums earned	\$ 323,972	\$ 302,984	\$ 271,973	\$ 268,876	\$ 273,072
Net investment income	77,854	82,583	76,916	72,345	76,931
Net realized investment (losses)/gains	(5,361)	(120,047)	(151,876)	(4,393)	3,465
Other income	466	746	-	-	-
<b>Total revenues</b>	<u>\$ 396,931</u>	<u>\$ 266,266</u>	<u>\$ 197,013</u>	<u>\$ 336,828</u>	<u>\$ 353,468</u>
<b>Expenses</b>					
Net losses and loss expenses:					
Current year	\$ 208,683	\$ 233,789	\$ 272,958	\$ 217,859	\$ 196,611
Prior years	(60,186)	(90,258)	(96,948)	(39,775)	(53,114)
Total net losses and loss expenses	\$ 148,497	\$ 143,531	\$ 176,010	\$ 178,084	\$ 143,497
Acquisition costs	37,129	30,849	28,615	26,265	26,840
General and administrative expenses	58,430	56,115	40,794	46,380	43,271
Interest expense	10,447	10,205	9,515	9,513	9,510
Foreign exchange loss/(gain)	835	1,230	(2,728)	(399)	476
<b>Total expenses</b>	<u>\$ 255,338</u>	<u>\$ 241,930</u>	<u>\$ 252,206</u>	<u>\$ 259,843</u>	<u>\$ 223,594</u>
<b>Income/(loss) before income taxes</b>	<u>\$ 141,593</u>	<u>\$ 24,336</u>	<u>\$ (55,193)</u>	<u>\$ 76,985</u>	<u>\$ 129,874</u>
Income tax expense/(recovery)	10,185	4,484	(8,826)	(2,220)	(1,071)
<b>Net income/(loss)</b>	<u>\$ 131,408</u>	<u>\$ 19,852</u>	<u>\$ (46,367)</u>	<u>\$ 79,205</u>	<u>\$ 130,945</u>
<b>GAAP Ratios</b>					
Loss and loss expense ratio	45.8%	47.4%	64.7%	66.2%	52.5%
Acquisition cost ratio	11.5%	10.2%	10.5%	9.8%	9.8%
General and administrative expense ratio	18.0%	18.5%	15.0%	17.2%	15.9%
Expense ratio	29.5%	28.7%	25.5%	27.0%	25.7%
Combined ratio	<u>75.3%</u>	<u>76.1%</u>	<u>90.2%</u>	<u>93.2%</u>	<u>78.2%</u>
<b>Per Share Data</b>					
Basic earnings per share					
Net income/(loss)	\$ 2.67	\$ 0.40	\$ (0.95)	\$ 1.62	\$ 2.68
Operating income	\$ 2.79	\$ 2.88	\$ 2.09	\$ 1.70	\$ 2.62
Diluted earnings per share					
Net income/(loss)	\$ 2.57	\$ 0.39	\$ (0.95)	\$ 1.56	\$ 2.55
Operating income	\$ 2.69	\$ 2.80	\$ 2.03	\$ 1.64	\$ 2.49

**ATTACHMENT C:**

**BRIT**

Financial Statements as at December 31, 2008



# Consolidated Income Statement

for the year ended 31 December 2008

	Note	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
<b>Revenue</b>			
Gross premiums written	5	1,394.6	1,264.9
Less premiums ceded to reinsurers	5	(231.3)	(145.5)
<b>Premiums written, net of reinsurance</b>		<b>1,163.3</b>	1,119.4
Gross amount of change in provision for unearned premiums		(77.2)	(10.8)
Reinsurers' share of change in provision for unearned premiums		15.7	(5.3)
Net change in provision for unearned premiums		(61.5)	(16.1)
<b>Earned premiums, net of reinsurance</b>		<b>1,101.8</b>	1,103.3
Foreign exchange gains and other income	6	125.1	21.4
Investment return	7	7.4	137.4
Return on derivative contracts	8	(19.1)	(9.7)
Disposal of subsidiary undertakings		–	2.3
Disposal of asset held for sale		–	2.9
Disposal and partial disposal of associated undertakings	9	4.5	1.9
<b>Total revenue</b>		<b>1,219.7</b>	1,259.5
<b>Expenses</b>			
<b>Claims incurred:</b>			
<b>Claims paid:</b>			
Gross amount		(694.3)	(584.8)
Reinsurers' share		90.0	112.9
<b>Claims paid, net of reinsurance</b>		<b>(604.3)</b>	(471.9)
<b>Change in the provision for claims:</b>			
Gross amount		(191.8)	(201.5)
Reinsurers' share		68.5	12.5
<b>Net change in the provision for claims</b>		<b>(123.3)</b>	(189.0)
Claims incurred, net of reinsurance	5	(727.6)	(660.9)
Acquisition costs	10	(306.1)	(298.4)
Other operating expenses	10	(90.4)	(99.2)
<b>Total expenses excluding finance costs</b>		<b>(1,124.1)</b>	(1,058.5)
<b>Operating profit</b>		<b>95.6</b>	201.0
Finance costs	12	(13.1)	(12.7)
Finance income	13	7.2	–
Share of (loss)/profit after tax of associated undertakings	20	(0.5)	2.9
<b>Profit on ordinary activities before tax</b>		<b>89.2</b>	191.2
Tax expense	15(i)	(22.6)	(53.6)
<b>Profit attributable to owners of the parent</b>		<b>66.6</b>	137.6
<b>Basic earnings per share (pence per share)</b>			
	16	21.52p	43.24p
<b>Diluted earnings per share (pence per share)</b>			
	16	21.52p	43.13p

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2008

	Note	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
<b>Profit for the year</b>		<b>66.6</b>	137.6
<b>Other comprehensive income net of tax</b>			
Actuarial (losses)/gains on defined benefit pension scheme	27	(10.1)	1.9
Tax relating to components of other comprehensive income	15(ii)	2.9	(0.6)
Foreign exchange translation differences arising on the revaluation of foreign operations	20	4.1	(0.3)
Reversal of foreign exchange translation differences resulting from the disposal and partial disposal of foreign operations	9	1.3	0.3
Effect of associates' capital movements	20	0.6	1.9
<b>Other comprehensive income for the year net of tax</b>		<b>(1.2)</b>	3.2
<b>Total comprehensive income for the year attributable to owners of the parent</b>		<b>65.4</b>	140.8

# Consolidated Statement of Financial Position

at 31 December 2008

	Note	31 December 2008 £m	31 December 2007 £m
<b>Assets</b>			
Property, plant and equipment	17	8.0	10.0
Intangible assets	18	82.1	80.5
Deferred acquisition costs	19	152.1	132.2
Investments in associated undertakings	20	29.1	33.0
Current taxation		1.9	–
Reinsurance contracts	22	549.6	380.8
Financial investments	23	2,393.0	1,993.3
Derivative contracts	24	1.4	1.8
Insurance and other receivables	25	518.4	467.5
Cash and cash equivalents	26	840.7	735.3
<b>Total assets</b>		<b>4,576.3</b>	<b>3,834.4</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Insurance contracts	22	3,344.7	2,623.0
Employee benefits	27	1.4	5.1
Borrowings	28	143.1	174.2
Current taxation		–	12.3
Deferred taxation	29	29.5	21.4
Provisions	30	0.4	0.4
Derivative contracts	24	5.4	1.9
Insurance and other payables	31	202.1	147.2
<b>Total liabilities</b>		<b>3,726.6</b>	<b>2,985.5</b>
<b>Equity</b>			
Called up share capital	33	247.3	247.3
Share premium account		–	138.0
Capital redemption reserve		–	0.6
Translation reserve		4.1	(1.3)
Own shares	34	(64.2)	(63.1)
Retained earnings		662.5	527.4
<b>Total equity attributable to owners of the parent</b>		<b>849.7</b>	<b>848.9</b>
<b>Total liabilities and equity</b>		<b>4,576.3</b>	<b>3,834.4</b>

The financial statements were approved by the Board of Directors on 8 March 2009 and were signed on its behalf by

**John Barton**  
Chairman

**Matthew Scales**  
Finance Director

# Consolidated Statement of Cash Flows

for the year ended 31 December 2008

	Note	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m (restated)
<b>Cash generated from operations</b>			
Cash flows provided by operating activities	36	36.5	368.2
Tax paid		(25.8)	(47.1)
Interest paid		(11.8)	(12.3)
Interest received		109.3	109.1
Dividends received		4.0	5.7
<b>Net cash inflows from operating activities</b>		<b>112.2</b>	<b>423.6</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(2.1)	(3.9)
Purchase of intangible assets		(5.5)	(7.5)
Net proceeds from disposal of property, plant and equipment		0.2	0.4
Net proceeds from disposal of asset held for sale		–	1.2
Net increase in cash from disposal of subsidiary undertakings		–	7.6
Net proceeds from disposals and partial disposals of associated undertakings		22.1	5.1
Net movements in associated undertaking ordinary and preference shares		(0.8)	1.5
Investment in associated undertakings		(13.2)	(10.0)
<b>Net cash inflows/(outflows) from investing activities</b>		<b>0.7</b>	<b>(5.6)</b>
<b>Cash flows from financing activities</b>			
Proceeds from exercised share options		–	3.5
Equity dividends paid		(68.2)	(54.5)
Repurchase of Lower Tier Two subordinated debt		(8.4)	–
Repurchase of 8.5% unsecured subordinated loan stock		(19.7)	–
Acquisition of own shares for employee incentive schemes		(0.5)	(5.5)
Repurchase of treasury shares		(1.1)	(52.3)
<b>Net cash outflows from financing activities</b>		<b>(97.9)</b>	<b>(108.8)</b>
<b>Net increase in cash and cash equivalents</b>		<b>15.0</b>	<b>309.2</b>
Cash and cash equivalents at beginning of the year		735.3	421.1
Effect of exchange rate fluctuations on cash and cash equivalents		90.4	5.0
<b>Cash and cash equivalents at the end of the year</b>	26	<b>840.7</b>	<b>735.3</b>

**ATTACHMENT D:**

**COLCHESTER**

Financial Statements as at June 30, 2008

Interim Financial Statements as at December 31, 2008

# COLCHESTER REINSURANCE LIMITED

## Balance sheet


As at June 30, 2008

(expressed in Canadian dollars)

	Notes	2008	2007
<b>Assets</b>			
Cash and cash equivalents	3	\$ 452,410	\$ 3,867,046
Investments	4	26,102,067	20,935,240
Accounts receivable and prepayments	5	<u>254,605</u>	<u>208,439</u>
		<u>\$ 26,809,082</u>	<u>\$ 25,010,725</u>
<b>Liabilities</b>			
Provisions for losses and loss adjustment expenses	6	\$ 11,317,000	\$ 13,220,000
Claims payable		1,285,156	13,145
Accounts payable and accrued expenses		<u>38,920</u>	<u>65,400</u>
		<u>12,641,076</u>	<u>13,298,545</u>
<b>Shareholders' equity</b>			
Share capital	7	3,315,200	3,431,100
Retained earnings	8	10,827,504	8,281,080
Accumulated other comprehensive income		<u>25,302</u>	<u>-</u>
		<u>14,168,006</u>	<u>11,712,180</u>
		<u>\$ 26,809,082</u>	<u>\$ 25,010,725</u>

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

Approved by the Board on March 20, 2009

  
Director

  
Director

# COLCHESTER REINSURANCE LIMITED

## Statement of retained earnings and changes in accumulated other comprehensive income

For the year ended June 30, 2008

*(expressed in Canadian dollars)*

	Notes	2008	2007
Retained earnings, beginning of year		\$ 8,281,080	\$ 2,156,024
Net income		2,686,524	6,125,056
Redemption of shares		<u>(140,100)</u>	<u>-</u>
Retained earnings, end of year		\$ <u>10,827,504</u>	\$ <u>8,281,080</u>
Accumulated other comprehensive income			
Accumulated other comprehensive income, beginning of year		\$ -	\$ -
Impact of change in accounting policy for available-for-sale investments	2,4	(348,597)	-
Change in unrealized gains and losses on available-for-sale investments		<u>373,899</u>	<u>-</u>
Accumulated other comprehensive income, end of year		\$ <u>25,302</u>	\$ <u>-</u>

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

# COLCHESTER REINSURANCE LIMITED

## Statement of income and comprehensive income

For the year ended June 30, 2008

(expressed in Canadian dollars)

	Notes	2008	2007
<b>Revenue</b>			
Reinsurance premiums written and earned		\$ 2,600,748	\$ 4,041,792
Retrocession premiums ceded		(1,324,000)	(1,440,000)
		1,276,748	2,601,792
Net investment income	4	957,303	840,843
		<u>2,234,051</u>	<u>3,442,635</u>
<b>Expenses</b>			
Losses and loss adjustment expenses		1,277,135	98,233
Change in provision for losses and loss adjustment expenses		(1,903,000)	(2,970,000)
Operating expenses		170,600	186,369
		<u>(455,265)</u>	<u>(2,685,398)</u>
<b>Income for the year before taxation</b>		2,689,316	6,128,033
Taxation		<u>2,792</u>	<u>2,977</u>
<b>Income for the year after taxation</b>		\$ <u>2,686,524</u>	\$ <u>6,125,056</u>
<b>Other comprehensive income</b>			
Unrealised gains and losses on available-for-sale investments arising during the year		\$ 377,751	\$ -
Reclassification in net income of gains and losses realised on available-for-sale investments during the year		(3,852)	-
		<u>373,899</u>	<u>-</u>
<b>Total comprehensive income</b>		\$ <u>3,060,423</u>	\$ <u>-</u>

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



# COLCHESTER REINSURANCE LIMITED

## Statement of cash flows

For the year ended June 30, 2008

(expressed in Canadian dollars)

	Notes	2008	2007
<b>Operating activities</b>			
Income for the year after taxation		\$ 2,686,524	\$ 6,125,056
Add items not using cash:			
(Gain) loss on sale of bonds	4	(4,457)	29,993
Amortisation of premium on bonds		<u>73,544</u>	<u>76,910</u>
		2,755,611	6,231,959
Changes in non-cash balances:			
Claims payable		1,272,011	94,569
Accounts receivable and prepayments		(46,166)	(59,503)
Accounts payable and accrued expenses		(26,480)	29,427
Provisions for losses and loss adjustment expenses		<u>(1,903,000)</u>	<u>(2,970,000)</u>
<i>Net cash from operating activities</i>		<u>2,051,976</u>	<u>3,326,452</u>
<b>Investing activities</b>			
Purchase of investments		(12,925,837)	(9,351,759)
Proceeds on sale of investments	4	<u>7,715,225</u>	<u>6,298,813</u>
<i>Net cash (used in) investing activities</i>		<u>(5,210,612)</u>	<u>(3,052,946)</u>
<b>Financing activities</b>			
Cash paid to shareholder on redemption of shares		(256,000)	-
Cash received from preference shareholders on cancellation of letters of credit		<u>-</u>	<u>919,840</u>
<i>Net cash (used in) from financing activities</i>		<u>(256,000)</u>	<u>919,840</u>
<b>Change in cash and cash equivalents, for the year</b>		<b>(3,414,636)</b>	<b>1,193,346</b>
Cash and cash equivalents, beginning of year		<u>3,867,046</u>	<u>2,673,700</u>
<b>Cash and cash equivalents, end of year</b>	3	<b>\$ <u>452,410</u></b>	<b>\$ <u>3,867,046</u></b>

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

**COLCHESTER REINSURANCE LIMITED**  
**UNAUDITED BALANCE SHEET AS AT DECEMBER 31, 2008**

(EXPRESSED IN CANADIAN \$)

		DECEMBER 31, 2008	DECEMBER 31, 2007
<b>ASSETS</b>			
Cash at bank - premier accounts		195,253.67	340,510.98
deposit accounts		0.00	0.00
	1	<u>195,253.67</u>	<u>340,510.98</u>
Royal Bank of Canada-Investments	2	25,947,280.99	24,566,874.03
Accrued interest receivable	3	238,284.80	236,994.02
Insurance Balances Receivable		1,124,475.00	1,300,374.00
Deferred Reinsurance Premiums	4	641,250.00	662,000.00
Prepaid expenses	5	8,750.00	8,749.98
		<u>27,960,040.79</u>	<u>26,774,992.03</u>
<b>TOTAL ASSETS</b>		<u><u>28,155,294.46</u></u>	<u><u>27,115,503.01</u></u>
<b>LIABILITIES</b>			
Insurance balances payable		0.00	0.00
Accrued expenses	6	46,056.44	31,366.25
Accounts payable		0.00	0.00
Claims payable		182,144.65	14,433.00
		<u>228,201.09</u>	<u>45,799.25</u>
<b>RESERVES</b>			
Unearned Premium Reserve	8	1,124,475.00	1,300,374.00
Outstanding losses	7	1,942,000.00	2,563,556.00
Outstanding losses - I.B.N.R.	7	8,295,000.00	10,039,812.00
		<u>11,361,475.00</u>	<u>13,903,742.00</u>
<b>SHAREHOLDERS EQUITY</b>			
Share capital-common shares		1,200.00	1,300.00
Class A preference shares		3,314,000.00	3,429,800.00
Earned surplus at start of year		10,827,504.00	8,281,079.60
Net profit/(loss) for the period		1,837,960.33	1,593,428.73
		<u>15,980,664.33</u>	<u>13,305,608.33</u>
Accum. Other Comprehensive Deficit		584,954.04	(139,646.57)
<b>TOTAL SHAREHOLDERS EQUITY</b>		<u><u>16,565,618.37</u></u>	<u><u>13,165,961.76</u></u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>			
		<u><u>28,155,294.46</u></u>	<u><u>27,115,503.01</u></u>

**COLCHESTER REINSURANCE LIMITED**  
**UNAUDITED STATEMENT OF INCOME**  
**FOR THE PERIOD JULY 1 2008 TO DECEMBER 31, 2008**  
**(EXPRESSED IN CANADIAN \$)**

	MOVEMENT DURING QTR	6 MONTHS TO DECEMBER 31 2008	6 MONTHS TO DECEMBER 31 2007
<b>UNDERWRITING INCOME</b>			
Premiums written	0.00	2,248,950.00	2,600,748.00
Unearned premium transfer	562,237.50	(1,124,475.00)	(1,300,374.00)
<b>GROSS EARNED PREMIUMS</b>	<u>562,237.50</u>	<u>1,124,475.00</u>	<u>1,300,374.00</u>
Reinsurers' ceded premiums	(320,625.00)	(641,250.00)	(662,000.00)
<b>NET EARNED PREMIUMS</b>	<u>241,612.50</u>	<u>483,225.00</u>	<u>638,374.00</u>
<b>TOTAL UNDERWRITING INCOME</b>	<u>241,612.50</u>	<u>483,225.00</u>	<u>638,374.00</u>
<b>UNDERWRITING EXPENSES</b>			
Net losses paid	172,429.30	172,466.33	71,655.18
Outstanding losses adjustment	(1,097,000.00)	(1,080,000.00)	(616,632.00)
<b>NET INCURRED LOSSES</b>	<u>(924,570.70)</u>	<u>(907,533.67)</u>	<u>(544,976.82)</u>
<b>OTHER UNDERWRITING EXPENSES</b> (see schedule)	<u>8,750.00</u>	<u>17,500.00</u>	<u>17,500.00</u>
<b>TOTAL UNDERWRITING EXPENSES</b>	<u>(915,820.70)</u>	<u>(890,033.67)</u>	<u>(527,476.82)</u>
<b>UNDERWRITING PROFIT / (LOSS)</b>	1,157,433.20	1,373,258.67	1,165,850.82
<b>GENERAL AND ADMIN EXPENSES</b> (see schedule)	<u>45,702.16</u>	<u>81,092.08</u>	<u>70,162.16</u>
	<u>1,111,731.04</u>	<u>1,292,166.59</u>	<u>1,095,688.66</u>
<b>INTEREST INCOME &amp; EXCEPTIONAL ITEMS</b>			
Interest income	280,816.67	553,941.36	547,575.93
Profit/(loss) on sale of invts	4,418.60	4,418.60	(4,218.95)
Profit/(loss) on exchange	0.00	0.00	0.00
Amortisation of investments	40,693.26	14,512.78	(25,029.91)
Investment management fees	(13,441.00)	(27,079.00)	(20,587.00)
	<u>312,487.53</u>	<u>545,793.74</u>	<u>497,740.07</u>
<b>NET PROFIT / (LOSS)</b>	<u>1,424,218.57</u>	<u>1,837,960.33</u>	<u>1,593,428.73</u>
<b>RETAINED EARNINGS</b>	<u>1,424,218.57</u>	<u>1,837,960.33</u>	<u>1,593,428.73</u>

**ATTACHMENT E:**

**HANNOVER RE**

Financial Statements as at December 31, 2008  
Interim Financial Statements as at March 31, 2009

# CONSOLIDATED BALANCE SHEET

as at 31 December 2008

Figures in EUR thousand		2008	2007
Assets	Notes	31.12.	31.12.
Fixed-income securities – held to maturity	7.1	1,475,202	1,488,816
Fixed-income securities – loans and receivables	7.1	1,680,857	1,537,889
Fixed-income securities – available for sale	7.1	14,482,832	12,477,055
Fixed-income securities – at fair value through profit or loss	7.1	254,528	158,740
Equity securities – available for sale	7.1	22,589	2,000,390
Other financial assets – at fair value through profit or loss	7.1	44,654	20,385
Real estate	7.1	25,514	16,962
Investments in associated companies	7.1	128,680	170,839
Other invested assets	7.1	784,421	677,957
Short-term investments	7.1	807,719	930,821
Cash		430,225	335,422
Total investments and cash under own management		20,137,221	19,815,276
Funds held	7.3	9,776,147	8,610,554
Contract deposits	7.3	288,782	616,134
<b>Total investments</b>		<b>30,202,150</b>	<b>29,041,964</b>
Reinsurance recoverables on unpaid claims	7.2	2,079,168	2,471,585
Reinsurance recoverables on benefit reserve	7.2	159,151	255,076
Prepaid reinsurance premium	7.2	29,733	92,322
Reinsurance recoverables on other technical reserves	7.2	9,928	5,574
Deferred acquisition costs	7.2	1,860,783	1,807,143
Accounts receivable	7.2	2,801,762	2,525,871
Goodwill	7.4	42,833	45,438
Deferred tax assets	7.5	549,146	577,731
Other assets	7.12	260,265	244,278
Accrued interest and rent		6,824	1,425
		38,001,743	37,068,407

Figures in EUR thousand		2008	2007
Liabilities	Notes	31.12.	31.12.
Loss and loss adjustment expense reserve	7.2	16,932,069	16,553,888
Benefit reserve	7.2	5,913,075	6,143,460
Unearned premium reserve	7.2	1,333,856	1,186,382
Provisions for contingent commissions	7.2	156,996	183,725
Funds held	7.3	565,952	956,912
Contract deposits	7.3	5,146,424	3,668,825
Reinsurance payable		1,236,912	1,141,067
Provisions for pensions	7.7	72,207	67,101
Taxes	7.5	201,960	202,621
Provision for deferred taxes	7.5	1,371,589	1,350,679
Other liabilities	7.12	319,183	277,037
Long-term debt and subordinated capital	7.8	1,420,027	1,414,877
<b>Total liabilities</b>		<b>34,670,250</b>	<b>33,146,574</b>
Shareholders' equity			
Common shares	7.9	120,597	120,597
Nominal value 120,597 Authorised capital 60,299	7.9		
Additional paid-in capital		724,562	724,562
Common shares and additional paid-in capital		845,159	845,159
Cumulative other comprehensive income			
Unrealised gains and losses on investments		113,864	181,395
Cumulative foreign currency translation adjustment		(247,565)	(213,117)
Other changes in cumulative other comprehensive income		(4,577)	6,482
Total other comprehensive income		(138,278)	(25,240)
Retained earnings		2,123,178	2,529,170
Shareholders' equity before minorities		2,830,059	3,349,089
Minority interests		501,434	572,744
<b>Total shareholders' equity</b>		<b>3,331,493</b>	<b>3,921,833</b>
		<b>38,001,743</b>	<b>37,068,407</b>

# CONSOLIDATED STATEMENT OF INCOME

for the 2008 financial year

Figures in EUR thousand		2008	2007
	Notes	1.1.–31.12.	1.1.–31.12.
Gross written premium		8,120,919	8,258,901
Ceded written premium		886,621	1,036,950
Change in gross unearned premium		(113,480)	298,490
Change in ceded unearned premium		(59,193)	(227,511)
<b>Net premium earned</b>		<b>7,061,625</b>	<b>7,292,930</b>
Ordinary investment income	7.1	829,786	859,020
Profit/loss from investments in associated companies	7.1	4,199	11,028
Income/expense on funds withheld and contract deposits	7.1	199,587	220,108
Realised gains on investments	7.1	379,202	244,046
Realised losses on investments	7.1	492,756	69,735
Unrealised gains and losses on investments	7.1	(119,718)	(18,771)
Total depreciation, impairments and appreciation of investments	7.1	480,420	71,982
Other investment expenses	7.1	41,421	51,968
<b>Net investment income</b>		<b>278,459</b>	<b>1,121,746</b>
Other technical income	7.13	7,294	1,130
<b>Total revenues</b>		<b>7,347,378</b>	<b>8,415,806</b>
Claims and claims expenses	7.2	4,702,127	5,031,071
Change in benefit reserves	7.2	421,342	397,934
Commission and brokerage, change in deferred acquisition costs	7.2, 7.13	1,635,941	1,759,010
Other acquisition costs	7.2	11,676	12,571
Other technical expenses	7.2, 7.13	12,166	20,081
Administrative expenses	7.13	216,047	204,358
<b>Total technical expenses</b>		<b>6,999,299</b>	<b>7,425,025</b>
Other income and expenses	7.14	(200,011)	(62,779)
<b>Operating profit/loss (EBIT)</b>		<b>148,068</b>	<b>928,002</b>
Interest on hybrid capital	7.8	77,442	77,600
<b>Net income before taxes</b>		<b>70,626</b>	<b>850,402</b>
Taxes	7.5	205,610	47,452
<b>Net income (loss) from continuing operations</b>		<b>(134,984)</b>	<b>802,950</b>
<b>Net income (loss) from discontinued operations</b>		<b>–</b>	<b>35,085</b>
<b>Net income (loss)</b>		<b>(134,984)</b>	<b>838,035</b>
thereof			
Minority interest in profit and loss		(7,997)	116,372
Group net income (loss)		(126,987)	721,663
<b>Earnings per share</b>			
Earnings per share in EUR	7.11	(1.05)	5.98
<b>from continuing operations in EUR</b>		<b>(1.05)</b>	<b>5.69</b>
<b>from discontinued operations in EUR</b>		<b>–</b>	<b>0.29</b>

# CONSOLIDATED STATEMENT

## of changes in shareholders' equity 2008

Figures in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)			Retained earnings	Minority interests	Shareholders' equity
			Currency translation	Unrealised gains/losses	Other			
Balance as at 1.1.2007	120,597	724,562	(71,518)	144,199	(1,526)	1,981,521	608,551	3,506,386
Capital repayments							(69)	(69)
Income and expense directly recognised in equity			(147,395)	61,070	11,392	18,941	(119,087)	(175,079)
Tax effects on income and expense directly recognised in equity			5,796	(23,874)	(3,384)			(21,462)
Dividends paid						(192,955)	(33,023)	(225,978)
Net income (loss)						721,663	116,372	838,035
Balance as at 31.12.2007	120,597	724,562	(213,117)	181,395	6,482	2,529,170	572,744	3,921,833
Balance as at 1.1.2008	120,597	724,562	(213,117)	181,395	6,482	2,529,170	572,744	3,921,833
Income and expense directly recognised in equity			(22,526)	(17,285)	(17,182)	(1,632)	(21,821)	(80,446)
Tax effects on income and expense directly recognised in equity			(11,922)	(50,246)	6,123			(56,045)
Dividends paid						(277,373)	(41,492)	(318,865)
Net income (loss)						(126,987)	(7,997)	(134,984)
Balance as at 31.12.2008	120,597	724,562	(247,565)	113,864	(4,577)	2,123,178	501,434	3,331,493



# CONSOLIDATED CASH FLOW STATEMENT

## 2008

The reporting on cash flows within the Group is based on IAS 7 "Statement of Cash Flows". In addition, we observed the principles set out in German Accounting Standard No. 2 (DRS 2) of the German Standards Council regarding the preparation of cash flow statements, which were supplemented by the requirements of DRS 2–20 that apply specifically to insurance enterprises. In accordance with the recommendation of the German Standards Council for insurance enterprises, we adopted the indirect method of presentation. The amounts taken into consideration are limited to cash and cash equivalents shown under the balance sheet item "Cash".

Figures in EUR thousand	2008	2007
	1.1.–31.12.	1.1.–31.12.
<b>I. Cash flow from operating activities</b>		
Net income (loss)	(134,984)	838,035
Appreciation/depreciation	537,578	92,725
Net realised gains and losses on investments	113,554	(174,311)
Net realised gains and losses on discontinued operations	–	(92,080)
Amortisation of investments	(8,737)	(9,043)
Changes in funds held	(1,735,801)	(728,897)
Net changes in contract deposits	1,645,271	155,984
Changes in prepaid reinsurance premium (net)	204,187	(71,536)
Changes in tax assets/provisions for taxes	(12,341)	(141,612)
Changes in benefit reserve (net)	399,654	566,914
Changes in claims reserves (net)	733,112	461,279
Changes in deferred acquisition costs	(136,715)	83,135
Changes in other technical provisions	(35,452)	(956)
Changes in clearing balances	(189,891)	(161,390)
Changes in other assets and liabilities (net)	79,418	93,806
<b>Cash flow from operating activities</b>	<b>1,458,853</b>	<b>912,053</b>
<b>II. Cash flow from investing activities</b>		
Fixed-income securities – held to maturity		
Maturities	39,245	86,516
Purchases	–	(43,518)
Fixed-income securities – loans and receivables		
Maturities, sales	86,975	129,315
Purchases	(219,451)	(490,617)
Fixed-income securities – available for sale		
Maturities, sales	10,421,889	5,459,925
Purchases	(12,558,404)	(5,624,716)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	34,663	23,602
Purchases	(111,206)	(25,001)

Figures in EUR thousand	2008	2007
	1.1.–31.12.	1.1.–31.12.
Equity securities – available for sale		
Sales	2,159,265	1,550,732
Purchases	(1,010,888)	(1,880,906)
Equity securities – at fair value through profit or loss		
Sales	–	20,340
Purchases	–	(13,830)
Other financial instruments – at fair value through profit or loss		
Sales	156,010	–
Purchases	(69,012)	–
Other invested assets		
Sales	19,962	93,616
Purchases	(163,638)	(137,436)
Affiliated companies and participating interests		
Sales	41,405	591,223
Purchases	(5,543)	(1,663)
Real estate		
Sales	–	1
Purchases	(10,076)	(166)
Short-term investments		
Changes	183,949	(279,507)
Other changes (net)	(29,247)	(28,464)
<b>Cash flow from investing activities</b>	<b>(1,034,102)</b>	<b>(570,554)</b>
<b>III. Cash flow from financing activities</b>		
Contribution from capital measures	5,908	2,833
Structural change without loss of control	(5,126)	(108,157)
Dividends paid	(318,865)	(225,978)
Proceeds from long-term debts	39	–
Repayment of long-term debts	(630)	(10,006)
<b>Cash flow from financing activities</b>	<b>(318,674)</b>	<b>(341,308)</b>
<b>IV. Exchange rate differences on cash</b>	<b>(11,274)</b>	<b>(16,545)</b>
<b>Change in cash and cash equivalents ( I+II+III+IV)</b>	<b>94,803</b>	<b>(16,354)</b>
Cash and cash equivalents at the beginning of the period	335,422	351,776
Change in cash and cash equivalents according to cash flow statement	94,803	(16,354)
<b>Cash and cash equivalents at the end of the period</b>	<b>430,225</b>	<b>335,422</b>
Income taxes	(134,451)	(181,816)
Interest paid	(99,203)	(163,643)

# CONSOLIDATED BALANCE SHEET

as at 31 March 2009

Figures in EUR thousand	2009	2008
Assets	31.3.	31.12.
Fixed-income securities – held to maturity	1,505,517	1,475,202
Fixed-income securities – loans and receivables	1,694,753	1,680,857
Fixed-income securities – available for sale	15,174,738	14,482,832
Fixed-income securities – at fair value through profit or loss	243,017	254,528
Equity securities – available for sale	17,647	22,589
Other financial assets – at fair value through profit or loss	46,201	44,654
Real estate	22,677	25,514
Investments in associated companies	128,284	128,680
Other invested assets	759,018	784,421
Short-term investments	940,518	807,719
Cash	418,061	430,225
Total investments and cash under own management	20,950,431	20,137,221
Funds held	10,888,839	9,776,147
Contract deposits	354,963	288,782
<b>Total investments</b>	<b>32,194,233</b>	<b>30,202,150</b>
Reinsurance recoverables on unpaid claims	2,116,577	2,079,168
Reinsurance recoverables on benefit reserve	196,610	159,151
Prepaid reinsurance premium	80,666	29,733
Reinsurance recoverables on other technical reserves	7,210	9,928
Deferred acquisition costs	1,957,609	1,860,783
Accounts receivable	3,359,608	2,801,762
Goodwill	43,089	42,833
Deferred tax assets	599,048	549,146
Other assets	405,560	260,265
Accrued interest and rent	6,523	6,824
	40,966,733	38,001,743

Figures in EUR thousand	2009	2008
<b>Liabilities</b>	<b>31.3.</b>	<b>31.12.</b>
Loss and loss adjustment expense reserve	17,780,656	16,932,069
Benefit reserve	7,209,321	5,913,075
Unearned premium reserve	1,768,589	1,333,856
Provisions for contingent commissions	153,345	156,996
Funds held	662,589	565,952
Contract deposits	5,291,347	5,146,424
Reinsurance payable	1,193,249	1,236,912
Provisions for pensions	73,538	72,207
Taxes	198,240	201,960
Provision for deferred taxes	1,421,667	1,371,589
Other liabilities	384,770	319,183
Long-term debt and subordinated capital	1,408,494	1,420,027
<b>Total liabilities</b>	<b>37,545,805</b>	<b>34,670,250</b>
Shareholders' equity		
Common shares	120,597	120,597
Nominal value 120,597 Authorised capital 60,299		
Additional paid-in capital	724,562	724,562
Common shares and additional paid-in capital	845,159	845,159
Cumulative other comprehensive income		
Unrealised gains and losses on investments	(74,962)	113,864
Cumulative foreign currency translation adjustment	(177,018)	(247,565)
Other changes in cumulative other comprehensive income	4,590	(4,577)
Total other comprehensive income	(247,390)	(138,278)
Retained earnings	2,339,324	2,123,178
Shareholders' equity before minorities	2,937,093	2,830,059
Minority interests	483,835	501,434
<b>Total shareholders' equity</b>	<b>3,420,928</b>	<b>3,331,493</b>
	<b>40,966,733</b>	<b>38,001,743</b>

# CONSOLIDATED STATEMENT OF INCOME

for the period 1 January to 31 March 2009

Figures in EUR thousand	2009	2008
	1.1.–31.3.	1.1.–31.3.
Gross written premium	2,661,865	2,275,471
Ceded written premium	220,941	257,360
Change in gross unearned premium	(399,961)	(357,756)
Change in ceded unearned premium	50,374	18,310
<b>Net premium earned</b>	<b>2,091,337</b>	<b>1,678,665</b>
Ordinary investment income	199,310	211,299
Profit/loss from investments in associated companies	87	695
Income/expense on funds withheld and contract deposits	57,883	54,602
Realised gains on investments	45,927	133,776
Realised losses on investments	8,128	26,074
Unrealised gains and losses on investments	(33,692)	(11,875)
Total depreciation, impairments and appreciation of investments	50,258	85,743
Other investment expenses	12,965	14,070
<b>Net investment income</b>	<b>198,164</b>	<b>262,610</b>
Other technical income	518	137
<b>Total revenues</b>	<b>2,290,019</b>	<b>1,941,412</b>
Claims and claims expenses	1,477,884	1,163,730
Change in benefit reserve	165,362	84,042
Commission and brokerage, change in deferred acquisition costs	381,647	396,733
Other acquisition costs	3,286	4,660
Other technical expenses	7,514	2,863
Administrative expenses	57,892	55,374
<b>Total technical expenses</b>	<b>2,093,585</b>	<b>1,707,402</b>
Other income and expenses	109,393	11,636
<b>Operating profit/loss (EBIT)</b>	<b>305,827</b>	<b>245,646</b>
Interest on hybrid capital	19,035	19,303
<b>Net income before taxes</b>	<b>286,792</b>	<b>226,343</b>
Taxes	67,808	67,948
<b>Net income</b>	<b>218,984</b>	<b>158,395</b>
thereof		
Minority interest in profit and loss	2,836	6,934
Group net income	216,148	151,461
<b>Earnings per share</b>		
Earnings per share in EUR	1.79	1.26

## Consolidated statement of recognised income and expense

Figures in EUR thousand	2009	2008
	1.1.–31.3.	1.1.–31.3.
<b>Net income</b>	218,984	158,395
Unrealised gains and losses on investments		
Gains (losses) recognised in equity	(239,341)	(223,457)
Transferred to the consolidated statement of income	(16,841)	(7,751)
Tax income (expense)	57,685	(6,682)
	(198,497)	(237,890)
Currency translation		
Gains (losses) recognised in equity	82,684	(149,949)
Transferred to the consolidated statement of income	(298)	(674)
Tax income (expense)	(9,501)	9,730
	72,885	(140,893)
Changes from the measurement of associated companies		
Gains (losses) recognised in equity	(518)	(566)
	(518)	(566)
Other changes		
Gains (losses) recognised in equity	11,746	(289)
Tax income (expense)	(2,630)	68
	9,116	(221)
Total tax income (expense)	45,554	3,116
Income and expense recognised directly in equity after tax	(117,014)	(379,570)
Changes in the consolidated group	–	193
<b>Total recognised income and expense</b>	101,970	(220,982)
thereof		
Attributable to minority interests	(5,064)	(27,022)
Attributable to the Group	107,034	(193,960)

**ATTACHMENT F:**

**LLOYD'S**

Financial Statements as at December 31, 2008

# AGGREGATE PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2008

	Note	£m	2008 £m	£m	2007 Restated £m
<b>Technical account</b>					
Gross written premiums – continuing operations			18,080		16,461
– discontinued operations			178		241
	3		18,258		16,702
Outward reinsurance premiums			(3,768)		(3,110)
Written premiums, net of reinsurance			14,490		13,592
Change in the provision for unearned premiums					
Gross amount		(559)		(230)	
Reinsurers' share		137		77	
Change in the net provision for unearned premiums			(422)		(153)
<b>Earned premiums, net of reinsurance</b>			14,068		13,439
<b>Allocated investment return transferred from the non-technical account</b>			543		1,225
Other technical income, net of reinsurance			(1)		-
			14,610		14,664
<b>Claims paid</b>					
Gross amount		9,701		8,718	
Reinsurers' share		(2,130)		(2,493)	
			7,571		6,225
<b>Change in provision for claims</b>					
Gross amount		2,137		(761)	
Reinsurers' share		(968)		1,413	
			1,169		652
Claims incurred, net of reinsurance			8,740		6,877
Net operating expenses	6		4,328		4,739
<b>Balance on the technical account for general business</b>			1,542		3,048
Attributable to: – continuing operations			1,353		2,762
– discontinued operations			189		286
<b>Total</b>			1,542		3,048
<b>Non-technical account</b>					
<b>Balance on the technical account for general business</b>			1,542		3,048
Investment income	7	1,456		1,248	
Net unrealised (losses) / gains on investments		(451)		165	
Investment expenses and charges	8	(483)		(185)	
Other income		2		-	
Allocated investment return transferred to the technical account		(543)		(1,225)	
Balance on the non-technical account			(19)		3
<b>Profit for the financial year before tax</b>			1,523		3,051

	Note	2008 £m	2007 £m
<b>Statement of total recognised gains and losses</b>			
Profit for the financial year before tax		1,523	3,051
Exchange differences on translating foreign operations		666	63
<b>Total recognised gains and losses for the financial year</b>		2,189	3,114
Prior year adjustment	1	4	-
<b>Total recognised gains and losses since previously reported</b>		2,193	3,114



# AGGREGATE ACCOUNTS

## AGGREGATE BALANCE SHEET

as at 31 December 2008

	Note	£m	2008 £m	£m	2007 Restated £m
<b>Investments</b>					
Financial investments	9		26,625		21,851
<b>Deposits with ceding undertakings</b>			10		9
<b>Reinsurers' share of technical provisions</b>					
Claims outstanding		9,928		7,062	
Unearned premiums		1,167		840	
			11,095		7,902
<b>Debtors</b>					
Debtors arising out of direct operations	10	4,663		3,426	
Debtors arising out of reinsurance operations	11	3,756		2,918	
Other debtors		332		288	
			8,751		6,632
<b>Other assets</b>					
Cash at bank and in hand		3,221		1,919	
Other		1,666		1,305	
			4,887		3,224
<b>Prepayments and accrued income</b>					
Accrued interest and rent		135		144	
Deferred acquisition costs		2,064		1,661	
Other prepayments and accrued income		188		114	
			2,387		1,919
<b>Total assets</b>			53,755		41,537
<b>Capital and reserves</b>					
Members' balances	12		2,502		2,527
<b>Technical provisions</b>					
Provision for unearned premiums		9,043		7,276	
Claims outstanding		37,754		28,570	
			46,797		35,846
<b>Deposits received from reinsurers</b>			161		58
<b>Creditors</b>					
Creditors arising out of direct insurance operations	13	770		681	
Creditors arising out of reinsurance operations	14	2,558		1,540	
Other creditors		744		687	
			4,072		2,908
<b>Accruals and deferred income</b>			223		198
<b>Total liabilities</b>			53,755		41,537

Approved and authorised for issue by the Council of Lloyd's on 23 March 2009 and signed on their behalf by

LORD LEVENE OF PORTSOKEN, CHAIRMAN

RICHARD WARD, CHIEF EXECUTIVE OFFICER

## AGGREGATE STATEMENT OF CASH FLOWS

for the year ended 31 December 2008

	Notes	2008 £m	2007 Restated £m
<b>Net cash inflow from operating activities</b>	15	<b>3,060</b>	3,471
<b>Transfer to members in respect of underwriting participations</b>		<b>(2,201)</b>	(1,524)
<b>Financing</b>			
Capital transferred into syndicate PTFs		<b>107</b>	322
		<b>966</b>	2,269
<b>Cash flows were invested as follows:</b>			
Increase in cash holdings	16	<b>880</b>	20
Net portfolio investments		<b>86</b>	2,249
Net investment of cash flows		<b>966</b>	2,269

**ATTACHMENT G:**

**SWISS RE**

Financial Statements as at December 31, 2008  
Interim Financial Statements as at March 31, 2009

# Income statement

For the years ended 31 December

CHF millions	Note	2007	2008
<b>Revenues</b>			
Premiums earned	9, 17	31 664	25 501
Fee income from policyholders	9, 17	955	808
Net investment income	2, 17	10 692	7 881
Net realised investment gains/losses	2, 17	-739	-9 482
Other revenues	17	302	270
<b>Total revenues</b>		42 874	24 978
<b>Expenses</b>			
Claims and claim adjustment expenses	9, 17	-12 065	-10 007
Life and health benefits	9, 17	-11 112	-9 065
Return credited to policyholders	17	-2 120	2 822
Acquisition costs	9, 17	-6 499	-5 366
Other expenses	17	-4 077	-3 211
Interest expenses	17	-1 814	-1 501
<b>Total expenses</b>		-37 687	-26 328
<b>Income/loss before income tax expense/benefit</b>		5 187	-1 350
Income tax expense/benefit		-1 025	486
<b>Net income/loss</b>		4 162	-864
<b>Earnings per share in CHF</b>			
Basic	11	11.95	-2.61
Diluted	11	11.23	-2.61

The accompanying notes are an integral part of the Group financial statements.

# Balance sheet

As of 31 December

## Assets

CHF millions	Note	2007	2008
<b>Investments</b>	<b>2, 3, 4</b>		
Fixed income securities:			
Available-for-sale, at fair value (including 9 045 in 2007 and 8 188 in 2008 subject to securities lending and repurchase agreements) (amortised cost: 2007: 105 995; 2008: 106 216)		107 810	<b>103 438</b>
Trading (including 15 000 in 2007 and 33 in 2008 subject to securities lending and repurchase agreements)		51 793	<b>13 961</b>
Equity securities:			
Available-for-sale, at fair value (including 1 528 in 2007 and 9 in 2008 subject to securities lending and repurchase agreements) (amortised cost: 2007: 9 039; 2008: 675)		10 759	<b>833</b>
Trading		22 103	<b>15 355</b>
Policy loans, mortgages and other loans		7 414	<b>6 611</b>
Investment real estate		2 682	<b>2 143</b>
Short-term investments, at amortised cost which approximates fair value		8 786	<b>5 802</b>
Other invested assets		16 465	<b>15 822</b>
<b>Total investments</b>		<b>227 812</b>	<b>163 965</b>
Cash and cash equivalents (including 0 in 2007 and 2 477 in 2008 subject to securities lending)		11 531	<b>17 268</b>
Accrued investment income		2 139	<b>1 449</b>
Premiums and other receivables		14 341	<b>12 446</b>
Reinsurance recoverable on unpaid claims and policy benefits	9	14 232	<b>11 934</b>
Funds held by ceding companies		14 205	<b>11 230</b>
Deferred acquisition costs	6, 9	5 152	<b>4 311</b>
Acquired present value of future profits	6	6 769	<b>6 139</b>
Goodwill		4 897	<b>4 265</b>
Income taxes recoverable		1 049	<b>757</b>
Other assets		5 160	<b>6 113</b>
<b>Total assets</b>		<b>307 287</b>	<b>239 877</b>

The accompanying notes are an integral part of the Group financial statements.

## Liabilities and shareholders' equity

CHF millions	Note	2007	2008
<b>Liabilities</b>			
Unpaid claims and claim adjustment expenses	8	88 528	75 510
Liabilities for life and health policy benefits	9	50 026	39 911
Policyholder account balances	9	41 340	34 518
Unearned premiums		7 722	7 802
Funds held under reinsurance treaties		8 377	5 872
Reinsurance balances payable		5 384	5 493
Income taxes payable		679	769
Deferred and other non-current taxes	12	3 817	1 329
Short-term debt	7	12 658	6 522
Accrued expenses and other liabilities		33 552	21 245
Long-term debt	7	23 337	20 453
<b>Total liabilities</b>		275 420	219 424
<b>Shareholders' equity</b>			
Common stock, CHF 0.10 par value			
2007: 370 386 755; 2008: 363 516 036 shares authorised and issued		37	36
Additional paid-in capital		11 208	10 776
Treasury shares		-1 540	-1 640
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of deferred taxes		3 119	-2 407
Cumulative translation adjustments, net of deferred taxes		-2 554	-4 854
Accumulated adjustment for pension and post-retirement benefits, net of deferred taxes		-115	-529
<b>Total accumulated other comprehensive income</b>		450	-7 790
Retained earnings		21 712	19 071
<b>Total shareholders' equity</b>		31 867	20 453
<b>Total liabilities and shareholders' equity</b>		307 287	239 877

The accompanying notes are an integral part of the Group financial statements.

# Income statement (unaudited)

For the three months ended 31 March

CHF millions	Note	2008	2009
<b>Revenues</b>			
Premiums earned	7, 12	6 457	<b>6 528</b>
Fee income from policyholders	7, 12	183	<b>214</b>
Net investment income	2, 12	2 379	<b>1 502</b>
Net realised investment gains/losses (first quarter 2009 total impairments: 1 432 of which 793 recognised in earnings)	2, 12	-2 141	<b>-2 326</b>
Other revenues	12	69	<b>43</b>
<b>Total revenues</b>		<b>6 947</b>	<b>5 961</b>
<b>Expenses</b>			
Claims and claim adjustment expenses	7, 12	-2 558	<b>-2 643</b>
Life and health benefits	7, 12	-2 273	<b>-2 114</b>
Return credited to policyholders	12	1 131	<b>1 357</b>
Acquisition costs	7, 12	-1 329	<b>-1 366</b>
Other expenses	12	-782	<b>-660</b>
Interest expenses	12	-430	<b>-280</b>
<b>Total expenses</b>		<b>-6 241</b>	<b>-5 706</b>
<b>Income before income tax expense</b>		<b>706</b>	<b>255</b>
Income tax expense		-82	<b>-98</b>
<b>Net income</b>		<b>624</b>	<b>157</b>
Interest on convertible perpetual capital instrument			<b>-7</b>
<b>Net income attributable to common shareholders</b>		<b>624</b>	<b>150</b>
<b>Earnings per share in CHF</b>			
Basic	9	1.84	<b>0.45</b>
Diluted	9	1.78	<b>0.45</b>

The accompanying notes are an integral part of the Group financial statements.

# Balance sheet (unaudited)

## Assets

CHF millions	Note	31.12.2008	31.03.2009
<b>Investments</b>	2, 3, 4		
Fixed income securities:			
Available-for-sale, at fair value (including 8 188 in 2008 and 10 760 in 2009 subject to securities lending and repurchase agreements) (amortised cost: 2008: 106 216; 2009: 107 730)		103 438	101 512
Trading (including 33 in 2008 and 182 in 2009 subject to securities lending and repurchase agreements)		13 961	13 109
Equity securities:			
Available-for-sale, at fair value (including 9 in 2008 and 1 in 2009 subject to securities lending and repurchase agreements) (cost: 2008: 675; 2009: 651)		833	690
Trading		15 355	14 204
Policy loans, mortgages and other loans		6 611	6 481
Investment real estate		2 143	2 269
Short-term investments, at amortised cost which approximates fair value		5 802	5 524
Other invested assets		15 822	19 958
<b>Total investments</b>		163 965	163 747
Cash and cash equivalents (including 2 477 in 2008 and 2 902 in 2009 subject to securities lending)		17 268	26 403
Accrued investment income		1 449	1 459
Premiums and other receivables		12 446	16 910
Reinsurance recoverable on unpaid claims and policy benefits	7	11 934	14 483
Funds held by ceding companies		11 230	11 657
Deferred acquisition costs	5, 7	4 311	4 618
Acquired present value of future profits	5	6 139	6 485
Goodwill		4 265	4 498
Income taxes recoverable		757	739
Other assets		6 113	9 385
<b>Total assets</b>		239 877	260 384

The accompanying notes are an integral part of the Group financial statements.



## Liabilities and shareholders' equity

CHF millions	Note	31.12.2008	31.03.2009
<b>Liabilities</b>			
Unpaid claims and claim adjustment expenses		75 510	79 654
Liabilities for life and health policy benefits	7	39 911	41 437
Policyholder account balances	7	34 518	34 477
Unearned premiums		7 802	10 191
Funds held under reinsurance treaties		5 872	6 350
Reinsurance balances payable		5 493	7 465
Income taxes payable		769	854
Deferred and other non-current taxes		1 329	-56
Short-term debt	6	6 522	6 772
Accrued expenses and other liabilities		21 245	28 304
Long-term debt	6	20 453	21 357
<b>Total liabilities</b>		219 424	236 805
<b>Shareholders' equity</b>			
Convertible perpetual capital instrument			3 000
Common stock, CHF 0.10 par value			
2008: 363 516 036 ; 2009: 363 516 036 shares authorised and issued		36	36
Additional paid-in capital		10 776	10 845
Treasury shares, net of tax		-1 640	-1 579
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of tax		-2 407	-4 499
Cumulative translation adjustments, net of tax		-4 854	-3 417
Accumulated adjustment for pension and post-retirement benefits, net of tax		-529	-538
<b>Total accumulated other comprehensive income</b>		-7 790	-8 454
Retained earnings		19 071	19 731
<b>Total shareholders' equity</b>		20 453	23 579
<b>Total liabilities and shareholders' equity</b>		239 877	260 384

The accompanying notes are an integral part of the Group financial statements.

**ATTACHMENT H:**

**TRANSATLANTIC RE**

**Financial Statements as at December 31, 2008**

# TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

As of December 31, 2008 and 2007

	2008 (in thousands, except share data)	2007
<b>ASSETS</b>		
Investments and cash:		
Fixed maturities:		
Held to maturity, at amortized cost (fair value: 2008—\$1,210,432; 2007—\$1,280,011) .....	\$ 1,218,603	\$ 1,249,935
Available for sale, at fair value (amortized cost: 2008—\$8,294,813; 2007—\$8,034,738) (pledged, at fair value: 2007—\$1,966,364) .....	8,013,071	8,099,252
Equities:		
Available for sale, at fair value:		
Common stocks (cost: 2008—\$479,714; 2007—\$572,468) (pledged, at fair value: 2007—\$21,900) .....	425,645	587,373
Nonredeemable preferred stocks (cost: 2008—\$102,804; 2007—\$224,298) .....	98,230	197,870
Trading: common stocks, at fair value (cost: 2007—\$35,916) (pledged, at fair value: 2007—\$2,144) .....	—	35,357
Other invested assets .....	243,795	250,921
Securities lending invested collateral, at fair value (amortized cost: 2007—\$2,053,271) .....	—	2,012,031
Short-term investments, at cost (approximates fair value) .....	230,213	67,801
Total investments .....	10,229,557	12,500,540
Cash and cash equivalents .....	288,920	255,432
Accrued investment income .....	141,563	143,675
Premium balances receivable, net .....	665,187	641,026
Reinsurance recoverable on paid and unpaid losses and loss adjustment expenses:		
Affiliates .....	250,473	443,856
Other .....	540,026	630,787
Deferred acquisition costs .....	239,610	248,081
Prepaid reinsurance premiums .....	84,238	71,617
Deferred income taxes .....	692,345	426,600
Other assets .....	245,019	122,713
Total assets .....	<u>\$13,376,938</u>	<u>\$15,484,327</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Unpaid losses and loss adjustment expenses .....	\$ 8,124,482	\$ 7,926,261
Unearned premiums .....	1,220,133	1,226,647
Securities lending payable .....	—	2,054,649
5.75% senior notes due December 14, 2015:		
Affiliates .....	448,346	448,158
Other .....	273,897	298,772
Other liabilities .....	111,860	180,798
Total liabilities .....	<u>10,178,718</u>	<u>12,135,285</u>
Commitments and contingent liabilities (see Note 18)		
Preferred Stock, \$1.00 par value; shares authorized: 5,000,000; none issued .....	—	—
Common Stock, \$1.00 par value; shares authorized: 100,000,000; shares issued: 2008—67,353,258; 2007—67,222,470 .....	67,353	67,222
Additional paid-in capital .....	268,027	249,853
Accumulated other comprehensive loss .....	(257,690)	(34,692)
Retained earnings .....	3,142,449	3,088,578
Treasury Stock, at cost: 988,900 shares of common stock .....	(21,919)	(21,919)
Total stockholders' equity .....	<u>3,198,220</u>	<u>3,349,042</u>
Total liabilities and stockholders' equity .....	<u>\$13,376,938</u>	<u>\$15,484,327</u>

The accompanying notes are an integral part of the consolidated financial statements.

# TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS For the Years Ended December 31, 2008, 2007 and 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(in thousands, except per share data)		
Revenues:			
Net premiums written .....	\$4,108,092	\$3,952,899	\$3,633,440
Increase in net unearned premiums .....	<u>(40,703)</u>	<u>(50,230)</u>	<u>(29,346)</u>
Net premiums earned .....	4,067,389	3,902,669	3,604,094
Net investment income .....	440,451	469,772	434,540
Realized net capital (losses) gains .....	(435,541)	9,389	10,862
Gain on early extinguishment of debt .....	<u>10,250</u>	<u>—</u>	<u>—</u>
Total revenues .....	<u>4,082,549</u>	<u>4,381,830</u>	<u>4,049,496</u>
Expenses:			
Net losses and loss adjustment expenses .....	2,907,227	2,638,033	2,462,666
Net commissions .....	980,626	980,121	903,666
Other underwriting expenses .....	131,555	115,760	102,339
Increase in deferred acquisition costs .....	(6,956)	(16,901)	(13,471)
Interest on senior notes .....	43,359	43,421	43,405
Other, net .....	<u>23,515</u>	<u>25,644</u>	<u>10,983</u>
Total expenses .....	<u>4,079,326</u>	<u>3,786,078</u>	<u>3,509,588</u>
Income before income taxes .....	<u>3,223</u>	<u>595,752</u>	<u>539,908</u>
Income taxes (benefits):			
Current .....	45,277	182,612	123,986
Deferred .....	<u>(144,308)</u>	<u>(74,001)</u>	<u>(12,230)</u>
Total income taxes (benefits) .....	<u>(99,031)</u>	<u>108,611</u>	<u>111,756</u>
Net income .....	<u>\$ 102,254</u>	<u>\$ 487,141</u>	<u>\$ 428,152</u>
Net income per common share:			
Basic .....	\$ 1.54	\$ 7.37	\$ 6.49
Diluted .....	1.53	7.31	6.46
Weighted average common shares outstanding:			
Basic .....	66,270	66,124	65,955
Diluted .....	66,722	66,654	66,266

The accompanying notes are an integral part of the consolidated financial statements.

# TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2008, 2007 and 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(in thousands, except per share data)		
Common Stock:			
Balance, beginning of year .....	\$ 67,222	\$ 67,027	\$ 66,900
Issued under stock compensation plans .....	<u>131</u>	<u>195</u>	<u>127</u>
Balance, end of year .....	<u>67,353</u>	<u>67,222</u>	<u>67,027</u>
Additional paid-in capital:			
Balance, beginning of year .....	249,853	228,480	214,700
Excess of (costs) proceeds over par value of common stock issued under stock compensation plans .....	(1,052)	5,846	3,146
Contributed capital .....	<u>19,226</u>	<u>15,527</u>	<u>10,634</u>
Balance, end of year .....	<u>268,027</u>	<u>249,853</u>	<u>228,480</u>
Accumulated other comprehensive (loss) income:			
Balance, beginning of year .....	(34,692)	42,626	35,729
Net change for year .....	(343,074)	(118,950)	10,613
Deferred income tax effect on net change .....	<u>120,076</u>	<u>41,632</u>	<u>(3,716)</u>
Balance, end of year .....	<u>(257,690)</u>	<u>(34,692)</u>	<u>42,626</u>
Retained earnings:			
Balance, beginning of year .....	3,088,578	2,642,056	2,248,541
Net income .....	102,254	487,141	428,152
Cash dividends declared (per common share: 2008— \$0.73; 2007—\$0.62; 2006—\$0.53) .....	<u>(48,383)</u>	<u>(40,619)</u>	<u>(34,637)</u>
Balance, end of year .....	<u>3,142,449</u>	<u>3,088,578</u>	<u>2,642,056</u>
Treasury Stock:			
Balance, beginning and end of year .....	<u>(21,919)</u>	<u>(21,919)</u>	<u>(21,919)</u>
Total stockholders' equity .....	<u>\$3,198,220</u>	<u>\$3,349,042</u>	<u>\$2,958,270</u>

The accompanying notes are an integral part of the consolidated financial statements.

# TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2008, 2007 and 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>
		(in thousands)	
Cash flows from operating activities:			
Net income .....	\$ 102,254	\$ 487,141	\$ 428,152
Adjustments to reconcile net income to net cash provided by operating activities:			
Changes in unpaid losses and loss adjustment expenses, unearned premiums and prepaid reinsurance premiums .....	179,086	537,967	409,039
Changes in premium and reinsurance balances receivable and payable, net .....	236,445	293,485	142,191
Change in deferred acquisition costs .....	8,471	(16,901)	(13,471)
Change in accrued investment income .....	28,575	(36,969)	(41,262)
Realized net capital losses (gains) from investments .....	407,455	(33,582)	(22,084)
Changes in current and deferred income taxes ..	(218,090)	(82,327)	54,881
Change in unrealized net foreign exchange gains and losses .....	307,364	(152,642)	(149,000)
Changes in other assets and liabilities, net .....	(8,923)	10,448	6,219
Changes in equities trading, net .....	28,720	(1,920)	7,512
Other, net .....	25,130	22,110	23,234
Total adjustments .....	994,233	539,669	417,259
Net cash provided by operating activities ...	1,096,487	1,026,810	845,411
Cash flows from investing activities:			
Proceeds of fixed maturities available for sale sold ..	4,346,358	1,348,583	692,237
Proceeds of fixed maturities available for sale redeemed or matured .....	619,493	490,205	412,379
Proceeds of fixed maturities held to maturity redeemed .....	25,000	—	—
Proceeds of equities available for sale sold .....	877,755	1,189,392	981,671
Purchase of fixed maturities available for sale .....	(5,157,138)	(2,782,062)	(1,767,482)
Purchase of equities available for sale .....	(899,896)	(1,191,044)	(1,165,148)
Net (purchase) sale of other invested assets .....	(22,265)	6,115	8,792
Net sales (purchases) in securities lending invested collateral .....	1,329,619	(305,987)	(1,038,979)
Net (purchase) sale of short-term investments .....	(173,520)	(20,329)	2,473
Change in other liabilities for securities in course of settlement .....	(84,369)	1,198	7,350
Other, net .....	(10,398)	5,947	14,440
Net cash provided by (used in) investing activities .....	850,639	(1,257,982)	(1,852,267)
Cash flows from financing activities:			
Net change in securities lending payable .....	(1,845,822)	305,987	1,038,979
Dividends to stockholders .....	(46,382)	(39,019)	(33,637)
Common stock issued .....	(924)	6,042	3,273
Repurchase of senior notes .....	(14,750)	—	—
Other, net .....	2,946	790	233
Net cash (used in) provided by financing activities .....	(1,904,932)	273,800	1,008,848
Effect of exchange rate changes on cash and cash equivalents .....	(8,706)	7,540	5,152
Change in cash and cash equivalents .....	33,488	50,168	7,144
Cash and cash equivalents, beginning of year .....	255,432	205,264	198,120
Cash and cash equivalents, end of year ....	\$ 288,920	\$ 255,432	\$ 205,264
Supplemental cash flow information:			
Income taxes paid, net .....	\$ 119,474	\$ 184,592	\$ 54,417
Interest paid on senior notes .....	43,113	43,125	43,125

The accompanying notes are an integral part of the consolidated financial statements.

**TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**  
For the Years Ended December 31, 2008, 2007 and 2006

	<u>2008</u>	<u>2007</u> (in thousands)	<u>2006</u>
Net income .....	\$ 102,254	\$ 487,141	\$428,152
Other comprehensive (loss) income:			
Net unrealized depreciation of investments, net of tax:			
Net unrealized holding (losses) gains .....	(772,771)	(121,603)	7,932
Deferred income tax benefit (charge) on above.....	270,470	42,561	(2,777)
Reclassification adjustment for losses (gains) included in net income.....	417,705	(34,018)	(22,084)
Deferred income tax (charge) benefit on above.....	<u>(146,197)</u>	<u>11,906</u>	<u>7,729</u>
	<u>(230,793)</u>	<u>(101,154)</u>	<u>(9,200)</u>
Net unrealized currency translation gain, net of tax:			
Net unrealized currency translation gain.....	11,992	36,671	24,765
Deferred income tax charge on above .....	<u>(4,197)</u>	<u>(12,835)</u>	<u>(8,668)</u>
	<u>7,795</u>	<u>23,836</u>	<u>16,097</u>
Other comprehensive (loss) income .....	<u>(222,998)</u>	<u>(77,318)</u>	<u>6,897</u>
Comprehensive (loss) income .....	<u><u>\$(120,744)</u></u>	<u><u>\$ 409,823</u></u>	<u><u>\$435,049</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

## FINANCIAL INFORMATION

### ACE

#### ***Background***

The ACE Group is one of the world's largest providers of commercial property and casualty insurance and reinsurance. Rated A+ for financial strength by Standard & Poor's and AM Best, and with more than \$72 billion in assets and \$19 billion of gross written premiums in 2008, the ACE Group has offices in more than 50 countries and clients in over 140 countries.

ACE Canada is a member of the ACE Group of Companies. The ACE Group is a global commercial property and casualty and accident and health insurance company serving local market clients as well as large multinationals. ACE has a broad range of products.

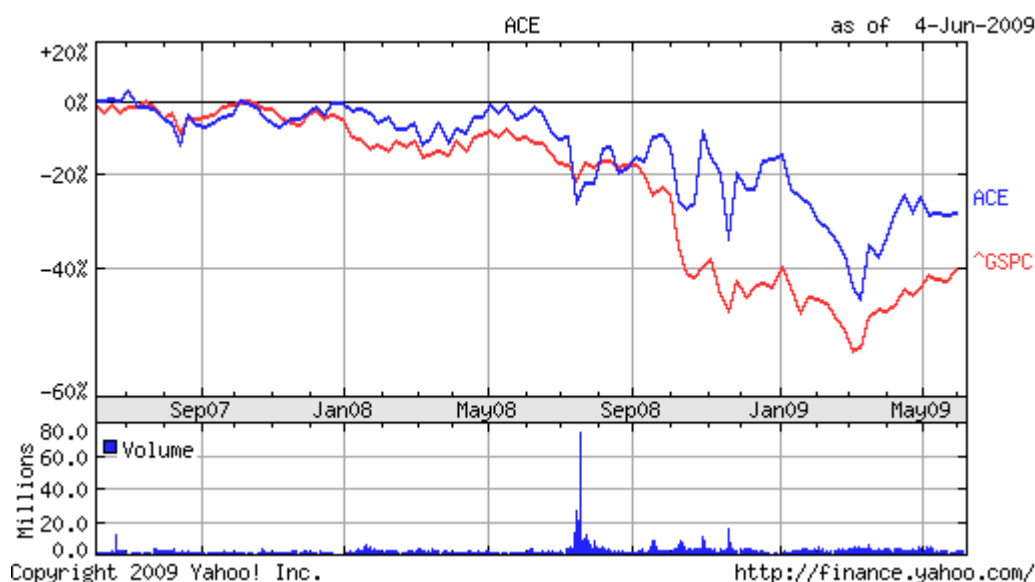
#### ***Financial Overview***

Please see Attachment A (ACE Financial Statements as at December 31, 2008 and Interim Financial Statements as at March 31, 2009).

ACE's 2008 financial highlights include:

- Return on equity of 16.8%;
- Combined ratio of 89.6%;
- Gross written premium increased 8% from \$17.7M to \$19.2B;
- Net premiums written increased 9% from \$11.9M to \$13M;
- Net income decreased 54% from \$2.6M to \$1.2M;
- Total assets remained steady at \$72B;
- Shareholders' equity decreased by 10% from \$16.1M to \$14.4M.

The following is the 2-year stock performance of ACE Ltd. (the blue line). For comparison purposes, the S&P index has been included (the red line).





## ***Early Warning Signals***

### ACE INA Insurance

Year	MAT, TAD, MCT, BAAT	Return on Revenue	Return on Assets After Tax	Insurance Return on Net Premium Earned	Liabilities as a Percentage of Liquid Assets	Net Loss Reserves to Equity	Cashflow from Operations to Net Premiums Written	Overall Net Leverage
2005	297.1	25.1	5.8	34.3	83.9	145.6	37.7	356.9
2006	280.6	27.2	5.6	36.0	79.9	129.8	38.4	318.0
2007	359.0	38.2	7.7	53.7	82.1	91.5	34.5	255.5
5-year Average	271.2	23.7	5.6	35.4	87.4	133.0	37.9	350.5

Please see Attachment I for a description of the various ratios as well as their acceptable ranges.

## **AWAC**

### ***Background***

AWAC is a global specialty insurance and reinsurance company with offices in Bermuda, Europe and the United States.

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

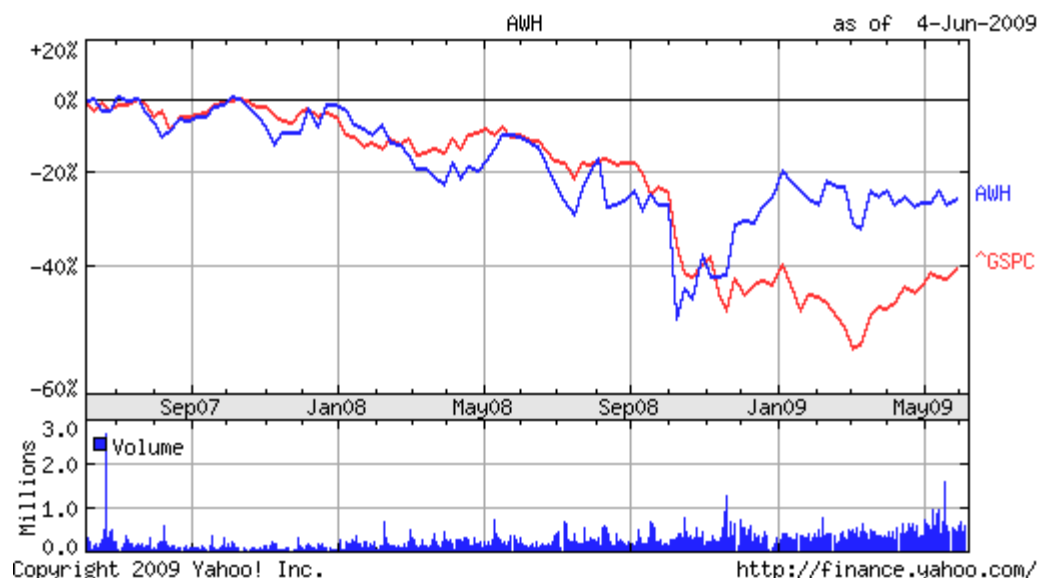
### ***Financial Overview***

Please see Attachment B (AWAC Financial Statements as at December 31, 2008 and Interim Financial Statements as at March 31, 2009).

The following are the financial highlights for AWAC for the 2008 fiscal year:

- Generated \$1.45 billion of gross premiums written;
- Net income of \$183.6 million for the year ended December 31, 2008;
- Net investment income of \$308.8 million, an increase of 3.6% over 2007;
- Combined ratio of 84.2% compared to 81.3% for 2007, despite heavy catastrophe activity;
- Over \$2.4 billion in shareholders' equity, up almost 8% from year-end 2007.

The following is the 2-year stock performance of Allied World Assurance Company (the blue line). For comparison purposes, the S&P index has been included (the red line).



### *Early Warning Signals*

AWAC is not included in the 2008 MSA Report. However, we have highlighted some of the important figures from the 2008 financial report.

<b>Investments</b>	Net investment income has increased in each year since 2005, rising from \$297.9M in 2007 to \$308.8M in 2008.
<b>Written Premium</b>	Net premiums written decreased slightly in 2008 to \$1,107.2M, down from \$1,159.9M in 2007.
<b>Loss Ratios</b>	AWAC's combined ratio was 84.2% in 2008, and has been below 100% since 2005, when it was 124.4%.
<b>Leverage</b>	The debt to equity ratio rose from 22.26% in 2007 to 30.7% in 2008. However, this ratio is still lower than the debt to equity ratio of 35.2% in 2005.

## **BRIT**

### *Background*

Brit Insurance has two underwriting platforms, Brit Insurance Limited (BIL) and Brit Syndicates Limited (BSL).

BIL is the general insurance company which carries approximately 48.7% of the business at December 31, 2008 while BSL, the syndicate at Lloyd's, underwrites the balance. Brit operates through its three distinct customer facing Strategic Business Units (SBUs):

- Global Markets;
- Brit Reinsurance;
- Brit UK.

Each SBU has access to both of Brit's regulatory underwriting platforms.

## **Brit Insurance Holdings PLC**

Brit Insurance Holdings PLC is a leading international general insurance and reinsurance group and is listed in the FTSE 250.

## **Brit Insurance Limited**

The principal subsidiary, Brit Insurance Limited, is rated A+ (Strong) by Fitch Ratings and A (Excellent) by AM Best. Their balance sheet management philosophy is to maintain a high “A” credit rating to attract good quality business.

## **Brit Syndicates Limited**

Through Brit Syndicates Limited, Brit manages the 9th largest syndicate at Lloyd’s.

## **Global Markets**

Global Markets is headed by Matthew Wilson, supported by Chief Underwriting Officer, Kevin Huttly. It provides a comprehensive range of insurance products for small and medium-sized enterprises and large corporate clients worldwide. It led 57.7% of its business in 2008.

## **Brit UK**

Brit UK is headed by Peter Burrows. 2008 was a year of significant achievement for Brit UK. With headcount marginally down on 2007, revenue grew by 28% and the combined operating ratio improved from 109.3% to 100%. It has an established network of 10 regional offices.

## **Brit Reinsurance**

Brit Reinsurance is headed by Jonathan Turner and boasts one of the most experienced teams in the London market. The SBU led on 33.9% of the business written in 2008 reflecting its level of expertise across the reinsurance market.

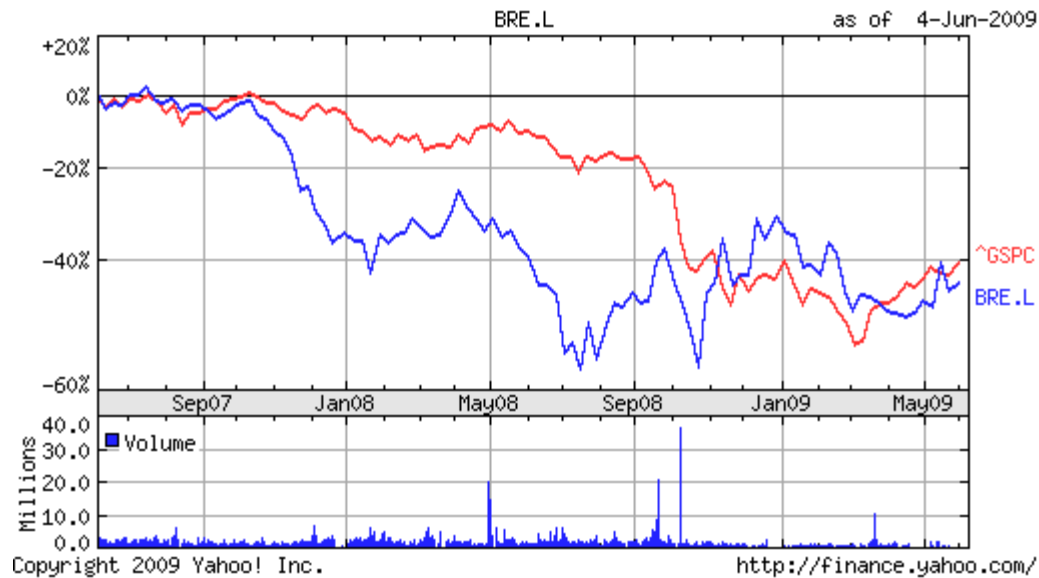
## ***Financial Overview***

Please see Attachment C (Brit Financial Statements as at December 31, 2008).

Brit has had an AM Best, Fitch and S&P rating of at least A- (Strong) for the last five years. In terms of investment strategy, Brit has taken an extremely conservative approach. The following is a breakdown of Brit’s asset allocation at December 31, 2008:

- 66.9 % in bonds;
- 26% in cash;
- 3.5% in specialized investment funds;
- 3.6% in equities.

The following is the 2-year stock performance of Brit Insurance (the blue line). For comparison purposes, the S&P index has been included (the red line).



### *Early Warning Signals*

Brit insurance is not included in the 2008 MSA Report. However, with the assistance of our Lloyd's partner broker, Miller Insurance Services Ltd., we have managed to secure pertinent financial information concerning Brit. The following are some highlights of Brit's current financial position:

<b>Investments</b>	<p>Brit has experienced positive investment returns in each of the last five years, including 2008.</p> <p>Invested assets have grown in each of the past five years, including growth of 18.5% in 2008.</p>
<b>Written Premium</b>	<p>Year-over-year gross written premium has grown in each of the last five years, including 10.3% in 2008.</p> <p>Year-over-year net earned premium grew in each of the last five years, except in 2008 where it decreased by less than 1%.</p>
<b>Loss Ratios</b>	<p>Brit has had an underwriting combined ratio of less than 100% in four of the last five years, with 2005 being the only exception. The combined ratio includes total claims as well as expenses.</p>
<b>Cash Position</b>	<p>Cash, investments and derivatives increased by 18% from 2007 to 2008.</p>

## **COLCHESTER**

### *Financial Overview*

Please see Attachment D (Colchester Financial Statements as at June 30, 2008 and Interim Financial Statements as at December 31, 2008).

## **HANNOVER RE**

### ***Background***

Hannover Re, with a gross premium of around 9 billion Euros, is one of the largest reinsurance groups in the world.

Hannover Re transacts all lines of non-life and life and health reinsurance and maintains business relations with more than 5,000 insurance companies in about 150 countries. Its worldwide network consists of more than 100 subsidiaries, branch and representative offices in around 20 countries with a total staff of roughly 1,900.

Hannover Re is involved in both “non-life insurance” business and “life and health reinsurance” business. The business that they are involved in can be broken down as follows:

### **Non-Life Reinsurance**

Strategically important business areas of non-life reinsurance:

- USA and Germany;
- Marine (including energy) and aviation;
- Credit, surety and political risks;
- Global facultative business;
- Global non-proportional Cat. XL;
- Structured products.

### **Life and Health Reinsurance**

In life and health reinsurance, the focus is on five areas of business:

- Financial Solutions;
- Bancassurance;
- New Markets;
- Multinationals;
- Conventional Risk R/I.

### ***General Financial Performance***

Please see Attachment E (Hannover Financial Statements as at December 31, 2008 and Interim Financial Statements as at March 31, 2009).

Hannover Re takes a very conservative approach to their capital base and investments.

### **Capital Base and Investments**

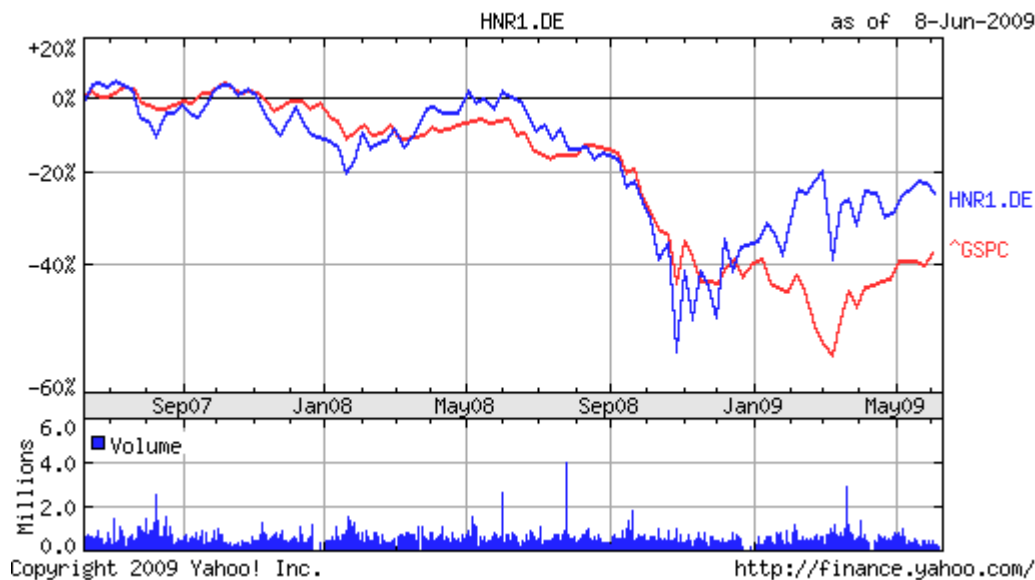
Hannover’s capital base is determined by the results of its risk modeling (economic capital) as well as the requirements of supervisory authorities (solvency capital) and rating agencies (rating capital). Their risk management system is geared to protect the Group’s shareholders’ equity. Priority is given to risks relating to reserving, exposure, pricing and investment as well as to operational risks. Hannover Re enjoys a well diversified, stable and liquid asset portfolio.

A short duration and the high quality of their bond portfolio protect them against interest rate rises in the present uncertain market environment.

The following are the key highlights for Hannover Re for the first quarter of 2009:

- Net premium climbs 24.6% due to acquisition of the ING life portfolio, an increased retention and effects of the hardening market;
- Burden of catastrophe losses within the expected bounds;
- Combined ratio 95.0%;
- Operating profit (EBIT) + 24.5%;
- Group quarterly net income + 42.7%;
- One-off profit contribution from acquisition of the ING life portfolio amounting to roughly EUR 80 million after tax;
- Market Consistent Embedded Value in life and health reinsurance virtually unchanged at EUR 1.7 billion;
- Forecast for the full financial year: Return on equity of at least 18% including one-off effect from ING life portfolio.

The following is the 2-year stock performance of Hannover Re (the blue line). For comparison purposes, the S&P index has been included (the red line).



### *Early Warning Signals*

S&P changed the outlook on Hannover Re to negative due to financial constraints which are reflected on their balance sheet. Hannover Re's constrained financial position, combined with a difficult capital market environment, is what prompted a revision in the S&P outlook to negative. Hiltrud Besgen is a credit analyst for S&P. She commented on the "negative" outlook revision for Hannover Re as follows:

*"The outlook revision principally reflects what we see as Hannover Re's somewhat constrained financial flexibility in a difficult capital market environment, the potential for increased earnings volatility in the non-life segment owing to the group's increased net retention of catastrophe risk, and a current lack of track record of successful execution by the new executive team."*

Year	MAT, TAD, MCT, BAAT	Return on Revenue	Return on Assets After Tax	Insurance Return on Net Premium Earned	Liabilities as a Percentage of Liquid Assets	Net Loss Reserves to Equity	Cashflow from Operations to Net Premiums Written	Overall Net Leverage
2005	197.5	19.1	3.5	15.3	59.0	117.2	22.2	172.9
2006	286.0	33.4	5.3	35.0	62.9	137.8	31.2	199.9
2007	317.5	29.5	5.0	28.0	64.8	132.5	36.2	191.5
5-year Average	248.8	19.4	4.1	19.0	65.9	141.0	32.8	228.8

Please see Attachment I for a description of the various ratios as well as their acceptable ranges.

## **LLOYD'S**

### ***Background***

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

The members of Lloyd's are what allow it to exist. The number of active members of Lloyd's has reduced slightly in 2009:

- Individual members down by 15% from 907 in 2008 to 773 in 2009;
- Corporate members up 7% from 1,155 in 2008 to 1,238 in 2009.

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

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

### ***Financial Overview***

Please see Attachment F (Lloyd's Financial Statements as at December 31, 2008).

Lloyd's has financial strength ratings of A+ (Strong) with both Fitch and S&P and an AM Best rating of A (Excellent).

Although a number of the holding companies of Lloyd's syndicates are publicly traded, Lloyd's is a market and, therefore, is itself not publicly traded.

One of the most important components of the Lloyd's structure is its "chain of security". The chain of security is divided into "three layers of financial backup" as follows:

#### *Financial Strength – The Chain of Security*

Lloyd's unique capital structure, often referred to as the "chain of security", provides excellent financial security to policyholders and capital efficiency to members. The Corporation is responsible for setting both member and central capital levels to achieve a level of capitalization that is robust and allows members the potential to earn superior returns. There are three "links" in the chain: the funds in the first and second links are held in trust, primarily for the benefit of policyholders whose contracts are underwritten by the relevant member. Members underwrite for their own account and are not liable for other members' losses. The third link contains mutual assets held by the Corporation which are available, subject to Council approval, to meet any member's insurance liabilities.

#### *First Link – Syndicate Level Assets*

All premiums received by a syndicate are held in its premium trust funds, and are the first resource for paying policyholder claims from that syndicate. Funds are generally held in liquid assets to ensure that liabilities can be met as they fall due. Profits are not released until full provision has been made for future liabilities. The reserves for future liabilities of each syndicate are subject to annual independent audit and actuarial review.

#### *Second Link – Members' Funds at Lloyd's*

Each member, whether corporate or individual, must provide capital to support its underwriting at Lloyd's. In accordance with the FSA regime, each syndicate produces an Individual Capital Assessment (ICA) stating how much capital it requires to cover its underlying business risks at a 99.5% confidence level. The Corporation reviews each syndicate's ICA to assess the adequacy of the proposed capital level. When agreed, each ICA is then "uplifted" (by 35% for 2008) to ensure extra capital is in place to support Lloyd's ratings and financial strength. This uplifted ICA, known as the syndicate's Economic Capital Assessment, is used to determine the level of capital required by the syndicate's members to support their underwriting. This capital is held in trust as readily realizable assets and can be used to meet any Lloyd's insurance liabilities of that member, but not the liabilities of other members.

#### *Third Link – Central Assets*

The Corporation's central assets are the third level of security. The Central Fund is funded by members' annual contributions, and subordinated debt issued by the Corporation in 2004 and 2007. In addition to the Central Fund and other assets of the Corporation, central assets may be supplemented by a "callable layer" of up to 3% of members' overall premium limits. Through detailed analysis, the Corporation determines the optimum level of central assets, seeking to balance the need for robust financial security against members' desire for cost-effective mutuality of capital. In particular, the Corporation's sophisticated modeling tests each member's underwriting portfolio against a number of scenarios and a range of forecasts of market conditions. The Corporation's target for unencumbered central assets is a minimum of \$2.4B. Members' contributions to the Central Fund remain at 0.5% of gross written premiums for 2009. The Council of Lloyd's regularly reviews the central assets target and the level of contributions in light of the current financial position and forecast needs, and will adjust the contribution levels as required.



### *Lloyd's ICA and Solvency*

The Corporation also prepares an ICA for Lloyd's overall, using the FSA's six risk categories to examine the risks that are not captured in each syndicate's ICA. The Corporation, for example, must consider the risks posed by a global pandemic or damage to the Lloyd's building. In addition, the Corporation calculates the statutory solvency position of the Society of Lloyd's and reports this to the FSA. As at December 31, 2008, the Society had an estimated solvency surplus of \$3,564M.

### *Early Warning Signals*

#### Lloyd's Underwriters

Year	MAT, TAD, MCT, BAAT	Return on Revenue	Return on Assets After Tax	Insurance Return on Net Premium Earned	Liabilities as a Percentage of Liquid Assets	Net Loss Reserves to Equity	Cashflow from Operations to Net Premiums Written	Overall Net Leverage
2005	0	(4.4)	(2.6)	(4.6)	96.8	999.0	49.7	999.0
2006	0	71.3	35.8	69.6	75.7	251.7	29.2	430.4
2007	0	41.9	21.1	39.7	67.6	183.6	43.4	317.5
5-year Average		33.6	16.5	32.8	78.5	298.0	42.3	486.2

Please see Attachment I for a description of the various ratios as well as their acceptable ranges.

## **SWISS RE**

### *Background*

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

### *Financial Overview*

Please see Attachment G (Swiss Re Financial Statements as at December 31, 2008 and Interim Financial Statements as at March 31, 2009).

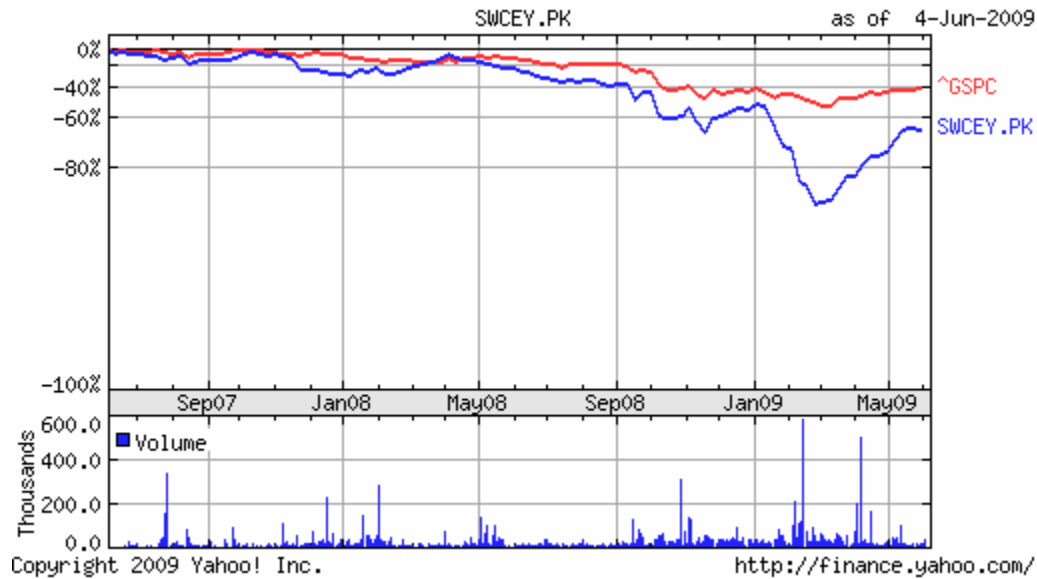
*Note: Swiss Re's financial statements are presented in Swiss Franc which is approximately at par with the Canadian Dollar as of this report's date.*

Swiss Re had its financial ratings reaffirmed in February 2009 by the following rating agencies:

- Standard & Poor's – A+ (Strong) Stable;
- Moody's – A1 (Good) Negative;
- AM Best – A (Excellent) Stable.

Swiss Re holds to a conservative investment strategy, with 56% of its investments in cash, short-term investments, treasuries or government backed securities.

The following is the 2-year stock performance of Swiss Re (the blue line). For comparison purposes, the S&P index has been included (the red line).



### Early Warning Signals

Swiss Reinsurance Company

Year	MAT, TAD, MCT, BAAT	Return on Revenue	Return on Assets After Tax	Insurance Return on Net Premium Earned	Liabilities as a Percentage of Liquid Assets	Net Loss Reserves to Equity	Cashflow from Operations to Net Premiums Written	Overall Net Leverage
2005	371.9	(288.2)	(43.9)	(256.1)	75.3	256.7	(35.1)	331.2
2006	226.8	78.1	11.4	76.1	80.7	250.6	(213.7)	384.7
2007	306.0	55.4	13.1	55.8	74.5	146.9	14.4	253.0
5-year Average	333.5	(13.2)	(2.3)	(51.2)	74.7	185.0	(7.7)	284.0

Please see Attachment I for a description of the various ratios, as well as their acceptable ranges.

## **TRANSATLANTIC RE**

### ***Background***

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

TRC, Putnam and TRZ maintain financial strength ratings from AM Best of A (Excellent). These ratings have been assigned a negative outlook. TRC, TRZ and Putnam maintain financial strength ratings from Standard & Poor's of A+ (Strong). These ratings have been assigned a stable outlook. TRC maintains a financial strength rating from Moody's Investors Service of Aa3 (Excellent). This rating has a developing outlook.

Transatlantic Re is involved in the following lines of business:

### **Traditional Casualty**

- Clash;
- Commercial and Personal Automobile/Motor;
- General Liability;
- Umbrella/Excess Liability;
- Workers' Compensation/Employer's Liability.

### **Specialty Casualty**

- Professional Liability;
- Errors & Omissions;
- Directors & Officers;
- Medical Malpractice;
- Accident and Health;
- Environmental;
- Personal Accident.

### **Property**

- Catastrophe, Pro Rata and Per Risk.

### **Marine, Aviation, Aerospace**

### **Surety & Credit**

- Financial Risk/Surety;
- Political Risks.

Transatlantic Reinsurance Company of Canada is a branch of Transatlantic Reinsurance Company.

### ***Financial Overview***

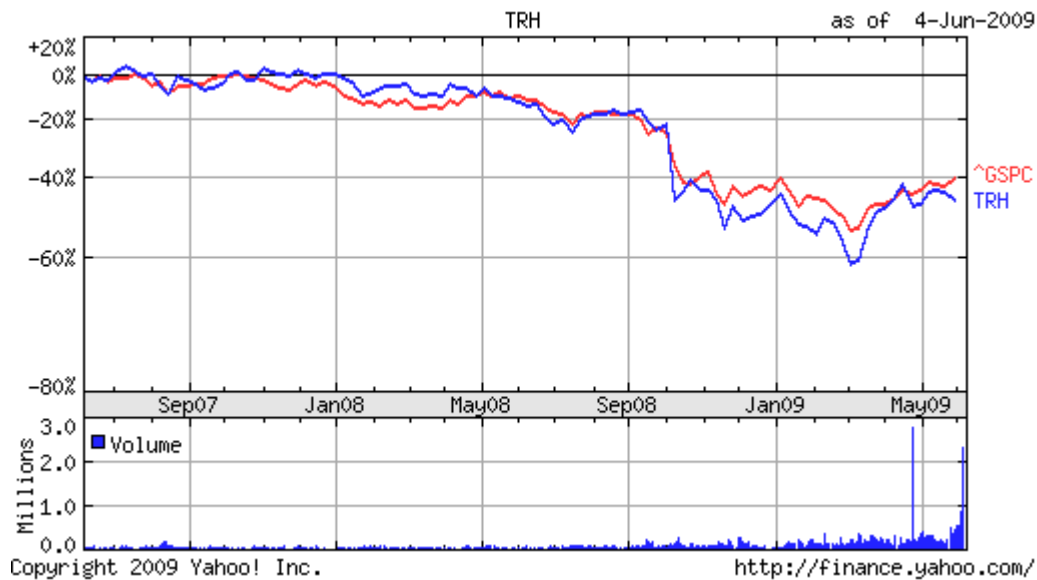
Please see Attachment H (Financial Statements as at December 31, 2008).

In 2008, net operating cashflows topped \$1 billion which set a record for the second year in a row, while net premiums written totaled a record \$4.1 billion – an increase of 3.9% over 2007. While net income for the year did drop to \$102 million, Transatlantic Re was able nonetheless to continue the long-standing record of posting positive annual net income.

The following are some of the highlights from the 2008 fiscal year:

- Net premiums written increased 4% from \$3.9M to \$4.1M;
- Net income decreased from \$487M to \$102M;
- Investments and cash decreased 18% from \$12.75M to \$10.5M.

The following is the 2-year stock performance of Transatlantic Holdings Inc. (the blue line). For comparison purposes, the S&P index has been included (the red line).



### *Early Warning Signals*

#### Transatlantic Reinsurance Company

Year	MAT, TAD, MCT, BAAT	Return on Revenue	Return on Assets After Tax	Insurance Return on Net Premium Earned	Liabilities as a Percentage of Liquid Assets	Net Loss Reserves to Equity	Cashflow from Operations to Net Premiums Written	Overall Net Leverage
2005	242.6	11.9	3.8	21.0	61.7	87.9	35.9	187.8
2006	233.8	14.3	4.7	29.7	56.8	76.1	39.7	167.5
2007	236.2	18.3	4.1	36.4	59.6	77.9	45.9	165.0
5-year Average	225.9	12.9	3.9	27.6	60.9	80.0	36.9	178.4

Please see Attachment I for a description of the various ratios as well as their acceptable ranges.

## ATTACHMENT I

FINANCIAL RATIO	DESCRIPTION	ACCEPTABLE RANGE
MAT, TAD, MCT, BAAT	<p>These are the primary regulatory solvency tests applied by most Canadian regulators.</p> <p>MAT, TAD = (Excess Assets Available) / (Assets Required)</p> <p>MCT = (Total Capital Available) / (Minimum Capital Required)</p> <p>BAAT = (Total Net Assets Available) / (Margin Required)</p>	<p>MAT, TAD = OSFI Requires a minimum margin of 10%</p> <p>MCT, BAAT = OSFI Requires a minimum of 150%</p>
Return on Revenue	This ratio measures the sum of underwriting income, investment income (excluding gains) and income from subsidiaries as a percentage of gross written premiums.	Minimum 6.2%
Return on Assets After Tax	<p>Net after tax income as a percentage of average beginning and end of year assets.</p> <p>Measures the efficiency of the company in terms of its ability to generate income from its asset base.</p>	Minimum 2.6%
Insurance Return on Net Premium Earned	This ratio measures the core earnings capacity of an insurer based on its underwriting income as well as investment income (excluding capital gains) attributable to underwriting related activity as a percentage of its net premiums written.	Minimum 4%
Liabilities as a Percentage of Liquid Assets	Measures the insurer's liquidity. The higher the ratio, the greater the liabilities relative to the assets available to back them.	Maximum 105%
Net Loss Reserves to Equity	Given the inherent uncertainty in assessing unpaid claim liabilities, a high ratio of net loss reserves to equity may expose an insurer to financial distress if provisions prove inadequate. In cases where this ratio is extremely high, small % deviations in outstanding reserves can have devastating effects on solvency.	Maximum 200%
Cashflow from Operations to Net Premiums Written	Measures the insurer's ability to convert operating activity into positive cashflow relative to its premium volume.	Minimum 0%
Overall Net Leverage	<p>The ratio of net written premiums <i>plus</i> net liabilities to equity.</p> <p>Excessive premium writings relative to capital or a deterioration in liabilities will erode a company's financial stability.</p>	Maximum 500%

## 2008 EXHIBIT

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**REINSURANCE CEDED**  
**FINANCIAL SERVICES COMMISSION OF ONTARIO GUIDELINES**

	CALENDAR YEAR 2008	RATIO OF DIRECT PREMIUM
A. 2008/2009 CONTINGENCY RESERVE ADJUSTMENT	\$30,943	
B. 2008/2009 PREMIUM FOR LAWYERS	\$22,786,996	
C. 2008/2009 GOODMAN AND CARR LATERAL HIRE EXTENSION ENDORSEMENT PREMIUM	\$39,200	
D. 2008/2009 FIRST OPTIONAL EXCESS LAYER PREMIUM FOR LAWYERS	\$654,720	
E. 2008/2009 SECOND OPTIONAL EXCESS LAYER PREMIUM FOR LAWYERS	\$513,726	
F. 2008/2009 PREMIUM FOR P&T AGENTS	\$142,452	
G. 2008/2009 FIRST OPTIONAL EXCESS LAYER PREMIUM FOR P&T AGENTS	\$4,134	
H. 2008/2009 SECOND OPTIONAL EXCESS LAYER PREMIUM FOR P&T AGENTS	\$2,314	
I. 2008/2009 PREMIUM FOR NON-LAWYER CONSULTANTS	\$137,157	
J. 2008/2009 FIRST OPTIONAL EXCESS LAYER PREMIUM FOR NON-LAWYER CONSULTANTS	\$3,415	
K. 2008/2009 SECOND OPTIONAL EXCESS LAYER PREMIUM FOR NON-LAWYER CONSULTANTS	\$3,057	
<b>L. DIRECT WRITTEN PREMIUM</b>	<b>\$24,318,114</b>	<b>100.0%</b>
M. REGISTERED REINSURANCE		
N.     PROPORTIONAL REINSURANCE	\$11,269,990	
O.     AGGREGATE REINSURANCE	\$0	
<b>P. TOTAL REGISTERED REINSURANCE</b>	<b>\$11,269,990</b>	<b>46.3%</b>
Q. UNREGISTERED REINSURANCE		
R.     PROPORTIONAL REINSURANCE	\$998,419	
S.     AGGREGATE REINSURANCE	\$2,248,950	
<b>T. TOTAL UNREGISTERED REINSURANCE</b>	<b>\$3,247,369</b>	<b>13.4%</b>
<b>U. TOTAL REINSURANCE</b>	<b>\$14,517,359</b>	<b>59.7%</b>

## Notes:

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

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



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# Advisory

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**Category:** Regulatory & Legislative **NOTICE\***

**Subject:** Insurance in Canada of Risks

**No:** 2007 – 01 – R1

**Issued:** September 2007

**Revised:** May 2009

**Introduction:** Section 573 of the *Insurance Companies Act* (ICA) provides that a foreign entity shall not insure in Canada a risk unless it is authorized by order of the Superintendent to do so and the risk falls within a class of insurance that is specified in the order. Where a foreign entity has been granted such an order, every aspect of its insurance business in Canada, including the insurance in Canada of risks, is subject to record keeping, vesting of assets in trust in Canada and other requirements imposed by Part XIII of the ICA.

This Advisory provides guidance on key indicia to consider in determining, for the purposes of the ICA, whether a foreign entity is insuring in Canada a risk (paragraph 2), and how OSFI will apply these indicia to a particular business model (paragraphs 3 to 5). It also provides guidance regarding other ICA and provincial and territorial insurance matters related to foreign entities (paragraphs 6 to 9).

Where a foreign entity is authorized to insure in Canada risks falling within the class of life insurance, this Advisory also applies in determining, for the purposes of the ICA, whether that foreign entity is issuing annuities and/or policies of endowment insurance in Canada. When applying the Advisory to such matters, it should be read with such modifications as the circumstances require (e.g., any reference to “insuring in Canada a risk” is to be read as a reference to “issuing annuities in Canada” and/or “issuing policies of endowment in Canada”).

**Legislative Reference:** Part XIII of the *Insurance Companies Act*.

**Definitions:** In this Advisory,

“foreign insurer” means an entity incorporated or formed by or under the laws of a country other than Canada that insures risks, including an association and an exchange (as those terms are defined in section 571 of the ICA);

“insurance”, “insure”, “insurer” and “insuring” include reinsurance, reinsure, reinsurer and reinsuring, respectively; and





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“policyholder” means a prospective or an actual holder of an insurance policy, and includes a person acting for, or on behalf of, that prospective or actual holder.

**Interpretation:**

1. The ICA does not define “insuring in Canada a risk” which, when read in the context of Part XIII of the ICA, falls within the “insurance business in Canada” of a foreign insurer. A review of case law indicates that courts have not interpreted these concepts, but have interpreted the analogous concept of “carrying on business in Canada”. Based on these interpretations, the location where operations are carried on is of significant importance in determining the location where business is carried on.
2. To determine whether a foreign insurer is insuring in Canada a risk, consideration should be given to whether any person acting for, or on behalf of, the foreign insurer<sup>1</sup>:
  - (a) promotes<sup>2</sup> the foreign insurer or the foreign insurer’s insurance products through a medium of communication that is primarily circulated, transmitted, broadcasted or otherwise accessible in Canada (other than in the course of the activity referred to in subparagraph 2(b) below);
  - (b) directly incites a person located in Canada to request insurance coverage (where that person is specifically identified and targeted), and that person is provided with the opportunity and/or means with which to make a request for insurance coverage in the course of that activity (e.g., telemarketing, door-to-door solicitation, direct/targeted mail);
  - (c) receives in Canada a request for insurance coverage from a policyholder;
  - (d) negotiates from Canada the terms and conditions of insurance coverage;
  - (e) decides in Canada to bind the foreign insurer to insurance coverage;
  - (f) communicates from Canada an offer to provide insurance coverage, or the acceptance of a request for insurance coverage<sup>3</sup>, to a policyholder;
  - (g) receives in Canada an acceptance of the foreign insurer’s offer to provide insurance coverage from a policyholder;
  - (h) receives in Canada payment for insurance coverage from a policyholder; and

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1 In determining whether a person is acting on behalf of a foreign insurer, reference should be made to the Canadian common law principles of agency, and where applicable, the *Civil Code of Québec*.

2 In *Ruling 2004-07 – Foreign Bank Representative Offices – Asset management services*, OSFI acknowledged that promotion “encompasses activities in furtherance of the sale of a product or service”.

3 If a policyholder is informed of the foreign insurer’s acceptance only upon receiving the policy, then such acceptance is communicated through the issuance of the policy.

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- (i) interacts in Canada with the policyholder in the provision of services related to the insurance coverage (e.g., providing information about the coverage and receiving claims).
3. While each business model must be assessed on the basis of its own components, OSFI is of the view that:
- (a) the indicia in paragraph 2 are not necessarily exhaustive; and
  - (b) where an activity referred to paragraph 2 occurs partly in Canada and partly outside Canada, the location where most of the material aspects of that activity occur should be regarded as the location where it occurs.
4. OSFI considers that a foreign insurer is insuring in Canada a risk where its business model encompasses:
- Scenario 1: Two or more of the activities referred to in any of subparagraphs 2(b) to (h).
- Scenario 2: Any one of the activities referred to in any of subparagraphs 2(b) to (h) and both of the activities referred to in subparagraphs 2(a) and (i).
- Scenario 3: Reaching an agreement, actual or in principle, on most or all of the material terms and conditions of the insurance coverage in the course of its negotiations in Canada (i.e., this Scenario contemplates that, in addition to 2(d), at least one additional activity referred to in 2(e) through (g) would apply).
5. OSFI considers that a foreign insurer is not insuring in Canada a risk where its business model encompasses no more than one of the activities referred to in paragraph 2.

**Other Guidance:**

6. A foreign insurer that is authorized under the ICA to insure in Canada risks operates in Canada on a branch basis. That Canadian operation is not a separate legal entity. Therefore, depending on its business model, that foreign insurer may insure in Canada a risk (through its Canadian branch) or it may insure outside Canada a risk (through its head office or a branch located outside Canada), irrespective of the location of that risk. However, only risks that are insured in Canada are subject to the ICA regime. In the event that a foreign insurer becomes insolvent, the assets it has vested in trust in Canada under the ICA regime would be available to satisfy claims made under the *Winding-up and Restructuring Act* by holders of policies covering risks insured in Canada. In that regard, subsection 578(5) of the ICA will assist policyholders in determining whether they benefit from the protection afforded by the ICA, when dealing with foreign insurers. This provision will require a foreign insurer to set out or cause to be set out in legible characters in all premium notices, applications for policies and policies related to its insurance in Canada of risks, a statement that the document was issued or made in the course of its insurance business in Canada.

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7. Where a foreign insurer is not insuring in Canada a risk, the ICA does not restrict that foreign insurer from carrying on any activity or business in Canada. Subject to other applicable Canadian laws, it could, for example, carry on any insurance business in Canada that does not involve the insurance of a risk by it, such as providing underwriting, policy administration or product development services to other insurers.
  8. In Canada, the federal and provincial/territorial governments share jurisdiction over foreign insurers. While a foreign insurer may, for the purposes of the ICA, be considered not to be insuring in Canada a risk, its activities may cause that foreign insurer to require a license under one or more of the insurance statutes of the provinces/territories in Canada. For example, some of these statutes require a foreign insurer to obtain a license merely to promote its products in, insure a person domiciled or resident in, or provide insurance coverage on a property situated in the province/territory. Accordingly, OSFI recommends that foreign insurers consult these statutes and the agencies that administer them.
  9. For more information on how OSFI applies the guidance set out in this Advisory to specific circumstances, please refer to [Rulings](#) relating to insurance in Canada of risks posted on OSFI's website.

\* Advisories describe how OSFI administers and interprets provisions of existing legislation, regulations or guidelines, or provide OSFI's position regarding certain policy issues. Advisories are not law; readers should refer to the relevant provisions of the legislation, regulation or guideline, including any amendments that came into effect subsequent to the Advisory's publication, when considering the relevancy of the Advisory.

# CANADIAN BULLETIN

Date	2009-05-22
Recipient	Canadian Brokers, Policyholders and Cedants
Reference	AD-09-008
Subject	<b>LLOYD'S BUSINESS IN CANADA</b>

You will be aware that the Canadian federal regulator, OSFI, intends to implement a revised interpretation of "insurance in Canada of risks" with effect from 1/1/2010. This will apply the federal regulatory framework to all risks insured in Canada, rather than the current interpretation which applies to all risks located in Canada. This means that from 1/1/2010 **all business** (including wet marine risks) insured in Canada, according to the indicia set out in the advisory issued by OSFI, and on a company's books at that date, will be subject to federal reporting and funding requirements, regardless of the location of the policyholder or risk or class of business.

**Lloyd's is pleased to state that it has confirmed with OSFI that Lloyd's business model in Canada meets the requirements that OSFI have set for "insurance in Canada of risks".**

Although the various provincial regulators have not yet stated publicly their positions regarding provincial licensing post 1/1/2010, Lloyd's is confident that this recognition of its business models by OSFI as "insurance in Canada of risks" will ensure that all of Lloyd's Canadian business will continue to be regarded as "licensed".

OSFI has advised that it intends that the revised interpretation will also apply to contracts written pre-2010. With OSFI's recognition of the important role that Lloyd's Canada and Canadian brokers have always played with respect to Lloyd's Canadian business, Lloyd's can confirm to its reinsurance clients that there was sufficient activity conducted in Canada as to ensure that Lloyd's historical reinsurance business is considered "insurance in Canada of risks" under OSFI's advisory. Lloyd's will leave all risks including reinsurance risks on its books at 1/1/2010 and retain the appropriate funding in its Canadian trust funds. Lloyd's cedants can continue therefore to take credit for reinsurance placed at Lloyd's pre-2010 where they wish to do so. Lloyd's Canadian policyholders and cedants can take further comfort from the fact that the specialised trust deeds governing Lloyd's Canadian trust funds contain specific language that will further ensure that the rights of policyholders for the payment of claims and upon a winding-up are recognised and preserved. As at 31st December 2008, Lloyd's had in excess of \$3 billion in its Canadian trust funds.

Lloyd's Canada will shortly be getting in touch with its Canadian broker partners to discuss the practical implementation of Part XIII.

We look forward to working with you over the coming months to ensure that you have all the clarity that you require at this challenging time. We would encourage you to get in touch with us if you have not heard directly from us by the end of June. You are of course very welcome to contact us at any time to discuss any questions or concerns that you might have.

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Office of the Superintendent of  
Financial Institutions Canada

Bureau du surintendant des  
institutions financières Canada

## **Discussion Paper on OSFI's Regulatory and Supervisory Approach to Reinsurance**

**Office of the Superintendent of Financial Institutions (OSFI)  
December 2008**



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**Canada**

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## A. CONTEXT AND PURPOSE

Reinsurance is a key risk-mitigating tool that can provide business and economic benefits for primary insurers (and their policyholders) through risk diversification and the more efficient use of capital. It can reduce insurers' insolvency risk by stabilizing loss experience, increasing capacity, limiting exposure on specific risks, and/or protecting against catastrophes.

The majority of world reinsurance capacity is provided by a relatively small number of large global reinsurance enterprises operating out of select countries.<sup>1</sup> The Canadian reinsurance landscape reflects this trend and comprises mostly foreign-based enterprises, with only a limited number operating through a subsidiary and the majority conducting business in Canada through a branch. In some instances, business activities are performed directly from abroad.

Standards and practice in reinsurance regulation and supervision vary considerably around the world. Until recently, for example, reinsurers were not regulated at all in certain jurisdictions.<sup>2</sup> Given its international and increasingly complex nature, however, there is an acknowledgment on the part of regulators worldwide that the regulatory and supervisory approach to reinsurance needs to adapt to allow reinsurance companies to operate more effectively at the global level, while at the same time maintaining strong prudential safeguards to protect the financial system and policyholders.

The benefits of reinsurance are balanced with a need to address counterparty risk and the ability of the reinsurer to cover its obligations on a timely basis. Past experience has shown that unenforceable reinsurance contracts can contribute to the ultimate failure of an insurer. In particular, it is imperative for reinsurance contracts to be clear, and for the ceding insurer to adequately assess the strength of the reinsurer to whom it pays a premium, as well as the adequacy of the capital provision and/or vested assets associated with its assumed counterparty risk.

From the perspective of insurance supervision, regulators need to be cognizant of the accounting and actuarial treatment of reinsurance arrangements by all parties involved – i.e., that it is fair and consistent.<sup>3</sup> Regulators also need to be

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<sup>1</sup> According to the International Association of Insurance Supervisors (IAIS), reinsurance companies in Bermuda, France, Germany, Ireland, Japan, Switzerland, the United Kingdom and the United States provide approximately 90 per cent of world reinsurance capacity.

<sup>2</sup> The IAIS, through various initiatives, and the European Union (EU), through the process to create common capital rules for insurance companies in the EU (i.e., "Solvency II"), have encouraged the adoption of regulatory and supervisory standards for reinsurance.

<sup>3</sup> It is particularly important that the appropriate parties are maintaining adequate financial resources commensurate with the risk of potential losses, and that the appropriate parties are benefiting from the corresponding capital relief as a result of the reinsurance.



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wary that reinsurance can be used by insurers to avoid (or arbitrage) domestic valuation or capital requirements.

As well, regulators and ceding insurers should have some level of comfort that home regulators of reinsurers operating from abroad have robust regulatory and supervisory regimes, and can be relatively assured that the foreign reinsurers are in a position to cover their potential obligations to domestic insurers.

Recent developments in global markets have served as a stern reminder that insurers can face severe financial difficulties resulting from the business risks they assume. It has become increasingly clear that the regulation and supervision of insurers and reinsurers – whether operating in Canada directly or underwriting Canadian risks from abroad – should be balanced to reflect these risks.

The International Association of Insurance Supervisors (IAIS) recently published a paper that initiated the discussion on possible mutual recognition arrangements for reinsurance supervision.<sup>4</sup> The IAIS aims to provide further guidance in this area in the near future.

In tandem with the IAIS initiative, the National Association of Insurance Commissioners (NAIC), which represents the fifty state insurance regulators of the United States (US), is currently examining proposals for revising its reinsurance regulatory and supervisory framework. Similarly, the Australian Prudential Regulation Authority (APRA) has finalized its position on possible refinements to general insurance (and reinsurance) regulation and supervision in Australia.<sup>5</sup> As well, the European Union (EU) implemented in 2007 its *Reinsurance Directive*, which harmonized reinsurance rules for EU member states.

With these international developments in mind, OSFI is of the view that it is appropriate to assess our own regulatory and supervisory approach to reinsurance. The purpose of this paper is to:

- Outline, in general terms, OSFI's current regulatory and supervisory approach to reinsurance;
- Identify, and provide an update on, a number of OSFI initiatives relating to reinsurance currently underway; and
- Consult on the overall policy direction of reinsurance regulation and supervision in Canada.

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<sup>4</sup> *Discussion Paper on the Mutual Recognition of Reinsurance Supervision* (IAIS, October 2007).

<sup>5</sup> *Response Paper: Refinements to the General Insurance Prudential Framework – Final Response to the Industry* (APRA, June 2008).

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Although OSFI has conducted various consultations with individual companies (or sectors) on more specific issues, this review represents an effort to assess the reinsurance regulatory and supervisory regime at a broader level and to consult more widely. All interested stakeholders are invited to provide their views throughout this process.

## B. OSFI MANDATE AND GUIDING PRINCIPLES

Created in 1987 by an Act of Parliament, OSFI is the primary regulator and supervisor of federally registered deposit-taking institutions, insurance companies, and private pension plans. Its mandate is to:

- Determine whether federally regulated financial institutions (FRFIs) and private pension plans are in sound financial condition and are meeting minimum plan funding requirements respectively, and are complying with their governing law and supervisory requirements;
- Promptly advise institutions and plans in the event there are material deficiencies and take, or require management, boards or plan administrators to take, necessary corrective measures expeditiously;
- Advance and administer a regulatory framework that promotes the adoption of policies and procedures designed to control and manage risk; and
- Protect depositors and policyholders by monitoring and evaluating system-wide or sectoral issues that may impact institutions negatively.

Consistent with this mandate, there are five guiding principles underlying OSFI's regulatory and supervisory approach to reinsurance. They are:

- 1.) ***Policyholders of FRFIs must be adequately protected*** – This is a fundamental and explicit element of OSFI's mandate. Although OSFI's mandate recognizes that FRFIs can fail, OSFI administers a regulatory framework that requires FRFIs to maintain adequate financial resources that are available to absorb unexpected losses and to cover liabilities in the event of a failure, thus safeguarding the rights and interests of policyholders.
- 2.) ***Regulation and supervision should be proportionate to risk*** – In its regulatory and supervisory functions, OSFI must provide flexibility for insurance and reinsurance companies to take on reasonable risks and to compete domestically and internationally. However, it must also encourage companies to focus on prudently managing the increasingly complex risks of the insurance and reinsurance sectors. In particular, OSFI takes a risk-based approach to supervision that emphasizes the

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need for adequate risk management practices in FRFIs, and provides principles-based guidance and specific rules, where appropriate.

- 3.) ***OSFI must have the ability to effectively assess those risks*** – In order to fulfil its mandate, OSFI must have the right supervisory “tools” at its disposal. OSFI’s approach depends on sound internal controls, reporting, auditing, accounting and actuarial standards.
- 4.) ***A level playing field among financial sector players should be maintained where appropriate*** – It is important to maintain a relative consistency, according to the risks addressed, in the development and application of regulatory guidance, standards and rules between lines of business, sectors, and for domestic and foreign players. Gaps in the regulatory framework, which can inadvertently create opportunities for regulatory arbitrage, should be avoided.
- 5.) ***Effective coordination with other insurance regulators is critical*** – OSFI is not alone in regulating and supervising insurance and reinsurance activities. Effective coordination with provincial and international counterparts is crucial to ensuring a focused and efficient regulatory system.

In addition to the legal framework governing federally-regulated insurance and reinsurance companies – i.e., the *Insurance Companies Act* (ICA) and associated regulations – these five general principles guide OSFI’s regulatory and supervisory approach to reinsurance. They emphasize prudent capital allocation, sound risk management, and strong FRFI governance. Any proposed changes to OSFI’s regulatory and supervisory framework must also be assessed against these guiding principles.

### C. REGULATORY AND SUPERVISORY APPROACH TO REINSURANCE

OSFI’s regulatory approach to reinsurance is based on rules regarding the adequacy of capital or assets available in Canada to cover the claims of policyholders/creditors in the event of an insurer or reinsurer failure.

When a federally regulated insurance company (i.e., FRFI) obtains reinsurance, it receives relief from OSFI’s capital or required vested asset requirements to recognize that there is no need for both the insurer and reinsurer to maintain a financial “cushion” to cover the same underlying risk. The FRFI’s overall (net) liability is therefore reduced as a result of the reinsurer’s liability to the ceding company.

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The manner in which this regulatory “transfer” of capital or vested asset requirements takes place depends on whether the reinsurer is operating in Canada as a company or branch under the ICA (a “registered” reinsurer) or is a foreign entity that does not have a presence in Canada (an “unregistered” reinsurer).

A FRFI that reinsures with a registered reinsurer is able to obtain capital/vested asset relief because it has reduced or removed its overall insurance risk. At the same time, the registered reinsurer, which is regulated and supervised by OSFI, must increase its capital or vested assets held in Canada because it is exposed to more insurance risks and has increased its potential insurance liability. The net result of this “balancing out” is that where the risk of being “out of pocket” in respect of an underlying risk is hedged, capital and vested asset requirements are also transferred.

Unregistered reinsurers, however, are not subject to OSFI regulation and supervision and, hence, cessions by FRFIs to unregistered reinsurers are treated differently, but follow the same fundamental principle.

## **1. Unregistered Reinsurance**

Some FRFIs may cede some of their risks to unregistered reinsurers for risk-management and other purposes. An unregistered reinsurer may be able to limit the potential liability of the insurer to specific or regional risks that cannot otherwise be reinsured domestically. In some cases, jurisdictional arbitrage can be a main driver for insurers to cede business to unregistered reinsurers.

Given that unregistered reinsurers are not subject to OSFI oversight, OSFI’s regulatory and supervisory approach for unregistered reinsurance is based on collateral requirements, a prudential limit for business ceded to unregistered reinsurers, and a regulatory approval associated with related-party transactions.

### ***a.) Collateral Requirements for Unregistered Reinsurance***

OSFI’s regulatory approach for unregistered reinsurance in Canada is premised on collateral requirements (versus counterparty credit risk charges in the case of registered reinsurance). If a federally-regulated insurer chooses to cede its business to an unregistered reinsurer, it can enter into a contract with that reinsurer to maintain enough collateral to cover 100 per cent of the ceded liabilities and the associated capital requirement for the ceding company. By entering into such a contract, the ceding insurer can avoid or reduce the regulatory capital/asset requirements associated with unregistered cessions.

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## Rationale for Collateral Requirements

The collateral requirement is, in essence, an alternative to OSFI's capital or vested asset requirements for FRFIs. Since unregistered reinsurers do not have a presence in Canada, they are not subject to the same regulation and supervision, or to asset or capital requirements applied to FRFIs. Therefore, in order to obtain the "balancing out" referred to above, OSFI requires unregistered reinsurers to post collateral in Canada. This ensures that, if the unregistered reinsurer fails to honour its obligations, there are funds available in Canada to protect the FRFI and its policyholders.

The collateral requirement is a critical safeguard for policyholders of the ceding company, who would not otherwise have the same legal recourse or access to capital of a potentially insolvent reinsurer abroad. Further, the legal claims of ceding companies would only form part of a global "pool" of claims in the event of liquidation of an unregistered reinsurer.

The intent of the collateral requirement, which is also common practice in the US, is neither to encourage nor discourage reinsurance with registered or unregistered reinsurers, but rather that the capital/collateral in the system is sufficient to protect the ultimate policyholder who has a claim.<sup>6</sup>

### ***b.) 25 Per cent Limit on Risks Ceded to Unregistered Reinsurers***

Coupled with collateral requirements for unregistered reinsurance business, a 25 per cent limit is currently applied on property and casualty insurance (P&C) premiums ceded to unregistered reinsurers. The 25 per cent limit is not imposed on the life insurance ("Life") sector. Historically, life insurers have not reinsured as much business as have P&C insurers. However, this trend appears to be changing, as increasingly more mortality risk of the Canadian Life sector is being reinsured.

The 25 per cent limit was imposed on the P&C sector as it was observed that imprudent reliance on unregistered reinsurers was a contributing factor in the failure of many P&C insurers in the 1980s. Some reinsurers, in certain instances related parties, refused to pay claims as a result of either disagreements regarding the coverage stipulated by the contract (stemming from loose wording and/or faulty documentation) or the non-existence of a written contract altogether. As well, although it appears that collateral may have been required to obtain capital credit for reinsurance, no standard form collateral agreements were in existence at the time.

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<sup>6</sup> It is important to note that collateral posted is generally based on known claim liabilities. Given the long-tail exposures and latent claims development in property and casualty insurance, such collateral can at times still be insufficient to cover claims in the event of a failure of an unregistered reinsurer.

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The limit was also intended to address concentration risk to unregistered (and potentially unenforceable) reinsurance. It serves to mitigate the risk of relying on reinsurers operating in other jurisdictions, which may have supervisory and legal regimes that are substantially different from those in Canada. This may ultimately lead to difficulties for the Canadian insurer gaining access to the capital of distressed reinsurers based in these jurisdictions.

It has been argued, however, that the 25 per cent limit on unregistered reinsurance is inconsistent with the international nature of reinsurance business, and constrains some insurers from appropriately managing their risks through diversification and from having full access to very strong reinsurers.

As well, a premiums-based limit may not be appropriate in all circumstances, as it is not necessarily calibrated to the level of risk underwritten in the reinsurance policy. For example, a proportional reinsurance program involving a relatively large amount of premiums ceded may transfer less risk than an excess of loss reinsurance program with a relatively low level of premiums ceded.

One option that has been suggested is to replace the limit with a general principle in a guideline (Guideline B-3 is discussed in a later section) requiring companies to adopt adequate reinsurance cession practices and procedures. This can be further bolstered with guidance on clear wording and the inclusion of specific clauses in reinsurance contracts (Guideline B-13 and insolvency and other clauses are also discussed in a later section).

We welcome the views of the industry on the 25 per cent limit, and whether alternatives exist for addressing concentration and other risks. Following the consultation process, OSFI intends to finalize its position on this issue.

### ***c.) Letters of Credit as Collateral***

As discussed above, unregistered reinsurers that provide coverage to ceding insurers in Canada must provide collateral (in the form of a reinsurance trust/security agreement) to each ceding company that intends to claim a reinsurance credit. OSFI prescribes the types of assets that can be used for this purpose. Letters of credit ("LOCs") are currently permitted as acceptable collateral, but their use is limited to 15 per cent of the risks ceded to unregistered reinsurers.

The regulatory limit on the use of LOCs as collateral currently exists in order to mitigate the ceding company's reliance on a third party, other than the reinsurer, to provide funds to cover claims in the event of insolvency. Some reinsurers, however, claim that such a cap on the use of LOCs as collateral is unjustified, given that LOCs are generally safe. As well, they argue that increasing or abolishing the cap would grant more flexibility to ceding companies to conduct business with unregistered reinsurers.

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OSFI will review its current policy on limiting the use of LOCs that are maintained as collateral for the benefit of a ceding insurer. Comments from the industry are welcome in this respect.

***d.) Mutual Recognition for Reinsurance Supervision***

Various commentators argue that collateral requirements can potentially restrict the effective use of capital thereby increasing the cost, and decreasing the availability, of reinsurance. They argue that collateral requirements and other prudential rules respecting risks ceded to unregistered reinsurers (e.g., 25 per cent limit on unregistered reinsurance cessions; 15 per cent cap on the use of LOCs as collateral) would not be necessary if there was an effective global regime of “mutual recognition” for reinsurance.

Mutual recognition is generally understood to mean that reinsurers registered in certain countries, and subject to the mutual recognition agreement, may write business in all other countries in the agreement without collateral or restrictions, subject to the following:

- An agreement by two or more regulators that their solvency requirements and regulations are mutually acceptable (but, not necessarily equivalent);
- Reliance on the home jurisdiction for the regulation and supervision of the foreign (or, in Canada, “unregistered”) reinsurer; and
- Information sharing by the home country to the host country of all significant information regarding the relevant reinsurers.

In essence, mutual recognition entails a set of guiding principles to assist supervisors in working together to identify key areas on which they need to agree that equivalent outcomes must be achieved. The intention is for them to work out the details for themselves through formalized memoranda of understanding or similar agreements.

While the above description of mutual recognition is considered to be the “ideal”, there are other forms of mutual recognition which can be effective or serve as intermediate steps to the ideal (including reduced/risk-based collateral requirements, as discussed later in this section).

As a member of the IAIS Reinsurance Subcommittee, as well as the Executive and Technical Committees, OSFI is working with its counterparts at the IAIS to study the issues associated with a possible international system of mutual recognition for reinsurance supervision in the long-run.

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However, one should note that there are some significant challenges to the implementation of a global mutual recognition regime for reinsurance on a global, or even bilateral, basis. In contrast to banking regulation/supervision<sup>7</sup>, there is a wide variation in the regulatory and capital requirements for reinsurance across several jurisdictions, including Canada, the US, EU, Switzerland, Japan and Bermuda, among others. Reinsurance supervision is also highly technical and complex, given its institutional nature and targeted risks.

OSFI's regulation of reinsurers is generally more extensive than that of most countries. OSFI would need to be satisfied that the regulatory and capital requirements for reinsurers operating in other countries provide sufficient protection for Canadian policyholders before eliminating the collateral requirement for unregistered reinsurers.

OSFI is closely monitoring the developments in the EU in regards to the creation of common capital rules for insurance companies (referred to as "Solvency II"), which could lay the groundwork for a mutual recognition regime in reinsurance within the EU. Such rules, however, are not expected to be implemented across the EU until 2012.

#### Factors for OSFI to Consider

OSFI would need to, at a minimum, take into account the following basic elements prior to entering into any potential mutual recognition agreement (even on a bilateral basis):

- The counterparty jurisdiction's supervisory practices and adherence to IAIS standards on supervision, and how they compare to Canadian requirements;
- An assessment of the counterparty supervisor's:
  - Legal protection and financial resources to exercise its functions and powers;
  - Operational independence;
  - Maintenance of sufficient staff; and
  - Appropriate treatment of confidential information;
- The legal framework in the counterparty jurisdiction, particularly as it relates to insolvencies and the rights of policyholders;
- The taxation framework in the counterparty jurisdiction, especially in regards to withholding taxes applied to policyholders; and
- The terms of any existing arrangements and/or memorandums of understanding with that jurisdiction.

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<sup>7</sup> The Basel Committee for Banking Supervision has established common international standards regarding prudential banking regulation (Basel Principles and "Basel II" capital standards).



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As well, in order to eliminate or reduce collateral requirements for unregistered reinsurance through a mutual recognition regime, risk-based capital requirements for ceding federally-regulated insurers would need to be developed in order to reflect the additional risk of conducting business directly with a company that is based in a specific jurisdiction. These capital requirements for ceding insurers could potentially be higher than the collateral requirements now imposed for unregistered reinsurance in order to reflect both jurisdictional and counterparty risk.

Further, given provincial jurisdiction over market conduct regulation, and in some cases solvency regulation for insurance, effective coordination with provincial regulators through the Canadian Council of Insurance Regulators would be required in order to put into effect a workable mutual recognition agreement with a foreign jurisdiction. It would be impossible to move ahead with such an agreement without carefully considering the impact on provincial regulatory regimes.

Given the factors noted above, moving to a system of mutual recognition would be very complex and there are significant challenges. The IAIS process will take time, and OSFI will need to conduct its own work in this area. Although the IAIS initiative is still in the very early stages, representatives from OSFI will be present and active in these discussions.

#### Risk-Based Collateral Requirements: An Alternative Approach

Though there has been an increase of those championing a global system of mutual recognition for reinsurance supervision, it appears that some form of collateral requirements is being maintained in the US and being introduced in Australia. There is broad consensus among regulators that, in the absence of an effective system of mutual recognition that protects domestic policyholders, some form of collateral requirements is unavoidable.

Both the US and Australia are currently proposing a more graduated approach in the application of collateral requirements. In the current US and Australian proposals, for example, reinsurers in the home country that meet certain requirements would qualify for reduced (or no) collateral.<sup>8</sup> In a variation to this model, reinsurers would post collateral – again, based on the assessed risk of that reinsurer – on a consolidated basis, rather than on an individual contractual basis.

Such approaches could be contemplated for Canada. Although they are consistent with OSFI's risk-based regulatory approach, there are a number of factors to consider, including:

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<sup>8</sup> The riskiest rated reinsurers would still be required to post collateral that covers 100 per cent of the ceding company's liabilities.

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- The reduced collateral requirement would need to be developed and appropriately calibrated to maintain adequate protection for policyholders. This would depend largely on the regulatory, legal and insolvency frameworks of other jurisdictions, and the degree of certainty provided to policyholders about the availability of collateral to satisfy claims in the event of insolvency;
  - Reduced collateral requirements would need to be balanced with potentially *enhanced* regulatory and supervisory controls. Examples of possible controls include: adjusted capital requirements for insurers ceding risks to unregistered reinsurers; increased supervisory oversight of reinsurance practices; and higher accountability standards for management;
  - A competitive and level playing field would need to be maintained between registered and unregistered reinsurers, i.e., the intent would be to avoid creating a competitive *advantage* for unregistered reinsurers;
  - It may require expanded information-sharing arrangements with regulators in other jurisdictions; and
  - Enhanced coordination with the provinces would be required.

OSFI welcomes comments and insights from the industry on Canada's current capital/collateral regime for unregistered reinsurance activities. In the meantime, OSFI will continue to closely monitor developments in other countries.

#### ***e.) Approvals for Unregistered Reinsurance with Related Parties***

Insurance companies often enter into reinsurance arrangements with an unregistered reinsurer that is a related party. Such transactions, which require the Superintendent's approval under the ICA, can be part of a large insurance conglomerate's strategy to pool similar risks from across its corporate structure.

In 2007, these approvals represented more than half of all reinsurance-related approvals administered by OSFI. Yet, the transactions falling under this approval requirement are often insignificant relative to the overall risk profile of the applicant insurer, and are subject to other OSFI controls, including collateral requirements and governance guidelines for ceding companies (discussed in later sections).

OSFI welcomes the industry's views on what changes could be made (e.g., development of materiality criteria) to streamline approval requirements without putting policyholders at risk.

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## 2. Registered Reinsurance

Mirroring OSFI's approach to unregistered reinsurance business, the regulatory framework for registered reinsurance is based on capital/asset requirements for insurers, prudential limits on risks ceded and regulatory approvals.

### *a.) Capital Requirements*

Similar to other FRFIs, insurers and reinsurers are subject to various regulatory capital requirements.<sup>9</sup> However, OSFI alters its approach to reflect the varying size and nature of the risks undertaken between the P&C and Life sectors. P&C companies do not engage in financial intermediation and underwrite insurance contracts that are generally short- and fixed-term, and entirely dependent on the occurrence of a specified event of loss.

Although the P&C and Life sectors undertake different business risks, they face similar counterparty and operational risks as they relate to reinsurance. Therefore, it is the view of OSFI that there currently exist a few disparities in the capital requirements between the P&C and Life sectors that are applied for risks ceded to registered reinsurers.

#### Counterparty Credit Risk Capital Charge

OSFI imposes a fixed capital/asset charge on P&C insurers ceding risks to registered reinsurers in order to protect policyholders and to ensure the safety and soundness of those ceding companies. The capital charge covers the risk that the registered reinsurer will not honour its obligations in the event of failure (i.e., counterparty risk) and the risk that ceded liabilities are improperly estimated.

This charge, which is in place in all other major jurisdictions, is essentially the domestic alternative to collateral requirements. Such a charge, therefore, is not applied to insurers that cede risks to unregistered reinsurers (the collateral posted is deemed adequate to cover the risks).

However, unlike the P&C sector, this fixed capital/asset charge currently does not apply to Canadian life insurers which cede their risks to registered reinsurers. OSFI will implement a capital charge on the Life sector in the next round of major changes to the credit risk component in the Minimum Continuing Capital and Surplus Ratio (MCCSR) to account for counterparty credit risk.

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<sup>9</sup> The overall capital framework for federally regulated insurers and reinsurers - the main capital tests being the Minimum Capital Test (MCT) and Minimum Continuing Capital and Surplus Ratio (MCCSR) for P&C and Life insurers/reinsurers respectively - is extensive and complex, and is, therefore, not the subject of this paper.



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### Operational Risk Minimum Requirement

Aside from counterparty credit risk, when insurers cede a significant portion of their insurance risks to a reinsurer, they are also exposed to operational risk; that is, the risk that losses could materialize as a result of deficiencies in information systems or internal controls. At this time, life insurers have a 20 per cent flat capital charge on business embedded in their 120 per cent MCCR to account for this risk.

However, as the Life sector is not subject to any ceding limit, it is possible that the 20 per cent flat charge could be inappropriately reduced to zero when an insurer cedes all of its business. To overcome such a scenario, OSFI will implement a minimum capital charge of 25 per cent of MCCR gross capital requirements for life insurers to account for operational risk. This approach will be temporary until an explicit capital charge for operational risk is developed.

#### ***b.) 75 Per cent Fronting Limit***

Coupled with capital requirements for insurers ceding risks to domestic reinsurers, a P&C insurer cannot cede more than 75 per cent of its gross premiums, and cannot cede more than 25 per cent of its gross premiums to unregistered reinsurers (as discussed in a previous section).

The 75 per cent “fronting” limit was implemented on the basis that where a direct writer’s capital is not exposed to loss, it has little incentive to carefully underwrite business. This risk can be amplified as insurers receive commissions on business reinsured. Some insurers have in the past been inclined to write large volumes of business and to charge lower premiums to attract more business. Due to poor underwriting, some reinsurers have not honoured their obligations. In certain cases, they have claimed fraud or misrepresentation by the insurer.

However, this prudential limit, which is essentially intended to mitigate moral hazard, may not be effective, as certain lines of business may be fully fronted if they represent less than 75 per cent of total premiums. Some insurers may front lines for unregistered reinsurers for cost-efficiency purposes, as the latter do not have to set up a subsidiary or branch in Canada. While the fronting limit applicable to the company as a whole may be met, poor underwriting could nevertheless occur for fronted lines.

As well, there are currently other OSFI tools and mitigating factors that encourage prudent underwriting and sound risk control standards. For example, under OSFI’s risk-based framework, reinsurance risks are examined thoroughly. OSFI expects insurance and reinsurance companies to have policies and procedures in place to properly underwrite and assume risk respectively (see section on Governance below). Also, since 1992, actuaries have opined on the adequacy of actuarial reserves of P&C insurers and, more recently, these reports

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have been subject to peer reviews. Consistent with this diligence and scrutiny, insurers are now required to consider reinsurance risks as part of their Dynamic Capital Adequacy Testing (DCAT).

As a result of the relative ineffectiveness of the fronting limit in addressing prudent underwriting standards and because of existing risk controls in the current regulatory and oversight framework, it has been suggested that this limit be replaced with an explicit operational risk capital charge on P&C insurers (similar to what is proposed for the Life sector in a previous section). In addition, general principles could be formulated in a guideline (See Guideline B-3 in the section on Governance) requiring companies to carry out adequate due diligence regarding their reinsurance risks. Such a guideline would apply to both the P&C and Life sectors.

OSFI welcomes the views of the industry on the future of the 75 per cent fronting limit. Following the consultation process, OSFI intends to finalize its position on this issue.

#### ***c.) Approvals for Registered Reinsurance Transactions***

A prudentially effective, balanced and responsive approvals process is critical. OSFI values the strong relationship it has with institutions, and strives to continuously assess and improve the approvals process. It is also conscious of not placing unnecessary or duplicative regulatory burden on its regulated institutions.

The approvals regime for reinsurance transactions was significantly changed during the last legislative review period. The new reinsurance approval framework for Canadian companies was brought into force on April 20, 2007, and similar changes for foreign companies are expected to be brought into force on January 1, 2010.

Under the ICA, Canadian insurers are required to seek the Minister's approval when they cede, on an assumption basis, all or substantially all of their insurance risks. Canadian insurers are also required to seek the Superintendent's approval when they cede, on an assumption basis, less than substantially all of their insurance risks. On January 1, 2010, foreign companies will require the approval of the Superintendent (rather than the Minister, as is currently the case) when they cede on an assumption basis any risks tied to their insurance business in Canada.

As well, approval requirements related to indemnity reinsurance and transfers of policies were eliminated. From OSFI's perspective, these changes were justified given supervisory innovations in the areas of risk-based capital rules and other prudential tools.

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The reinsurance approval regime will continue to be a key element of OSFI's overall regulatory and supervisory approach to reinsurance. Nevertheless, any changes to the broader regulatory and supervisory framework (e.g., capital requirements, monitoring, etc.), as discussed in earlier sections, can have implications for OSFI's approval and administrative requirements. OSFI would appreciate any views on the reinsurance approval regime that stakeholders may have in light of the issues raised elsewhere in this paper.

### **3. Governance**

Regulation and supervision are not substitutes for sound business practice and controls. Responsibility for managing reinsurance risks lies with those operating/managing the FRFI. As such, effective senior management and boards are an essential element in the safe and sound functioning of financial institutions. It is not the practice of OSFI to manage the business affairs of financial institutions. However, OSFI fulfils its prudential mandate by promoting the adoption by management and boards of directors of policies and procedures designed to control and manage risk.

#### ***a.) Guideline on Corporate Governance***

OSFI's *Guideline on Corporate Governance* provides information to boards and management of financial institutions about the expectations of OSFI on corporate governance. Although good governance is fundamental for any corporation, the guideline draws attention to certain areas that are especially important for financial institutions, owing to the nature and circumstances of business conducted and risks assumed.

The Guideline points to a need for an independent, responsive and effective board of directors, the development of sound risk management practices and adequate internal controls. As well, it stresses strong independent oversight by internal audit and compliance officers, as well as appointed actuaries and external auditors.

Ultimately, Canadian financial institutions, including insurers and reinsurers, will succeed (or fail) on the merits of their business and their ability to control and manage their own risks. OSFI's *Guideline on Corporate Governance* serves as a starting point, and applies to all FRFI's, including insurance and reinsurance companies.<sup>10</sup>

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<sup>10</sup> Branches do not have boards of directors. As such, OSFI looks to the Chief Agent of a branch to oversee the management of the branch and to be aware of OSFI's *Guideline on Corporate Governance* (See Guideline E-4A on the *Role of the Chief Agent and Record Keeping Requirements*).

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### ***b.) Guideline on Sound Reinsurance Practices and Procedures (B-3)***

With respect to reinsurance activities specifically, it is especially important that directors and management enter into contracts with reinsurers that are financially sound and able to meet any future claims obligations. An OSFI guideline on sound reinsurance practices and procedures in this regard (*Guideline B-3*) is currently being updated and will apply to all reinsurance cessions by federally-regulated insurers.<sup>11</sup>

The guideline will underscore OSFI's expectation that insurers establish and implement sound reinsurance cession practices and procedures as part of their enterprise-wide risk management programs. It is proposed that these practices and procedures will encompass the following fundamental elements:

- A reinsurance management strategy (e.g., circumstances for which reinsurance is required);
- Criteria for assessing the suitability of a reinsurer;
- Appropriate risk concentration limits;
- Parameters for delegation of certain responsibilities (e.g., officer limits on executing reinsurance cession arrangements);
- Adequate internal systems for monitoring reinsurance transactions; and
- Sound risk management and compliance mechanisms.

While OSFI strives to provide guidance to FRFIs on its expectations regarding sound reinsurance practices and procedures through general principles, history has shown that certain rules have been needed to address specific risks (e.g., the 25 per cent limit on unregistered reinsurance and the 75 per cent fronting limit). OSFI welcomes the views of the industry on whether the above principles, along with other current OSFI regulatory and supervisory tools, are adequate to effectively control reinsurance risks and whether such rules can be replaced.

An updated *Guideline B-3* will be released to the industry for consultation in the coming months.

### ***c.) Guideline on Reinsurance Agreements (B-13)***

As a complement to *Guideline B-3*, which is general in nature, more specific guidance will be forthcoming in areas such as the implementation of reinsurance agreements.

There is often a time lag between the initiation of a reinsurance arrangement, the execution of a summary document, and the execution by the parties of the full

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<sup>11</sup> The current Guideline B-3 only applies to unregistered life reinsurance.

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agreement. If an event were to occur during these gaps, there could potentially be uncertainty relating to coverage. Experience, both in Canada and abroad, suggests that disputes regarding reinsurance coverage can be central to instances of insurer insolvency.

OSFI is currently analyzing the business practices of the industry with regards to the use of cover notes and formal treaties, and will incorporate this analysis into guidance to the industry.

OSFI's *Guideline B-13* will set out prudential considerations relating to time lags in reinsurance arrangements. It will also address issues relating to wording within a reinsurance agreement. OSFI has completed preliminary consultations with the industry and will finalize *Guideline B-13* in the coming months.

#### ***d.) Insolvency and Other Contract Clauses***

Explicit in *Guideline B-13* will be the notion that a ceding company and a reinsurer enter into a written contract. However, even written contracts can contain poor language and lack appropriate protection clauses for ceding companies.

For example, an "insolvency clause" in a reinsurance contract clarifies that a reinsurer must continue to make full payments to an insolvent insurer without reduction resulting from the ceding company's insolvency. Under such a clause, reinsurance receivables remain within the overall general estate rather than being allocated toward the payment of specific policyholder claims.

As a result of past failures of insurers and associated litigation stemming from disputes concerning coverage, the inclusion of insolvency clauses in reinsurance agreements have become common practice in the US, United Kingdom and Australia. Many state insurance statutes in the US, in particular, require an insolvency clause in the reinsurance contract if the ceding company intends to recognize reinsurance receivables as an asset on its balance sheet (and take advantage of the corresponding regulatory capital relief).

In Canada, while most reinsurance contracts have contained an insolvency clause since the adoption of recommended wording by the Reinsurance Research Council of Canada in 1991, it is not a requirement for the reinsurance receivables to be recognized as an asset for regulatory capital purposes.

In contrast to insolvency clauses, other types of reinsurance clauses can *limit*, rather than enhance, a failed insurer's ability to enforce the claims obligations of a reinsurer and to cover the claims of its own policyholders. "Offset" and "cut-through" clauses, for example, may effectively place any reinsurer claims (i.e., mutual debts and credits), or the claims of a specific creditor/policyholder of the cedant, ahead of the statutory claims against the estate under the *Winding-Up*



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*and Restructuring Act.* In essence, such clauses may allow certain creditors/policyholders to have preferential treatment over other creditors/policyholders of the ceding company in the event of insolvency.

OSFI proposes to issue guidance, or to amend existing guidelines<sup>12</sup>, on its expectations regarding good business practice associated with reinsurance contracts, including its expectations regarding insolvency and other clauses contained in such contracts.

#### **D. MOVING FORWARD**

Financial institutions are facing rapid change, and the regulatory environment is evolving accordingly throughout the world. OSFI attempts to maintain a relevant regulatory and supervisory framework of guidance and rules for reinsurance that is adaptable to the changing landscape and that meets or exceeds international standards. Given recent international developments, an assessment of this framework is timely and appropriate.

Further, as a member of the IAIS, which is currently examining the issues associated with mutual recognition in reinsurance supervision, OSFI will need to be in a position to bring the right issues and concerns to the table in future discussions and negotiations at the international level. This discussion paper, therefore, along with critical input from the Canadian industry, will serve to equip OSFI to fully engage in this process.

This paper outlines, in general terms, OSFI's regulatory and supervisory approach to reinsurance, as well as provides a summary of various OSFI initiatives currently underway. It also serves to continue (and for some issues, initiate) discussion with the industry on a number of specified areas and on the overall policy direction of OSFI's approach.

A position will be finalized in the coming months on areas where OSFI is already consulting, or has consulted, the industry (e.g., capital requirements for the Life sector). OSFI recognizes that such a discussion paper cannot possibly address all of the technical complexities and nuances of the reinsurance business. However, the views of all stakeholders on these issues and others related to reinsurance, whether addressed or not addressed in this paper, would be appreciated.

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<sup>12</sup> Consideration will be given to amending existing capital guidelines regarding contract clause requirements if a ceding company intends to seek regulatory capital relief as a result of the reinsurance arrangement.

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OSFI looks forward to receiving comments of interested stakeholders on this discussion paper. Written comments should be forwarded to:

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Office of the Superintendent of Financial Institutions  
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Written comments may also be sent by facsimile to (613) 998-6716 or via email to [philipe.sarrazin@osfi-bsif.gc.ca](mailto:philipe.sarrazin@osfi-bsif.gc.ca).

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

## **REPORT ON REINSURANCE JULY 1, 2009 – JULY 1, 2010**

**JUNE 9, 2009**

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- P Discussion Paper on OSFI's Regulatory and Supervisory Approach to Reinsurance

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## 1. EXECUTIVE SUMMARY

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The purpose of this report is to provide the CLLAS Board with a review of the CLLAS retention and reinsurance transfer options for July 1, 2009/2010. We have provided all of the CLLAS reinsurers with a complete submission, including detailed loss experience, an actuarial analysis and suggested pricing terms. While terms and conditions are still being finalized, this report should provide CLLAS firms with sufficient information on CLLAS retention options and the reinsurance landscape in order to make necessary decisions for the upcoming term.

The Tillinghast Peer Review Report had recommended that CLLAS consider increasing its retention, particularly in Reinsurance Layer 1, in order to create cost efficiencies. While we have always encouraged increasing retentions, especially when reinsurance costs appeared to be somewhat out of sync with our actuarial analysis, this year we are recommending a more proactive approach. The retention options are outlined in Section 4 of this report.

We have provided more detail on reinsurance security issues because of uncertain times in the (re)insurance business as evidenced by the government bailout of AIG and the downgrading of Swiss Re. We are recommending that CLLAS adopt a reinsurance security process that includes the formation of a Reinsurance Security Committee (or expansion of the duties of the Audit Committee). In the past, CLLAS had established a minimum rating of A- for all reinsurers as determined by A.M. Best and S&P. We are recommending a Level II monitoring process that would depend on a number of triggers including, but not limited to, a downgrading of the security ratings. The role of the Reinsurance Security Committee would be to oversee the process and bring any deviation to the attention of the Board with a recommended course of action taken.

A number of regulatory issues are also addressed in this report. Of particular importance to CLLAS is the OSFI Advisory relating to “Insurance in Canada of Risks” referenced in Part XIII of the Insurance Companies Act. This Advisory suggests that a number of reinsurers, including Lloyd’s, Hannover Re, Aspen Re and Transatlantic Re, will have to confirm (or take certain action steps in order to confirm) that they meet the Part XIII requirements.

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## **2. CURRENT STRUCTURE AND REINSURANCE EXPOSURE**

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### **2.1 Current Limit Structure – Excess Professional Liability**

The CLLAS limit structure is set forth in Appendix A. We expect that the limits will remain unchanged for the July 1, 2009 to July 1, 2010 term except that an additional limit of \$10 million will likely be available in the Second Optional Excess Layer. In other words, options of \$10 million, \$20 million, \$30 million and \$40 million excess of \$160 million should be available for this upcoming term. The Umbrella limit of \$30 million per claim and \$60 million aggregate over all firms will still sit on top of the Second Optional Excess policy. The current rate structure and participation by reinsurer is set forth in Appendix B.

### **2.2 Aggregate Stop-Loss Reinsurance**

The aggregate stop-loss reinsurance provided by Colchester is illustrated in Appendix C. Since Colchester is in a position to take on more risk on a net basis, the proposed structure for the upcoming term increases Colchester's net retention from \$5 million to \$10 million excess of \$15 million while the retrocession limit is reduced from \$20 million excess of \$20 million to \$15 million excess of \$25 million. This will be explored in more detail in Section 4, Retention Options.

### **2.3 Reinsurance Liabilities Exposure**

The CLLAS claims liabilities for "all years" and for the "current year" are set forth in Appendices D and E respectively. Claims liabilities consist of outstanding claims reserves plus the actuarial reserve for incurred but not reported or developed losses (IBNR). These were needed for valuation purposes in past actuarial reports. The reason for introducing these exhibits in this report is to determine CLLAS' exposure to each of its reinsurers and to highlight where CLLAS may be exposed by more than 10% to any one reinsurer.

Underwriters at Lloyd's represent the most significant exposure to CLLAS with the all time liabilities at \$15.6 million (19.5% of all claims liabilities) and the current year liability at \$1.3 million (16.6% of all current year liabilities). The downward trend is a good sign especially if it is CLLAS' intention to reduce the liability exposure of those reinsurers that exceed 10%. The only other reinsurer that exceeds 10% of all claims liabilities for all years is Colchester at \$10.2 million or 12.8% compared to the current year liabilities of \$452,000 or 5.6%. Since Lloyd's and Colchester each exceed 10%, we highlight both for Level II monitoring (see Section 5).

### **2.4 Reinsurance Limit Exposure**

A similar exercise was conducted to determine the current limit exposure that CLLAS has from each of its reinsurers. Limits exposure is not the same as the claims liability exposure since limits in the high layers have a low expected loss cost while limits in the low layers have a high expected loss cost. Appendix F sets forth the limits exposure and highlights Underwriters at Lloyd's, Swiss Re, AWAC and the Brit Syndicate as having limit exposures that exceed 10%. While Brit is a sub-set of Underwriters at Lloyd's, since its limit exposure exceeds 10%, we wanted to highlight it, as well as the others exceeding 10%, for Level II monitoring (see Section 5).

### 3. ACTUARIAL RATE ANALYSIS AND EXPECTED REINSURANCE COSTS

#### 3.1 Actuarial Report

The Actuarial Report which sets the rates for the upcoming term is set forth in Appendix G.

#### 3.2 Costs for the Retained Risk

The discounted expected loss costs for each of the retained risk layers for the upcoming term compared to the current year is set forth in the table below:

	<u>Retained Risk</u>	<u>2008/2009</u>	<u>2009/2010</u>	<u>% Change</u>
\$0.975MM xs \$0.025MM	100.0%	\$136	\$150	10.8%
\$4.0MM xs \$1.0MM	100.0%	\$1,317	\$1,488	13.0%
\$7.5MM xs \$5.0MM	35.0%	\$952	\$1,019	7.0%
\$12.5MM xs \$12.5MM	24.0%	\$659	\$780	18.3%
\$10.0MM xs \$25.0MM	12.5%	\$324	\$340	5.0%

The change in loss cost comes in part from an overall increase in costs. A significant part of the increase is due to reduced investment return expected on reserves.

#### 3.3 Expected Rates for the Reinsured Risk

The reinsurance costs for the upcoming term are not expected to change even though there has been some movement in expected loss costs especially in Reinsurance Layer 2. The table below sets forth the proposed rates:

<u>Layer</u>	<u>Actual Rate</u> <u>2008/09</u>	<u>Expected Loss Costs</u> <u>July 1, 2009</u>		<u>Proposed</u> <u>Rate</u> <u>2009/10</u>	<u>Change</u> <u>in Rate</u>
		<u>Undiscounted</u>	<u>Discounted</u>		
1 ROC (\$7.5MM xs \$5MM)	\$1,622.00	\$1,153	\$1,019	\$1,622.00	0%
Québec (\$7.5MM xs \$10MM)	\$952.00	\$723	\$639	\$952.00	0%
2 ROC (\$12.5MM xs \$12.5MM)	\$1,137.50	\$883	\$780	\$1,137.50	0%
Québec (\$12.5MM xs \$17.5MM)	\$888.75	\$662	\$585	\$888.75	0%
3 ROC (\$10MM xs \$25MM)	\$423.00	\$385	\$340	\$423.00	0%
Québec (\$10MM xs \$30MM)	\$301.00	\$314	\$277	\$301.00	0%
4 \$20MM xs \$140MM	\$138.00	\$7	\$6	\$138.00	0%
5 Up to \$30MM xs \$160MM		\$5	\$4		
\$10MM xs \$160MM	\$86.00			\$86.00	0%
\$20MM xs \$160MM	\$123.00			\$123.00	0%
\$30MM xs \$160MM	\$170.00			\$170.00	0%
6 \$30MM/\$60MM xs min \$50MM	\$185.00	\$13	\$12	\$185.00	0%



An additional limit of \$10 million for \$40 per lawyer is being proposed for Reinsurance Layer 5 to bring the total available limit available to \$40 million excess of \$160 million for a cost of \$210 per lawyer.

### **3.4 Net Expected Costs Compared to Current Year**

On the basis of the actuarially determined expected loss costs for the retained risks and the expected reinsurance costs on a status quo basis, we anticipate an overall increase in the rate per lawyer of approximately 6% compared to the current year rates. Section 4 explores different retention options that would reduce the overall cost per lawyer.

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## 4. RETENTION OPTIONS

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### 4.1 General

The Tillinghast Peer Review Report had suggested that CLLAS was in a position to retain more risk and that the risk should be focused on the Reinsurance Layer 1 in order to realize optimal cost efficiencies. The CLLAS by-laws allow for a total retention of \$15 million per claim of which \$11,850,000 is currently being utilized. We have analyzed several scenarios that increase the CLLAS retention and/or the Colchester retention each of which would result in savings for CLLAS. An actuarial model was developed to weight the cost benefit against the additional risk so that a risk neutral result could be determined. Note that at the time of writing this report, only a preliminary modeling of the scenarios was done. The results are in the process of being peer reviewed and are subject to change should final reinsurance rates vary from those proposed.

### 4.2 Scenario A – Maximum Retention in Reinsurance Layer 1

Scenario A assumes the following:

- CLLAS retains an additional \$3 million in Reinsurance Layer 1 (\$7.5 million excess of \$5 million) increasing its retention from 35% to 75% for the upcoming term;
- Reinsurance rates for the upcoming term are identical to the current term;
- A small amount of the savings is kept in surplus in order to make this scenario risk neutral from an actuarial perspective;
- Colchester's retrocession was tweaked to be cost-neutral with the status quo.

The net result is a saving of approximately \$1,000,000. This would reduce the year-to-year increase in premiums from 6% to approximately 2%.

### 4.3 Scenario B – No Colchester Retrocession

Scenario B assumes the following:

- The CLLAS retentions for the upcoming term would be identical to the current year retentions;
- Reinsurance rates for the upcoming term are identical to the current term;
- Colchester would increase its net retention to \$10 million excess of \$15 million and discontinue purchasing retrocession protection;
- A small amount of the savings is kept in surplus in order to make this scenario risk neutral from an actuarial perspective.

Again, the net result is a saving of approximately \$750,000. This would reduce the year-to-year increase in premiums from 6% to approximately 3%.

#### **4.4 Scenario AB – Max in Reinsurance Layer 1 and No Colchester Retrocession**

Scenario AB is a combination of Scenario A and Scenario B and assumes the following:

- CLLAS retains an additional \$3 million in Reinsurance Layer 1 (\$7.5 million excess of \$5 million) increasing its retention from 35% to 75% for the upcoming term;
- Reinsurance rates for the upcoming term are identical to the current term;
- Colchester would increase its net retention to \$10 million excess of \$15 million and discontinue purchasing retrocession protection;
- A small amount of the savings is kept in surplus in order to make this scenario risk neutral from an actuarial perspective.

The net result is a saving of approximately \$1,500,000. This would eliminate the year-to-year increase.

#### **4.5 Scenario C – Recommended Option**

The above scenarios do not consider the possible negative impact of reducing the participation of current reinsurers most of whom have established an important long-term relationship with CLLAS. Also, the above exhausts all the available retention and does not leave any retention as leverage in the event that reinsurance rates increase by an unacceptable margin over the current term. Scenario C, therefore, is a midway solution that takes into account these important relationships. Scenario C assumes the following:

- CLLAS retains an additional \$750,000 in Reinsurance Layer 1 (\$7.5 million excess of \$5 million) increasing its retention from 35% to 45% for the upcoming term;
- CLLAS retains an additional \$500,000 in Reinsurance Layer 2 (\$12.5 million excess of \$12.5 million) increasing its retention from 24% to 28% for the upcoming term;
- CLLAS retains an additional \$250,000 in Reinsurance Layer 3 (\$10 million excess of \$25 million) increasing its retention from 12.5% to 15% for the upcoming term;
- Reinsurance rates for the upcoming term are identical to the current term;
- Colchester would increase its net retention to \$10 million excess of \$15 million and reduce its retrocession protection from \$20 million excess of \$20 million to \$15 million excess of \$25 million resulting in an expected savings in retrocession premium of about \$300,000;
- A small amount of the savings is kept in surplus in order to make this scenario risk neutral from an actuarial perspective.

The net result is a saving of approximately \$400,000. This would reduce the year-to-year increase in premiums from 6% to approximately 4%.

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## 5. REINSURANCE SECURITY CONSIDERATIONS

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### 5.1 Background and Objectives

In view of the uncertainty in the financial markets, including the uncertainty in the insurance and reinsurance markets (e.g. AIG and Swiss Re), CLLAS has identified a need to document and possibly develop a more rigorous approach to monitoring its reinsurance security. In the past, CLLAS reviewed the Best and S&P ratings of its reinsurers on an annual basis and would monitor the developments of any reinsurer that was put on a “watch” list by these agencies. Reinsurance strategy could be influenced by a number of factors, including an actuarial report that analyzed the liability exposure to CLLAS from each reinsurer, Best and S&P ratings and other factors. For example:

- Scor Re’s participation was reduced due to a rating downgrade;
- Relationship with Ace Syndicate ended after a reinsurance recoverable problem;
- Transatlantic Re’s participation was reduced after reinsurance recoverable problem.

The purpose of this review is to document and improve upon the reinsurance monitoring process.

### 5.2 Reinsurance Security Committee

Consideration should be given to establishing a new standing committee of the Board or expanding the duties of the Audit Committee. The responsibility of the new Reinsurance Security Committee would be 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;
- Any other matter that may threaten the security of a reinsurer.

It is important to acknowledge that reinsurance intermediaries cannot guarantee the solvency of any reinsurer and rely on the rating agencies to determine reinsurers’ financial strength. The Reinsurance Security Committee is not meant to substitute the expert advice provided by CLLAS’ intermediaries. Its purpose is to use this advice to assist the Advisory Board in its due diligence process. We have included in Appendices H and I letters from Dion Durrell and Miller Insurance Services Ltd. which provide information on the reinsurance security practices of these firms.

### 5.3 Level I Monitoring

On an annual basis, CLLAS will provide a Reinsurance Report to the Board that would include:

- Current Best and S&P ratings compared to the previous year – see Appendix J;
- Current total liability exposure (i.e. case reserves and IBNR) from each reinsurer all years. This was referenced in Section 2.3 – see Appendix D;

- Expected loss exposure from each reinsurer for the current year. This was referenced in Section 2.3 – see Appendix E;
- Expected limit exposure to each reinsurer for the current year. This was referenced in Section 2.4 – see Appendix F.

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

#### **5.4 Level II Monitoring Triggers**

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

- Downgrading of the security rating – For example, Appendix J identifies Transatlantic Re and Swiss Re as being downgraded over the past 12 months;
- A rating agency placing a reinsurer on a “watch” list – For example, Hannover Re was placed on “negative watch” by S&P over the past 12 months;
- Difficulties collecting reinsurance proceeds after a claim is settled – For example Ace Syndicate (no longer on the Program) and Transatlantic Re have created reinsurance recoverable challenges;
- Case reserves and IBNR exposure to any one reinsurer exceeding 10% of total liabilities for all years – For example, the total liabilities of Lloyd’s as a combined market exceed 10% as does the total liabilities of Colchester;
- Expected losses of any one reinsurer exceeding 10% of all expected losses for the current year – For example, the current year expected losses for Lloyd’s as a combined market exceeds 10%;
- Total limits of any one reinsurer exceeding 10% of the total limits provided by CLLAS – For example, the current limits put forth by Lloyd’s, Swiss Re, AWAC and Brit Syndicate exceed 10%;
- Any other event deemed material by the Reinsurance Security Committee or its advisors.

#### **5.5 Level II Monitoring**

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

- Most recent financials and other information should be reviewed by the Reinsurance Security Committee, including a review of:
  - Stock performance relative to the remainder of the market;
  - Early warning signals/ratios (Best or MSA report);
  - Balance Sheet and Income Statement;
- Meetings or direct correspondence with such reinsurers as necessary to discuss the financial health of the reinsurer – Appendix K sets forth a summary of the interviews conducted in London with the lead reinsurers.

The Reinsurance Security Committee would recommend changes to the Board based on such reviews. Appendix L sets forth some preliminary financial information on the specific markets identified in Section 5.4 above, namely, Lloyd's, Swiss Re, Hannover Re, Transatlantic Re, AWAC, ACE Syndicate and Brit Syndicate.

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## 6. POLICY WORDING AND REINSURANCE CONTRACT CHANGES

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### 6.1 Definition of “Costs, Charges and Expenses”

A definition of “Costs, Charges and Expenses” has been added. In prior policies, this term was referred to as if it were a defined term.

### 6.2 Clarification of Coverage for “Professional Corporations”

The coverage for Professional Corporations (“PC”) has been clarified, resulting in the addition of a definition of “Professional Corporation” and references to PC’s throughout the policy. The policy has, for many years, included coverage for services rendered by a partner of the firm which is a PC. As law firms consider how best to implement the PC structure, the “US model” of having the PC be the partner in the firm is not likely to be the common approach in Canada. The Canadian approach is more likely to involve the provision of services by the PC established by a lawyer (typically a partner of the firm) on a contract basis to the firm, while the lawyer remains a partner. The changes in the CLLAS policy relating to PC’s follow closely the relevant provisions of the LawPro policy.

The rationale for the use of PC’s is personal financial planning and the structure is not seen as adding any incremental risk from an E&O perspective. However, CLLAS wants to be sure, as these structures are implemented, that the full benefit of the underlying insurance (through the provincial law societies) remains intact and therefore, for the time being, the drop-down provisions in the CLLAS policy will not apply to PC’s in the unlikely event that the underlying insurance does not provide coverage to the PC.

### 6.3 New Wording for Coverage B

New wording has been added to “Coverage B – Cost, Charges and Expenses” to deal with recent case law developments on the allocation of defence costs between covered and uncovered allegations.

### 6.4 Reinsurance Rating Downgrade Clause

CLLAS has introduced the following “rating downgrade” clause to be inserted in the reinsurance contracts at renewal:

#### ***SPECIAL CANCELLATION CLAUSE***

*In the event that any of the Reinsurers:*

- (a) ceases underwriting; or*
- (b) is the subject of an order or resolution for winding up or formally proposes a scheme of arrangement; or*
- (c) has its authority to carry on insurance business withdrawn; or*

(d) *has its financial strength rating reduced by A.M. Best or Standard & Poor's or equivalent rating agency to less than A-;*

*the Reinsured may terminate that Reinsurer's participation forthwith by giving notice and the premium payable to that Reinsurer shall be pro-rata of its proportion of premium to the time on risk.*

Swiss Re has proposed that an additional sentence be added as follows: "*However, in the event of a known reserved loss to the layer at the time of termination, then the premium shall be deemed as fully earned at inception and no return premium shall be payable.*" This should not pose a problem since it is highly unlikely that a reserve would be posted in the higher layers where Swiss Re participates during the term of the policy.



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## **7. REGULATORY ISSUES**

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### **7.1 FSCO Reinsurance Guidelines**

Appendix M sets forth the reinsurance calculations based on the current premiums and reinsurance protections to determine whether CLLAS is onside with respect to the reinsurance guidelines provided by the Financial Services Commission of Ontario. The guideline for total reinsurance is 75% and the guideline for unregistered reinsurance is 25%. The calculations for CLLAS results in 59.7% total reinsurance and 13.4% unregistered. CLLAS is well within the guideline with respect to both registered and unregistered reinsurance.

### **7.2 OSFI Part XIII Advisory – Insurance in Canada of Risks**

Appendix N sets forth the OSFI Advisory dealing with “Insurance in Canada of Risks” with specific reference to Part XIII of the Insurance Companies Act (ICA). The proposed changes are scheduled to take place on January 1, 2010. The main concern raised by this Advisory is the potential conflict between the ICA and the federal legislation dealing with the insolvency of insurance companies, known as the Winding Up and Restructuring Act (WURA). The discrepancy in the wording of the two acts has raised concern that, in the event of liquidation of a Canadian Branch of a foreign insurance company, the Canadian policyholders may not be adequately protected.

Currently, OSFI regulates foreign insurers primarily on the basis of the location of the risk. However, as mentioned above, with the language that currently exists, there exists room for discrepancy and confusion when trying to regulate insurers in this manner. This is especially true when unforeseen foreign policyholders enter the equation. The change will help to ensure consistency between the ICA wording and the WURA. This will put both federally legislated acts on the same page and will simplify everything by tracking “business written in Canada” regardless of where the risks are located. It will also clarify the position of the ICA to encompass all business written in Canada, as opposed to tracking Canadian-located risks regardless of where the underwriting occurred. This change will restrict foreign policyholders with Canadian risks, who are unknown to Canadian regulators, to lay claim to vested assets in the event of liquidation. Consequently, the change will ensure that the liabilities attributed to Canadian clients will be protected, regardless of the location of the risk.

We have identified the reinsurers that may be affected by this change in the table below:

Reinsurance Company	Canadian Subsidiary	Canadian Branch	Foreign Insurer	Comments
Arch		X		All CLLAS business is underwritten and transacted in Canada therefore not affected by the change.
Aspen		X		Aspen is registered in Canada but may be affected by the change since underwriting is for the most part conducted in London. We have requested clarification.
AWAC			X	AWAC has been and will continue to be considered as unregistered in Canada. .
Colchester			X	Colchester has been and will continue to be considered as unregistered in Canada. Colchester provides financial security by maintaining significant trust accounts in a Canadian bank in Canada.
CRC			X	CRC has been and will continue to be considered as unregistered in Canada.
Hannover Re		X		Hannover Re is registered in Canada but may be affected by the change since underwriting is for the most part conducted in Hannover. We have given verbal confirmation that Hannover Re will not be affected by the change because the company has a substantial operation in Canada.
Lloyd's			X	Lloyd's is registered in Canada but has indicated that it will be unaffected by the change due to its Open Market Correspondent (OMC) network of intermediaries (see Appendix O). Alternative Risk Services Inc., a subsidiary of Dion Durrell, is a Lloyd's OMC.
SCOR	X			All CLLAS business is underwritten and transacted in Canada.
Swiss Re		X		Now a branch, formerly a subsidiary. All CLLAS business is underwritten (with some help from London) and transacted in Canada.
TOA		X		All CLLAS business is underwritten or transacted in Canada.
Transatlantic Re		X		Transatlantic Re is registered in Canada and has been able to put up capacity from both London and Toronto. While the Canadian capacity will not be affected, the change may affect the London capacity.

### **7.3 OSFI Reinsurance Discussion Paper**

OSFI is initiating a review of its reinsurance regulatory and supervisory framework through the Discussion Paper set forth in Appendix P. The purpose of the paper is to outline OSFI's current regulatory and supervisory approach to reinsurance, to identify a number of OSFI initiatives underway in this area and, more importantly, to consult the industry on the overall policy direction of reinsurance regulation and supervision in Canada.

Although OSFI has conducted various consultations with individual companies (or sectors) on specific reinsurance issues in the past few years, this represents an effort to assess the reinsurance regulatory and supervisory framework at a broader level and to consult more widely.

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## **8. CONCLUDING REMARKS**

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This report provides the Advisory Board with up-to-date information on the insurance and reinsurance renewal for the term July 1, 2009 to July 1, 2010. We should be in a position to better advise on the reinsurance terms and conditions at the Advisory Board meeting. The report investigates certain retention options resulting in premium savings which the Board should consider. These options are backed up by appropriate actuarial modeling so that a risk neutral approach can be determined. The report also recommends a reinsurance security monitoring process, including the suggested formation of a Reinsurance Security Committee. Finally, the report outlines some regulatory issues that OSFI in particular has raised which may have an impact on the CLLAS reinsurances.

# **CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

## **FINANCIAL MANAGEMENT REPORT**

**For the Period Ending March 31, 2009**

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# **CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

## **FINANCIAL MANAGEMENT REPORT**

**March 31, 2009**

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Exhibit I	Balance Sheet
Exhibit II	Income Statement
Exhibit III	Other Comprehensive Income
Exhibit IV	Operating Budget Variance Analysis

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**BALANCE SHEET**  
**March 31, 2009**

	As at <u>March 31, 2009</u>	As at <u>March 30, 2008</u>
<b>ASSETS</b>		
Cash	\$2,519,314	\$1,283,871
Investments		
Short Term	16,453,706	17,213,494
Bonds	34,112,352	26,578,793
Interest income due and accrued	319,814	300,379
Premiums receivable	0	0
Unearned reinsurance premium ceded	3,619,396	4,206,475
Prepaid Expenses	383,920	491,894
Deferred policy acquisition costs	182,386	202,800
Reinsurance recoverable	9,906,502	9,838,246
Other receivable	0	0
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	45,864,000	48,259,000
<b>Total Assets</b>	<u><u>\$113,361,391</u></u>	<u><u>\$108,374,951</u></u>
<b>LIABILITIES</b>		
Provision for unpaid claims and adjustment expenses	\$81,482,000	\$81,029,000
Provision for unpaid premium liabilities	\$2,629,821	\$2,629,821
Unearned premium	6,062,872	6,723,072
Due to reinsurers	0	0
Accounts payable & accrued charges	124,042	162,269
Premium taxes payable	0	0
<b>Total Liabilities</b>	<u>90,298,735</u>	<u>90,544,162</u>
<b>SUBSCRIBERS' EQUITY</b>		
Surplus	21,470,751	17,123,141
Accumulated Other Comprehensive Income (Loss),	1,591,905	707,647
	<u>23,062,656</u>	<u>17,830,789</u>
<b>TOTAL LIABILITIES AND SUBSCRIBERS' EQUITY</b>	<u><u>\$113,361,391</u></u>	<u><u>\$108,374,951</u></u>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**INCOME STATEMENT**  
**FOR THE PERIOD ENDED March 31, 2009**

	Year to date Jan. 2009 to <u>March-09</u>	Previous year Jan. 2008 to <u>March-08</u>
Written premium	\$0	\$0
Gross Written Premiums	0	0
Less: Reinsurance Ceded	0	0
Net Written Premiums	0	0
Change in Unearned Premiums	2,416,625	2,516,598
Earned Premiums	2,416,625	2,516,598
Claims Paid	46,478	206,595
Change in IBNR	629,000	656,000
Change in Case Reserve	(45,000)	(207,000)
Change in provision for Unpaid Premium liability	0	0
Incurred Claims	630,478	655,595
Management and Operating Expenses	449,409	398,230
Reinsurance Fees	68,250	66,250
Premium Taxes	182,386	202,800
Total Operating Expenses	700,045	667,280
Underwriting Gain (Loss)	1,086,102	1,193,722
Investment Income	360,980	454,468
Net Gain (Loss)	\$1,447,082	\$1,648,190
Subscribers' Equity - Beginning of Period	\$20,023,669	\$15,474,952
Less: Adjustment to opening Policy Liabilities	\$0	\$0
Subscribers' Equity - End of Period	\$21,470,751	\$17,123,141



## Exhibit III

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY  
STATEMENT OF COMPREHENSIVE INCOME (LOSS) AND  
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)  
FOR THE PERIOD ENDED March 31, 2009**

	Year to date Jan. 2009 to <u>March-09</u>	Previous year Jan. 2008 to <u>March-08</u>
Net Income	\$1,447,082	\$1,648,190
Other Comprehensive Income (Loss):		
Unrealized Gains and (Losses) on available-for-sale financial assets arising during the year	216,197	615,584
Reclassification of realized gains(losses) to the statement of operations		
Net change in the other comprehensive income for the year	216,197	615,584
Total Comprehensive Income (Loss)	<u>1,663,279</u>	<u>2,263,773</u>
Accumulated Other Comprehensive Income (Loss), beginning of year	\$1,375,708	\$92,064
Other comprehensive income (loss)	216,197	615,584
Balance at end of period	<u>1,591,905</u>	<u>707,647</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY  
STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS  
FOR THE THREE MONTHS ENDED March 31, 2009

	Annual Budget	Year to Date Budget % Accrued to Date	\$	Year to Date Actual \$	Fav/(Unfav) Variance \$
<b>MANAGEMENT SERVICES</b>	414,000	25%	103,500	100,283	3,217
<b>PROFESSIONAL SERVICES</b>					
Actuarial Services	96,000	25%	24,000	56,237	(32,237)
Reinsurance Matters	270,000	25%	67,500	52,856	14,644
Strategic Matters	90,000	25%	22,500	38,277	(15,777)
Special, non-recurring	40,000	25%	10,000	14,149	(4,149)
Sub-Total Professional Services	496,000		124,000	161,519	(37,519)
<b>Total Management &amp; Professional Services *</b> (See Note 1)	910,000		227,500	261,802	(34,302)
GST on Consulting Fees	45,500	25%	11,375	13,090	(1,715)
<b>Total Consulting Services</b>	955,500		238,875	274,892	(36,017)
<b>OTHER EXPENSES</b>					
Audit Expenses	64,000	25%	16,000	13,653	2,347
Annual Dinner	5,000	100%	5,000	4,244	756
Premium Taxes	729,543	25%	182,386	182,386	(0)
Chairman's Expenses	2,000	25%	500	0	500
Chairman's Honourium	60,000	100%	60,000	60,000	0
Reinsurance Expense	10,000	25%	2,500	0	2,500
Office Expenses	15,000	25%	3,750	4,315	(565)
Office Expenses - Website management software license	1,800	25%	450	0	450
Claims: Borderaux (LSUC)	13,850	25%	3,463	0	3,463
Special Services	100,000	25%	25,000	7,865	17,135
Special Services - Peer Review	0	25%	0	0	0
Miller Insurance Fees (Reins. Comm.) (See Note 2)	273,000	25%	68,250	68,250	0
I.B.C Statistical Plan Fees	15,000	25%	3,750	4,088	(338)
FSCO Assessment Fees	15,000	25%	3,750	5,201	(1,451)
Investment counsel fees	108,675	25%	27,169	30,356	(3,187)
Investment - Custodial	30,000	25%	7,500	7,863	(363)
Risk Management/Loss Prevention	80,000	25%	20,000	36,932	(16,932)
<b>Sub-total</b>	1,522,868		429,467	425,153	4,314
<b>TOTAL</b>	2,478,368		668,342	700,045	(31,703)

\* NOTE 1: PROFESSIONAL SERVICES - SEASONALLY WEIGHTED BUDGET

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

First Quarter, ending March 31st	25%
Second Quarter, ending June 30th	40%
Third Quarter, ending September 30th	18%
Fourth Quarter, ending December 31st	17%
	100%

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

The annual budget is based upon the annual fee estimated for the policy period 2008/2009.

The year to date actual includes the fees billed for the later 6 months of 2007/2008 & first 6 months of 2008/2009

**Norma J. Ibbetson**

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**From:** Norma J. Ibbetson  
**Sent:** Sunday, June 14, 2009 6:25 PM  
**To:** 'Morritt, David'  
**Subject:** CLLAS - Advisory Board - Report of the Risk Management Committee  
**Sensitivity:** Private  
**Attachments:** CLLAS.RiskManagement Modules.ppt; Bluedrop - Marketing Brief.pdf; CLLAS E-learning Presentation.pdf

Resent as requested.

Norma

---

**From:** Norma J. Ibbetson  
**Sent:** Thursday, June 11, 2009 19:15  
**To:** 'jholland@torys.com'; 'glenn.leslie@blakes.com'; 'ggoodman@casselsbrock.com'; 'GRubenstein@goodmans.ca'; 'loconnor@weirfoulds.com'; 'nleblovic@dwvpv.com'; 'dan.macdonald@mcmillan.ca'; 'christopher.woodbury@fmc-law.com'; 'bbresner@blgcanada.com'; 'clyons@langmichener.ca'; 'dmilner@fasken.com'; 'dmorritt@osler.com'  
**Cc:** Patrick M. Mahoney; 'wscott@mccarthy.ca'  
**Subject:** CLLAS - Advisory Board - Report of the Risk Management Committee  
**Sensitivity:** Private

The following update is being sent on behalf of CLLAS' Risk Management Committee for your review and comments. Please include in your Board meeting material circulated yesterday for the upcoming meeting on Tuesday, next week.

**REPORT OF RISK MANAGEMENT COMMITTEE, June 2009**

**Risk Management Through E-Learning**

You may recall that we had asked John Walker to develop a Risk Management Template which could be used by the member firms.

John has been working on the Risk Management Template for some time and has received helpful input from various member firms. John has now taken the content of the Risk Management Template and created thirteen risk management modules ("Modules"). I attach a copy of the Modules which John has created.

We have had numerous discussions about how best to present the Modules. One idea which has arisen is the concept of presenting the Modules via e-learning.

John Walker identified a company named Bluedrop which specializes in e-learning. I attach some background material on Bluedrop. E-learning is an inter-active computer based method of more effectively communicating information. One advantage of e-learning is that may allow for a much more personal and inter-active method of communicating the content contained within the Modules.

The Risk Management Committee met with Bluedrop on Thursday, June 4<sup>th</sup> to discuss with them whether or not the Modules could be presented by way of e-learning. A PowerPoint Presentation was provided by Bluedrop (copy attached). The Risk Management Committee was favourably impressed with Bluedrop's overall presentation. I also attach (at the end of this report) a link to an e-learning demo that has been provided by Bluedrop which demonstrates the inter-active nature of e-learning.

The basic proposal is that we proceed with a pilot project to see whether or not e-learning would be an effective means of communicating the Modules to the members of the CLLAS firms. This e-learning could stand alone or could be used in conjunction with each firm's internal risk management seminars.

6/16/2009

Bluedrop would work with John Walker to develop three to four Modules which would then be tested by the member firms. The total cost of the pilot project would be approximately \$30,000; \$25,000 for Bluedrop and \$5,000 for John Walker. John Walker would work closely with Bluedrop to make sure that Bluedrop effectively incorporates the risk management content which has been developed by John.

We are recommending that we proceed with the pilot project. If the pilot project is successful it may prove to be a very effective means in which to present the Modules.

If we were to give approval to Bluedrop to proceed with the pilot project now it has indicated that it could complete the pilot project by the end of this summer. If we wait to the fall (when Bluedrop is normally much busier), it may be more expensive and will take considerably longer.

#### **Risk Management Audit**

The present status of the Risk Management Audit is as follows:

Weir Foulds - Feb 5, 2009 (completed)

Cassels Brock & Blackwell - April 21, 2009 (completed)

McMillan Binch - June 16, 2009

Goodmans - November, 2009 (no specific date set yet)

Torys - March, 2010 (no specific date set yet)

Smith Lyons - no date set yet

#### **Risk Management Policies**

Two additional Risk Management Policies have now been drafted, namely, Opinions and Confidentiality. We hope to have these two draft policies circulated for the September meeting.

John Walker is working on two other policies, namely, Engagement Letters and Personal Interests.

#### **Attachments**

1. John Walker's Thirteen Risk Management Modules
2. Background on Bluedrop
3. PowerPoint Presentation of Bluedrop
4. Interactive E-learning demo from Bluedrop

<http://www.bluedrop.com/demos/CLLAS/>

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6/16/2009

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

INVESTMENT REPORT  
FOR QUARTER ENDING MARCH 31, 2009

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

**COMMENTARY FOR THE QUARTER ENDING MARCH 31, 2009**

**Review of Market Yields**

Government bond yields at the short end of the curve continued to move in a downward trend during the first quarter, with 3 month Treasury Bills showing the largest drop of 44 basis points. Further out the yield curve, the results were mixed. While 7-year yields moved down 17 basis points, 5 and 10-year yields edged higher by an average of 8 basis points. This marks the first increase since the second quarter of last year.

As a result of these changes, the upward slope of the yield curve steepened during the first quarter. At the end of March, 10-year issues provided a 240 basis point yield advantage over Treasury Bills, up from 186 basis points at year end.

	Jan. 1/95	Mar. 31/08	Dec. 31/08	Mar. 31/09
3-Month Treasury Bills	6.80%	1.87%	0.83%	0.39%
5-year Canadas	8.99%	2.91%	1.69%	1.75%
10-year Canadas	9.09%	3.43%	2.69%	2.79%

After taking into account the capital addition of \$3,180,015 less \$6,570 accrued interest debited on the bond purchases (net), and securities transferred from the Long Term Investment Fund to the Short Term Investment Fund valued at \$517,405, the valuation of the Long Term Investment Fund rose by \$198,475 or 0.7% on a capital basis during the first quarter.

At March 31, 2009, the average term to maturity of the Long Term Investment Fund stood at 4.2 years, compared to 4.0 years three months earlier.

During the quarter, \$5 million was added to the Funds, with some \$3.18 million being invested in the Long Term Investment Fund. Purchases consisted of Canada guarantees and Ontario issues having a range of maturities from 5 to 9 years. The balance of activity involved shifts in the corporate section, where one issue was called for redemption and a financial credit was sold. These holdings were replaced with two utility issues.

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

<b><i>Distribution as at March 31, 2009</i></b>	<b><i>Valuation</i></b>	<b><i>%</i></b>
Short Term Investment Fund	\$15,823,841	32.0%
Long Term Investment Fund	33,596,982	68.0%
<b>TOTAL COMBINED VALUATION</b>	<b>\$49,420,823</b>	<b>100.0%</b>

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**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 March 31, 2009
- 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	Mar. 31/08	Dec. 31/08	Mar. 31/09
<b><i>Valuation of Long Term Investment Fund</i></b>	<b>\$3,466,369</b>	<b>\$26,577,460</b>	<b>\$30,742,467</b>	<b>\$33,596,982</b>
Cumulative Capital Added (Net) since January 1, 1995		\$21,528,983	\$25,058,827	\$27,714,868

Quarterly Capital Change		+\$ 604,927	+\$1,155,633	+\$ 198,475
Quarterly Capital % Change		+ 2.4%	+ 4.1%	+ 0.7%

## LONG TERM INVESTMENT FUND

### TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIODS ENDING MARCH 31, 2009 (ANNUALIZED)

	Five Years	Four Years	Three Years	Two Years	One Year	Last 3 Months
<b><i>Long Term Investment Fund</i></b>	<b>4.8</b>	<b>5.2</b>	<b>6.1</b>	<b>6.9</b>	<b>7.3</b>	<b>1.7</b>
DEX Canada Short Bond Index	4.8	5.4	6.5	7.5	7.9	1.0
DEX Provincial Short Bond Index	4.7	5.1	6.1	6.9	7.2	1.7



## **CLLAS**

### **LONG TERM INVESTMENT FUND**

#### **TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIOD ENDING MARCH 31, 2009**

	Last 6 Months	Last 3 Months
<i>Long Term Investment Fund – Gross of Fees</i>	<b>6.95</b>	<b>1.72</b>
<i>Long Term Investment Fund – Net of Fees</i>	<b>6.81</b>	<b>1.65</b>
<b>Benchmark Portfolio *</b>	<b>7.56</b>	<b>1.49</b>

\* 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 MARCH 31, 2009**

	Last 6 Months	Last 3 Months
<i>Short Term Investment Fund – Gross of Fees</i>	<b>0.79</b>	<b>0.20</b>
<i>Short Term Investment Fund – Net of Fees</i>	<b>0.68</b>	<b>0.14</b>
<b>Benchmark Portfolio *</b>	<b>0.73</b>	<b>0.19</b>

\*\* 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	Mar. 31/08	Dec. 31/08	Mar. 31/09
<b>Bonds, Treasury Bills &amp; Cash</b> Less than 1 year term	29.0%	5.6%	6.6%	5.3%
<b>Canadas</b> Greater than 1 year term	54.7%	42.0%	42.1%	41.3%
<b>Provincials</b> Greater than 1 year term	16.3%	37.7%	37.0%	39.9%
<b>Corporates</b> Greater than 1 year term	-	14.7%	14.3%	13.5%
<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	Mar. 31/08	Dec. 31/08	Mar. 31/09
Under 1 year	29.0%	5.7%	6.6%	5.3%
1 - 3 years	19.8%	25.5%	28.5%	26.2%
3 - 5 years	29.3%	28.1%	35.7%	38.8%
5 - 7 years	11.4%	27.8%	18.5%	19.5%
7 - 10 years	10.5%	12.9%	10.7%	10.2%
<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>4.3</b>	<b>4.0</b>	<b>4.2</b>
<b>Average Duration</b>	<b>2.3</b>	<b>3.8</b>	<b>3.6</b>	<b>3.7</b>

# CLLAS

## COMPLIANCE WITH INVESTMENT POLICY STATEMENT

### COMPLIANCE REPORT AT MARCH 31, 2009

	Investment Limits	Investment Funds	Compliance
<b><i>Short Term Investment Fund</i></b>			
Maximum Term of Any Issue	1 year	0.67 years	Yes
Minimum Size	20% of Total	32.0%	Yes
Minimum Canada & Provincial Percentage	50%	65.6%	Yes
Minimum Provincial Quality	A	AA	Yes
Minimum Bank CD & BA Quality	R1	R1	Yes
<b><i>Long Term Investment Fund</i></b>			
Maximum Term of Any Issue	10 years	8.2 years	Yes
Minimum Cda and Cda Guarantee Percentage	40%	45.9%	Yes
Maximum Provincial Percentage	40%	39.9%	Yes
Minimum Provincial Quality *	A	A	Yes
Maximum Corporate Percentage	20%	14.2%	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 March 31, the Short Term Fund represented 32.0% of the two Funds combined, which is above the 20% minimum required.

At March 31, none of the bond holdings' current credit ratings were below the minimum requirement.

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

Provincial Bonds: Manitoba @ A Hi

Corporate Bonds: Canadian Utilities Inc. @ A  
Enbridge Gas Distribution @ A

Martin, Lucas & Seagaram Ltd.  
**PERFORMANCE REPORT**  
**GROSS OF FEES**  
***CLLAS - LONG TERM INVESTMENT FUND***  
*From 12-31-08 to 03-31-09*

Portfolio Value on 12-31-08	30,742,467
Accrued Interest	248,097
Contributions	3,926,704
Withdrawals	-1,549,514
Realized Gains	-5,545
Unrealized Gains	204,020
Interest	278,850
Dividends	0
Change in Accrued Interest	60,507
Portfolio Value on 03-31-09	33,596,982
Accrued Interest	308,604
Average Capital	30,951,781
Total Gain before Fees	537,832
IRR for 0.25 Years	1.74%

## BOND MARKET COMMENTARY AND FUTURE POLICY

In our last quarterly report, we felt the near term direction of government and corporate bond yields would be most heavily influenced by the length and depth of the economic contraction. In our assessment of the economic outlook, we reviewed how stock prices have historically led declines in the general economy and noted that the magnitude of the drop since last fall signalled that a significant recession was underway, with some raising the spectre of a 1930's scenario.

Since then, a steady stream of negative economic data has confirmed that the downturn has gathered strength and in terms of its intensity and global reach, this recession has far surpassed the typical post-WWII contraction. The National Bureau of Economic Research, the official arbiter of U.S. recessions, confirmed the recession began back in December 2007, meaning we have now entered the 16<sup>th</sup> month of this downturn. As a result, the duration of the current slump is well past the post-war average of 10 months and has now matched the two longest declines in the past 50 years.

The past few months have remained extremely challenging for investors. On balance, developments during this period have benefitted the bond market as the overall yield of the main domestic bond indices continued to shift lower. For the time being, it appears the worries surrounding the economic outlook and the possibility of deflation have more than offset governments' unprecedented efforts to stimulate the economy. It remains to be seen when and if these stimulus efforts will be successful and looking to the equity markets as a leading economic indicator has provided little clarity. After a brief pause around year-end, stock prices resumed their steep decline and early in March the main indices pierced decisively through the lows that were set last November. This was viewed with great consternation by many forecasters as it represented the fifth successive failure of the markets to hold above previously established lows. However, investors were then surprised on the upside as the equity averages posted a sharp advance. This was partly fuelled by short-covering but also due to some glimmers of hope on the economic front and shifting opinions on government efforts to address the financial crises.

In our previous market commentary, we highlighted some of the positive and negative factors that would influence the economy going forward. The following points will discuss how these and other factors affecting the outlook have evolved over the past few months.

Starting first with a review and update of some positives:

1. Governments world-wide continue to expand and adjust programs that are unprecedented in size and reach in order to protect the financial system and revive credit market activity. Administered interest rates across the globe have been reduced to some of their lowest levels on record, reaching 1/4% in Canada and close to zero in the U.S. With little room left to reduce rates, the U.S. central bank has also embarked on quantitative easing and the Canadian authorities have plans to adopt a similar approach. This involves the direct purchase of government bonds in order to lower longer term interest rates. In the wake of these policies, short term debt markets have been stabilized and other areas of the credit markets have improved. In recent months, debt issuance by high quality companies has been very strong and borrowing costs have fallen in the mortgage and commercial paper markets. However, markets for securitized debt, which are important to the consumer sector, remain largely frozen and interest costs for weaker creditors remain very high.

2. TARP, the U.S. government bailout package designed to provide much needed capital to the banks and loans to other debtors, has now committed over 80% of the \$700 billion that was originally earmarked. While this program initially boosted confidence in the banking system, its size and execution has proven inadequate. As a result, the U.S. Treasury has since unveiled a new Financial Stability Plan (FSP) which is much larger in scope. This latest effort to support the financial system involves another round of government capital injections into the largest banks, a plan to have the private investors participate with the public sector to purchase troubled bank assets, and measures to get credit flowing to consumers, homeowners and small businesses. These moves are designed to have \$1-2 trillion in financing flowing through the economy.
3. These bold monetary measures are being bolstered by the introduction of huge fiscal stimulus packages in many of the world's major economies. China has announced a \$586 billion stimulus program, the new U.S. administration has legislated a plan that contains tax cuts and infrastructure spending of \$787 billion and Japan has just doubled their stimulus plan to \$200 billion.
4. Deflationary pressures on most consumer goods and services have intensified over the past few months and there is now considerable slack in the economy. These conditions have kept near term inflationary concerns at bay despite the acceleration in monetary stimulus and the outlook for record deficit spending.
5. Following a constant deluge of negative economic reports since last fall, there have been tentative signs of improvement in some of the recent economic data. In the U.S. these include a modest uptick in factory orders, housing starts, home sales, personal spending and consumer confidence. This suggests the rate of economic contraction is slowing and raises the possibility that we may be past the trough in economic activity.
6. Most economists were caught off-guard by the severity of the economic downturn and now believe there is meagre hope for an economic bounce over the near term. However, history has shown that following some of the sharpest quarterly drops in final sales over the past 50 years, economic activity most often records a sizable rebound. If the coming stimulus package and bank plan can restore some confidence in the outlook, pent-up demand could produce a surprising bounce sooner than the markets expect.

There are, however, major headwinds to contend with, the most significant being the economic outlook. Some noteworthy negatives include:

1. Since our last report, the deterioration in the global economic backdrop has accelerated despite vigorous policy measures to arrest the decline. The developed nations are experiencing their steepest contraction in the post war era and many developing countries are proving to be particularly vulnerable to the steep decline in trade flows. As a result, both the IMF and World Bank are now forecasting an outright decline in global GDP.

2. The economic downturn has been far from the norm. Historically, rising unemployment causes defaults to increase. However, in this cycle default rates moved significantly higher well before the economy weakened. Now that the economic downturn is well entrenched with job losses accelerating, a self-reinforcing negative feedback loop has developed, where economic strains trigger more defaults which leads to more economic distress.
3. There is still a considerable amount of bad news yet to come from the consumer and business sectors. Mortgage defaults have spread well beyond sub-prime borrowers and the fastest growth in delinquency rates is now among prime borrowers. Furthermore, defaults are accelerating in commercial mortgages and other debt, such as auto and credit card loans. Since the onset of the credit crises, U.S. banks have written off close to \$600 billion in loan losses. While it is impossible to determine what the eventual losses will be to the banking system, credible forecasts suggest another \$500 billion in bank write-downs over the next two years.
4. A bottom in the U.S. housing market remains a key component for a recovery. While there has been a marked improvement in affordability, the latest figures show prices are still falling at a record pace. Furthermore, most leading indicators, such as pending home sales and inventories, continue to deteriorate. As a result, there is little evidence that prices will soon stabilize.
5. Consumers have experienced an enormous loss of wealth from falling real estate values and the drop in equity prices. Furthermore, they are carrying far more debt this recession than in previous ones. U.S. consumer spending fell 4.3% in the fourth quarter and the sharp acceleration in job losses since then will exacerbate the situation. Consumers represent 70% of the economy and their free disposable income is now being directed into savings as they attempt to rebuild their balance sheets. These trends will weigh heavily on future consumer spending and have a negative multiplier effect on GDP. The Bank of Canada has sharply downgraded its forecast and now expects GDP to shrink 3% this year and many forecasters expect U.S. GDP will contract a similar amount, while unemployment rises towards 10%.
6. During the Great Depression, one of the greatest mistakes made by governments was the adoption and escalation of protectionist policies. Over the past few months, there has been a sharp downturn in world trade flows and protectionist sentiments are now surfacing. In view of the growing strains in the global economic and political backdrop, we believe national self-interest will move to the forefront and increase the risk of policy mistakes.

Given the scale and complexity of these positive and negative factors, the issues facing investors have few historical parallels. As mentioned, the U.S. recession, which is now in its 16<sup>th</sup> month, has now matched the longest contraction since the depression. Furthermore, the unique characteristics and global reach of this downturn have diminished the usefulness of historical precedents when seeking clarity on the outlook. As a result, we think it is still premature and speculative to be dating an expected turning point for the economy. Over the near term, we expect the economic backdrop will support present bond yields, particularly at the short end due to our central bank's recent commitment to keep administered rates at the current low level well into next year. Longer term issues are also expected to remain in a trading range, subject to periodic sell-offs as investors weigh the negative implications of unprecedented monetary and fiscal stimulus.

Looking further ahead, we still believe that global efforts to unfreeze the credit markets and stimulate the economy will ultimately work. Therefore, from a medium term perspective, we believe current yields on government issues have reached unsustainably low levels and that spreads over corporate issues will eventually narrow. However, given the damage wrought by the downturn, we expect this will take more time and think it is prudent to wait for more evidence that government policies are circumventing a self-reinforcing downturn in credit and business conditions. Therefore, we think it is important for fixed income investors to remain defensive and maintain a laddered maturity structure to control duration risk and emphasize quality rather than reaching for yield through more credit risk. We believe the portfolio's present maturity structure and quality mix is appropriate.

RWB: sc

April 24, 2009

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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 portfolios' investment objectives.*



**CLLAS - SHORT TERM INVESTMENT FUND****Portfolio Holdings at March 31, 2009**

<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			5,005	0
<b>MONEY MARKET ISSUES</b>					
750,000	Canada Treasury Bill .55% due April 2, 2009	99.87	100.00	749,984	4,120
500,000	Royal Bank BA .95% due April 9, 2009	99.74	99.99	499,930	4,738
910,000	Toronto Dominion Bank BA .25% due April 15, 2009	99.98	99.98	909,786	2,275
2,525,000	Canada Treasury Bill .50% due April 16, 2009	99.85	99.98	2,524,578	12,606
780,000	Canada Treasury Bill .71% due April 16, 2009	99.84	99.98	779,870	5,529
1,000,000	CIBC BA .70% due April 20, 2009	99.83	99.97	999,687	6,993
420,000	TD Bank BA .20% due April 24, 2009	99.98	99.96	419,843	840
1,125,000	CIBC BA .55% due May 11, 2009	99.87	99.94	1,124,289	6,179
500,000	Canada Treasury Bill .50% due May 14, 2009	99.89	99.95	499,766	2,497
1,155,000	Canada Treasury Bill .55% due May 14, 2009	99.85	99.95	1,154,458	6,342
1,000,000	CIBC BA .30% due May 29, 2009	99.94	99.91	999,109	2,998
500,000	CIBC BA .35% due June 5, 2009	99.92	99.90	499,508	1,749
				11,160,807	56,864
<b>GOVERNMENT BONDS</b>					
1,500,000	Residue Canada Housing Trust due September 15, 2009	99.81	99.78	1,496,700	6,000
<b>PROVINCIAL BONDS</b>					
1,055,000	British Columbia Residue due June 1, 2009	99.84	99.91	1,054,051	0
1,095,000	Ontario Coupon due July 13, 2009	99.73	99.80	1,092,810	0
500,000	Ontario 6.20% due November 19, 2009	100.77	103.48	517,405	31,000
500,000	British Columbia Residue due December 1, 2009	99.71	99.41	497,064	0
				3,161,330	31,000
<b>TOTAL PORTFOLIO</b>				<b>15,823,841</b>	<b>93,864</b>

Martin, Lucas & Seagaram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
*From 01-01-09 To 03-31-09*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
<b>PURCHASES</b>					
01-07-09	01-08-09	510,000	CIBC BA 1.05% due March 9, 2009	99.83	509,121.27
01-07-09	01-08-09	750,000	Canada Treasury Bill .55% due April 2, 2009	99.87	749,052.00
01-09-09	01-12-09	500,000	Royal Bank BA .95% due April 9, 2009	99.74	498,692.50
01-20-09	01-21-09	1,000,000	CIBC BA .70% due April 20, 2009	99.83	998,296.00
01-20-09	01-21-09	900,000	Royal Bank BA .60% due March 16, 2009	99.91	899,201.70
01-21-09	01-22-09	780,000	Canada Treasury Bill .71% due April 16, 2009	99.84	778,728.60
02-04-09	02-05-09	1,155,000	Canada Treasury Bill .55% due May 14, 2009	99.85	1,153,296.38
02-10-09	02-11-09	1,125,000	CIBC BA .55% due May 11, 2009	99.87	1,123,493.63
02-18-09	02-19-09	500,000	Canada Treasury Bill .50% due May 14, 2009	99.89	499,425.50
02-18-09	02-19-09	790,000	Ontario Coupon due July 13, 2009	99.72	787,825.92
02-19-09	02-20-09	650,000	British Columbia Residue due June 1, 2009	99.83	648,904.75
02-19-09	02-20-09	235,000	Ontario Coupon due July 13, 2009	99.73	234,356.10
02-24-09	02-25-09	350,000	British Columbia Residue due June 1, 2009	99.85	349,473.95
02-24-09	02-25-09	330,000	Royal Bank BA .50% due March 26, 2009	99.96	329,868.99
03-06-09	03-09-09	500,000	CIBC BA .35% due June 5, 2009	99.92	499,578.50
03-09-09	03-10-09	55,000	British Columbia Residue due June 1, 2009	99.93	54,960.07
03-09-09	03-10-09	70,000	Ontario Coupon due July 13, 2009	99.81	69,867.84
03-17-09	03-19-09	1,150,000	Residue Canada Housing Trust due September 15, 2009	99.80	1,147,729.90
03-17-09	03-18-09	910,000	Toronto Dominion Bank BA .25% due April 15, 2009	99.98	909,825.28
03-18-09	03-19-09	500,000	British Columbia Residue due December 1, 2009	99.71	498,539.50
03-18-09	03-19-09	1,000,000	CIBC BA .30% due May 29, 2009	99.94	999,417.00

Martin, Lucas & Seagaram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
*From 01-01-09 To 03-31-09*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
03-19-09	03-20-09	750,000	CIBC BA .30% due March 27, 2009	99.99	749,956.50
03-26-09	03-27-09	350,000	Residue Canada Housing Trust due September 15, 2009	99.84	349,423.20
03-26-09	03-27-09	420,000	TD Bank BA .20% due April 24, 2009	99.98	419,935.74
					<b>15,258,970.82</b>
<b>SALES</b>					
01-08-09	01-08-09	1,260,000	Canada Treasury Bill 1.25% due January 8, 2009	100.00	1,260,000.00
01-12-09	01-12-09	500,000	Bank of Nova Scotia BA 2.25% due January 12, 2009	100.00	500,000.00
01-21-09	01-21-09	885,000	Bank of Nova Scotia BA 2.25% due January 21, 2009	100.00	885,000.00
01-21-09	01-21-09	1,015,000	CIBC BA 2.31% due January 21, 2009	100.00	1,015,000.00
01-22-09	01-22-09	780,000	Canada Treasury Bill 2.15% due January 22, 2009	100.00	780,000.00
02-05-09	02-05-09	1,155,000	Canada Treasury Bill 1.45% due February 5, 2009	100.00	1,155,000.00
02-11-09	02-11-09	1,125,000	Royal Bank BA 2.15% due February 11, 2009	100.00	1,125,000.00
02-19-09	02-19-09	500,000	Canada Treasury Bill .60% due February 19, 2009	100.00	500,000.00
02-20-09	02-20-09	885,000	CIBC BA 2.00% due February 20, 2009	100.00	885,000.00
02-23-09	02-23-09	680,000	Toronto Dominion Bank BA 1.75% due February 23, 2009	100.00	680,000.00
03-09-09	03-09-09	510,000	CIBC BA 1.05% due March 9, 2009	100.00	510,000.00
03-16-09	03-16-09	900,000	Royal Bank BA .60% due March 16, 2009	100.00	900,000.00
03-19-09	03-19-09	1,150,000	Canada Treasury Bill 1.00% due March 19, 2009	100.00	1,150,000.00
03-24-09	03-24-09	785,000	Royal Bank BA 1.10% due March 24, 2009	100.00	785,000.00
03-26-09	03-26-09	330,000	Royal Bank BA .50% due March 26, 2009	100.00	330,000.00
03-27-09	03-27-09	750,000	CIBC BA .30% due March 27, 2009	100.00	750,000.00
					<b>13,210,000.00</b>

Martin, Lucas & Seagram Ltd.  
**SECURITIES ADDED**  
***CLLAS - SHORT TERM INVESTMENT FUND***  
*From 01-01-09 to 03-31-09*

**SECURITIES ADDED**

<u>Trade Date</u>	<u>Settle Date</u>	<u>Quantity</u>	<u>Security</u>	<u>Unit Price</u>	<u>Market Value</u>
03-31-09	03-31-09	500,000	Ontario 6.20% due November 19, 2009	103.48	517,405.00
					<b>517,405.00</b>

Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - SHORT TERM INVESTMENT FUND***  
*From 01-01-09 To 03-31-09*

Cash Balance at January 1, 2009			4,088.56
ADD:	Proceeds from Sales	13,210,000.00	
	Capital Added	5,000,000.00	
	Bond Interest Credited (from Long Term Investment Fund)	264,309.38	
	Cash Interest on Daily Balance	<u>576.14</u>	<u>18,474,885.52</u>
			18,478,974.08
LESS:	Cost of Purchases	15,258,970.82	
	Transfer to Long Term Investment Fund	3,180,015.48	
	Investment Counsel Fees - Short Term Investment Fund	6,945.32	
	Investment Counsel Fees - Long Term Investment Fund	20,174.74	
	Trust Company Charges	<u>7,862.92</u>	<u>18,473,969.28</u>
Cash Balance at March 31, 2009			5,004.80

**CLLAS - LONG TERM INVESTMENT FUND**

**Portfolio Holdings at March 31, 2009**

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
<b>GOVERNMENT BONDS</b>					
1,000,000	Canada 5-1/2% due June 1, 2009	99.83	100.85	1,008,460	55,000
500,000	Canada Housing Trust Sr. 9 3.75% due March 15, 2010	99.30	102.94	514,680	18,750
450,000	Canada 5-1/2% due June 1, 2010	99.77	105.59	475,146	24,750
500,000	Canada 4% due September 1, 2010	100.30	104.52	522,620	20,000
1,000,000	Canada Housing Trust Sr. 13 4.05% due March 15, 2011	99.02	105.43	1,054,340	40,500
1,000,000	Canada 6% due June 1, 2011	103.73	110.45	1,104,500	60,000
1,500,000	Canada Housing Trust Sr. 14 4.60% due September 15, 2011	101.74	107.46	1,611,930	69,000
500,000	Farm Credit Canada 4.20% due February 15, 2012	101.20	107.16	535,800	21,000
2,200,000	Canada Housing Trust Sr. 16 4.00% due June 15, 2012	100.57	106.95	2,352,812	88,000
750,000	Canada Housing Trust Sr. 18 4.55% due December 15, 2012	102.72	109.34	820,035	34,125
900,000	Canada Housing Trust Sr. 19 3.60% due June 15, 2013	99.87	106.37	957,294	32,400
900,000	Canada Housing Trust Sr. 22 3.55% due September 15, 2013	105.12	106.34	957,060	31,950
1,000,000	Canada Housing Trust Sr. 26 2.20% due March 15, 2014	100.08	100.41	1,004,090	22,000
600,000	Canada Mtge & Housing 4.30% due April 1, 2015	100.95	110.41	662,484	25,800
650,000	Canada Mtge & Housing Corp. 4.10% due October 1, 2015	98.39	109.17	709,579	26,650
1,000,000	Canada 4% due June 1, 2016	99.58	111.80	1,118,020	40,000
				<hr/> 15,408,850	<hr/> 609,925
<b>PROVINCIAL BONDS</b>					
500,000	British Columbia 6.375% due August 23, 2010	104.22	107.37	536,835	31,875
500,000	Ontario 6.10% due November 19, 2010	102.12	107.76	538,820	30,500
1,200,000	Ontario 4.4% due December 2, 2011	101.02	106.50	1,278,024	52,800
1,250,000	Ontario 4.50% due December 2, 2012	103.37	107.62	1,345,263	56,250
1,275,000	Ontario 4-3/4% due June 2, 2013	102.35	108.43	1,382,432	60,563

**CLLAS - LONG TERM INVESTMENT FUND**

**Portfolio Holdings at March 31, 2009**

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
1,000,000	Manitoba 5.05% due December 3, 2013	101.61	109.83	1,098,320	50,500
750,000	Ontario 5% due March 8, 2014	102.63	109.91	824,325	37,500
750,000	Manitoba 4.80% due December 3, 2014	104.46	108.69	815,153	36,000
1,350,000	Ontario 4.5% due March 8, 2015	101.62	107.29	1,448,429	60,750
1,750,000	Ontario 4.4% due March 8, 2016	102.25	105.45	1,845,323	77,000
1,750,000	Ontario 4.30% due March 8, 2017	101.49	103.10	1,804,268	75,250
500,000	Ontario 4.20% due March 8, 2018	100.93	100.92	504,615	21,000
				13,421,804	589,988
<b>CORPORATE BONDS</b>					
250,000	GE Capital Cda Fndg 5.65% due October 23, 2009	99.55	100.52	251,295	14,125
300,000	Bank of Nova Scotia 4.25% Sen. Dep. Note due November 23, 2010	100.45	103.98	311,934	12,750
300,000	Royal Bank 4.17% Sen. Dep. Note due January 11, 2011	100.10	103.90	311,685	12,510
500,000	Bank of Montreal 4.69% due January 31, 2011	104.21	104.65	523,250	23,450
300,000	CIBC 5.00% Senior Dep Nts due September 10, 2012	100.23	106.25	318,753	15,000
400,000	Wells Fargo Financial Canada MTN 4.40% due December 12, 2012	99.78	94.39	377,560	17,600
750,000	Toronto Dominion Bank Dep. Note 4.854% due February 13, 2013	101.35	106.68	800,130	36,405
250,000	Bank of Nova Scotia 4.56% due October 30, 2013	100.07	105.72	264,295	11,400
300,000	Wells Fargo Financial Canada MTN 4.33% due December 6, 2013	99.97	91.85	275,547	12,990
250,000	Enbridge Gas Distribution 5.570% due January 29, 2014	107.04	106.14	265,343	13,925
250,000	Canadian Utilities Inc. 5.096% due November 18, 2014	105.56	104.63	261,585	12,740
500,000	CIBC 4.75% due December 22, 2014	101.80	106.09	530,460	23,750
300,000	GE Capital Cda Fndg 4.65% due February 11, 2015	102.20	91.50	274,491	13,950
				4,766,328	220,595
<b>TOTAL PORTFOLIO</b>				<b>33,596,982</b>	<b>1,420,508</b>

Martin, Lucas & Seagaram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*From 01-01-09 To 03-31-09*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
<b>PURCHASES</b>					
03-17-09	03-24-09	750,000	Canada Housing Trust Sr. 26 2.20% due March 15, 2014	99.81	748,597.50
03-18-09	03-19-09	500,000	Ontario 4.20% due March 8, 2018	100.93	504,650.00
03-18-09	03-19-09	750,000	Ontario 4.30% due March 8, 2017	102.97	772,275.00
03-18-09	03-19-09	650,000	Ontario 4.4% due March 8, 2016	105.30	684,450.00
03-19-09	03-24-09	250,000	Canada Housing Trust Sr. 26 2.20% due March 15, 2014	100.86	252,155.00
03-19-09	03-24-09	250,000	Canadian Utilities Inc. 5.096% due November 18, 2014	105.56	263,910.00
03-19-09	03-24-09	250,000	Enbridge Gas Distribution 5.570% due January 29, 2014	107.04	267,610.00
03-25-09	03-30-09	400,000	Canada Housing Trust Sr. 22 3.55% due September 15, 2013	105.89	423,548.00
					<b>3,917,195.50</b>
<b>SALES</b>					
01-27-09	01-27-09	500,000	Royal Bank 3.96% due January 27, 2014	100.00	500,000.00
02-05-09	02-10-09	250,000	Citigroup Finance Canada 4.29% due November 2, 2009	97.50	243,750.00
					<b>743,750.00</b>



Martin, Lucas & Seagram Ltd.  
**SECURITIES WITHDRAWN**  
***CLLAS - LONG TERM INVESTMENT FUND***  
*From 01-01-09 to 03-31-09*

**SECURITIES WITHDRAWN**

<u>Trade Date</u>	<u>Settle Date</u>	<u>Quantity</u>	<u>Security</u>	<u>Unit Price</u>	<u>Market Value</u>
03-31-09	03-31-09	500,000	Ontario 6.20% due November 19, 2009	103.48	517,405.00
					<b>517,405.00</b>

Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - LONG TERM INVESTMENT FUND***  
*From 01-01-09 To 03-31-09*

Cash Balance at January 1, 2009			0.00
ADD:	Proceeds from Sales	743,750.00	
	Transfer from Short Term Investment Fund	<u>3,180,015.48</u>	<u>3,923,765.48</u>
			3,923,765.48
LESS:	Cost of Purchases	3,917,195.50	
	Accrued Bond Interest on Purchases (net)	<u>6,569.98</u>	<u>3,923,765.48</u>
Cash Balance at March 31, 2009			0.00



## ***Pro-Form Insurance Services***

"A Hub International Company"

Renewal Terms for

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

July 1, 2009

Presented By:

**Robert S. Wilson  
Pro-Form Insurance Services**

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SECTION 7	Final Renewal Process



## INTRODUCTION

Thank you for completing and returning the application forms for July 1, 2009.

As you know the group did meet the minimum claims criteria to allow the second year rate guarantee; we did advise all of the Insurers that the rate would not change and that you would be taking advantage of the guaranteed rate for July 1, 2009.

In addition, I am extremely pleased to advise you that we have negotiated a further rate guarantee for you and as long as the claims criteria is met again in 2010, the rate guarantee will continue for the renewal on July 1, 2010.

We are extremely pleased that the Insurers were willing to provide this guarantee yet again to the CLLAS group and as far as we are aware, there are no other multi-year policies in place for Lawyers Professional Liability at the present time.

This is particularly gratifying as all of the indications are that Insurers will be seeking some increases in rating.

The Insurers are clearly impressed with the CLLAS program and do wish to continue their participation as we move forward.

We have also negotiated a revised cancellation clause which does allow for a pro-rata cancellation in the event that one of our Insurers does drop below certain minimum criteria as set by the various rating agencies from AM Best and Standard & Poors. We are attaching a copy of that endorsement for your review and information.

Also, we have made a minor adjustment to the Insurer line up effective July 1, 2009, which was done at our request and does reflect that we have reduced the AIG participation in the program by \$5,000,000 effective July 1, 2009. Quite frankly, we are very satisfied with the AIG financial position at the present time and the reduction in their layer was primarily driven by the fact that we did have another insurance carrier who wanted to participate at that level and was willing to do so with no change in the current rates; therefore, we took advantage of this opportunity to spread the risk of the CLLAS program.

We have provided financial information in another report regarding AIG and at the present time they are meeting all of the minimum criteria set in our organization and we are completely satisfied regarding their continued involvement in the CLLAS program.

Also I am pleased to confirm that the CLLAS International Insurers have agreed to the additional extension as well and have also agreed to the revised cancellation clause.

As in the past we are continuing to monitor some of the firms in the group who are increasing their out of country exposures and please keep in mind that once the exposure does go beyond approximately 10 lawyers, we may need to approach you with respect to a separate CLLAS International insurance policy. We are having this discussion with one of the member firms at the present time and will be moving part of their exposure into the International program as we move forward.

I do trust you will find the attached renewal program to be of satisfaction to you and I am extremely pleased with the outcome of the renewal negotiations, which quite frankly this year were very intense yet again and certainly I think we leverage the insurance market with this insurance program very well.

I look forward to working with you.





## **POLICY WORDINGS**

We are attaching the revised cancellation clause which allows for cancellation by you in the event the Insurers financial rating is downgraded.

This endorsement, effective 12:01 A.M.,  
Forms a part of Policy No.:  
Issued to:  
By:

**CANCELLATION CLAUSE AMENDMENT  
DUE TO FINANCIAL STRENGTH DOWNGRADE ENDORSEMENT**

It is hereby understood and agreed that Conditions IV, Cancellation Clause and Extended Reporting Period; subsection 4, is amended to add the following:

4. By the Insured if:

Notwithstanding any other terms or conditions of this policy to the contrary, in the event that the financial strength rating of the **Company** is downgraded after issuance of this policy to: (1) below A- by A.M. Best Co., or (2) below BBB by Standard & Poor's Ratings Services (hereinafter, the Credit Rating Downgrade), this policy may be canceled by the **Insured** by mailing prior written notice to the **Company** or by surrender of this policy to the **Company**.

If this policy is canceled by the **Insured**, then the **Company** shall return the unearned pro rata proportion of the premium as of the effective date of cancellation and shall waive any minimum earned premium requirement specified herein.

The following definitions apply to this endorsement:

1. **Company** means the insurer as shown in the header on the Declarations page of this policy
2. **Insured** means the **Firm** noted under Item 2 of the Declarations page of this policy
3. **Firm** means the persons carrying on business under the name stated in Item 2 of the Declarations page of this policy.

All other terms and conditions of the policy remain the same.

\_\_\_\_\_  
Authorized Representative



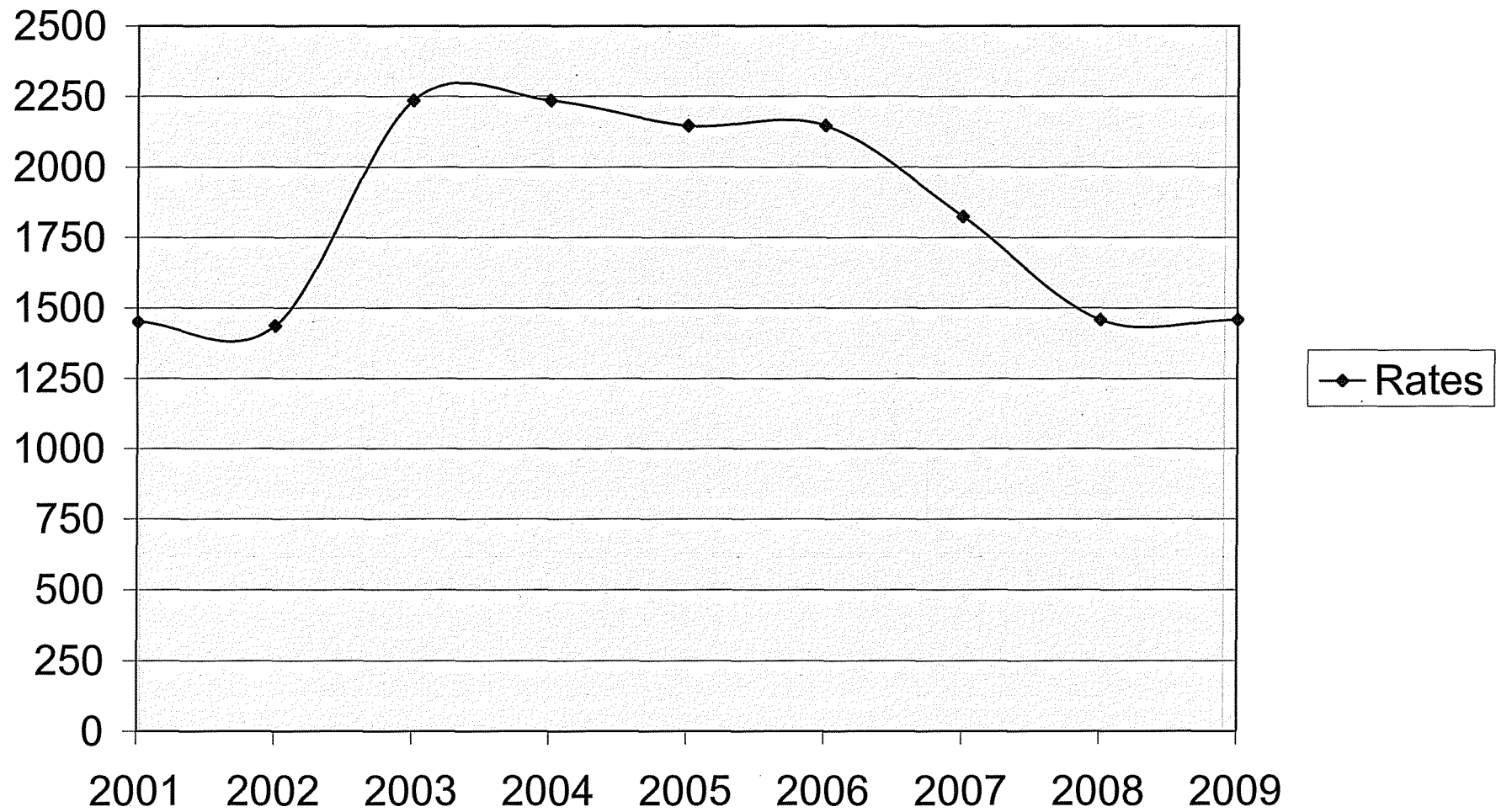
## RENEWAL QUOTATIONS

<i>Insurer</i>	<i>Layer</i>	<i>2007-2008</i>	<i>Renewal 2008-2010</i>
Liberty International Canada (66%) ACE INA Insurance (34%)	15,000,000 each claim and aggregate excess of 35,000,000 total underlying limit	454	363
St. Paul Guarantee Insurance Company	10,000,000 each claim and aggregate excess of 50,000,000 total underlying limit	179	143
GCAN Insurance Company	5,000,000 each claim and aggregate excess of 60,000,000 total underlying limit	-	100
AIG Commercial Insurance Company of Canada	15,000,000 each claim and aggregate excess of 65,000,000 total underlying limit	315	152
Chubb Insurance Company (75%) Liberty International Canada (25%)	20,000,000 each claim and aggregate excess of 80,000,000 total underlying limit	308	246
ACE INA Insurance (50%) ENCON (50%)	20,000,000 each claim and aggregate excess of 100,000,000 total underlying limit	303	242
St. Paul Guarantee Insurance Company	10,000,000 each claim and aggregate excess of 120,000,000 total underlying limit	136	109
Lombard Insurance Company	5,000,000 each claim and aggregate excess of 130,000,000 total underlying limit	70	56
GCAN Insurance Company	5,000,000 each claim and aggregate excess of 135,000,000 total underlying limit	59	47
		<b>1824</b>	<b>1458</b>

All quotations are subject to the underlying CLLAS coverage being renewed.  
The above premiums/rates are indications at this time and will be confirmed shortly



# Canadian Lawyers Liability Assurance Society 9 - Year Rate Comparison



**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**9 - YEAR RATE SUMMARY**

Limits	2001 - 2002	2002 - 2003	2003 - 2004	2004 - 2005	2005 - 2006	2006-2007	2007-2008	2008-2009	2009-2010
\$5M xs \$35M	83	116	203	203	203	534	454	363	363
\$10M xs \$40M	118	153	268	268	268				
\$20M xs \$50M	211	274	0	0	0				
\$10M xs \$50M	0	0	212	212	201	211	179	143	143
\$5M xs \$60M									100
\$15M xs \$65M	0	0	411	411	390	371	315	252	152
\$10M xs \$70M	102	133	0	0	0				
\$10M xs \$80M	102	133	200	200	190	362	308	246	246
\$10M xs \$90M	102	133	200	200	190				
\$20M xs \$100M	203	264	396	396	376	357	303	242	242
\$10M xs \$120M	91	118	177	177	168	160	136	109	109
\$10M xs \$130M	86	0	0	0	0				
\$5M xs \$130M	0	60	90	90	86	82	70	56	56
\$5M xs \$135M	0	52	78	78	74	69	59	47	47
<b>Total</b>	<b>*1098</b>	<b>1436</b>	<b>2235</b>	<b>2235</b>	<b>2146</b>	<b>2146</b>	<b>1824</b>	<b>1458</b>	<b>1458</b>

\* Note: This rate is from 2001 and if you factor in an annual 4% inflation factor for the past 7 years it would be approximately \$1,445 which compares to the renewal rate being offered this year.





## COMPETITION

As you can see from the renewal quotations we have provided to you since 2005, the CLLAS group has seen a 35% reduction in your annual rate which certainly I believe reflects the overall claims experience of the group and the fact that we have not penetrated the excess layers to date.

Most of the competition still appears to be in the primary \$40,000,000 layer, the excess layers are certainly seeing more stability and some Insurers are attempting to get rate increases.

Please keep in mind that much of the capacity the other firms are obtaining is new capacity that potentially will not be available when the insurance market does eventually harden and I do stress again to you the importance of maintaining the relationships with your existing insurance carriers who have proven in the past they are willing to dedicate capacity when it becomes scarce during hard market conditions.

Clearly the fact that we market you as an entire group has been extremely helpful during those difficult times and I would encourage you to continue with that approach as we move forward.

I can also assure you that we do approach the entire insurance market between ourselves, Dion Durrell and your U.K. Broker and if any new capacity does become available, we are aware of it; however, we are never anxious to replace the existing insurance carriers who have again proven their worth in the past.

If we become aware of any new information with respect to the competitive front, we will keep you apprised of it.



## **INSURER FINANCIAL RATINGS**

Refer to separate report attached.

# **MARKET SECURITY SUMMARY: CLLAS CANADIAN EXCESS PROGRAM**

INSURANCE COMPANY		COUNTRY	BEST'S RATING	S&P RATING	CAPITAL & SURPLUS \$ MILLIONS	GROUP AFFILIATION
LIBERTY INTERNATIONAL UNDERWRITERS CANADA, A DIVISION OF LIBERTY MUTUAL INSURANCE COMPANY		U.S.A.	A	A-	659 million	Liberty Mutual
ACE INA INSURANCE		Bermuda	A+	A	321 Million	Ace Limited
TRAVELERS GUARANTEE COMPANY OF CANADA		U.S.A.	A+	AA-	239 Million	Travelers Group
AIG COMMERCIAL INSURANCE COMPANY OF CANADA		U.S.A.	A	A+	981 Million	A.I.G.
CHUBB INSURANCE COMPANY		U.S.A.	A++	A+	674 Million	Chubb Corp
LOMBARD INSURANCE COMPANY		Canada	A-	A-	682 million	Fairfax Corp.
GCAN INSURANCE COMPANY		Canada	A	BBB	161 million	None
ENCON GROUP INC. - Participants		-----	-----	-----		Marsh
1.	Continental Casualty Company	U.S.A.	A	A-	253 Million	CNA Corp.
2.	XL Reinsurance America Inc.	Bermuda	A	A	243 Million	XL Insurance
3.	Temple Insurance Company	Germany	A+	AA-	147 Million	Munich Re
4.	Aviva Insurance Company of Canada	Scotland	A-	A+	625 Million	Aviva PLC

Ratings reflect the most recent issue, update or change communicated by the rating agency. Effective dates on S&P interactive ratings above do not reflect affirmations. Ratings do not necessarily correspond to a specific data year. "Secure" scales are described below. Refer to A.M. Best's (Best's) and Standard and Poor's (S&P) definitions for details. Conversions to U.S. Dollars are subject to exchange rate differences. Sources of financial data (company accounts or regulatory returns) for non-US companies are indicated on the individual company reports

Best's Ratings		S&P Ratings	
A++, A+ Superior	Best's rating modifiers may be assigned based on group affiliation: (r=Reinsured, p=Pooled, or g=Group) FPR ratings range from 1-9, where 1=Poor and 9=Very Strong	AAA Extremely Strong	S & P Financial Strength ratings may be modified by the use of a "+" or "-" sign to show relative standing within a category. The "pi" indicates a "public information" rating. A "pos", "neg", or "dev" indicates a positive, negative, or developing CreditWatch implication
A, A- Excellent		AA Very Strong	
B++, B+ Very Good		A Strong	
U Under review		BBB Good	

# **MARKET SECURITY SUMMARY: CLLAS INTERNATIONAL PROGRAM**

INSURANCE COMPANY	COUNTRY	BEST'S RATING	S&P RATING	CAPITAL & SURPLUS US\$ MILLIONS	GROUP AFFILIATION
LEXINGTON INSURANCE COMPANY	U.S.A.	A	A+	4,204	American International Group Inc.
INTERSTATE FIRE & CASUALTY COMPANY	U.S.A.	A	AA-	341	Allianz of America

Ratings reflect the most recent issue, update or change communicated by the rating agency. Effective dates on S&P interactive ratings above do not reflect affirmations. Ratings do not necessarily correspond to a specific data year. "Secure" scales are described below. Refer to A.M. Best's (Best's) and Standard and Poor's (S&P) definitions for details. Conversions to U.S. Dollars are subject to exchange rate differences. Sources of financial data (company accounts or regulatory returns) for non-US companies are indicated on the individual company reports

Best's Ratings		S&P Ratings	
A++, A+ Superior	Best's rating modifiers may be assigned based on group affiliation: (r=Reinsured, p=Pooled, or g=Group) FPR ratings range from 1-9, where 1=Poor and 9=Very Strong	AAA Extremely Strong	S & P Financial Strength ratings may be modified by the use of a "+" or "-" sign to show relative standing within a category. The "pi" indicates a "public information" rating. A "pos", "neg", or "dev" indicates a positive, negative, or developing CreditWatch implication
A, A- Excellent		AA Very Strong	
B++, B+ Very Good		A Strong	
U Under review		BBB Good	



### **FINAL RENEWAL PROCESS**

In conclusion, we believe the renewal quotations provided are very competitive based on the current market conditions.

As in past years we will now proceed to renew the coverage for your firm based on the limits you currently purchase and based on the final headcount provided by you.

We would also recommend to those firms who do not currently purchase all of the layers of coverage offered that they should consider increasing the limits purchased.

If you would like to change the limits you purchase it would be appreciated if you could advise me as soon as possible.

In closing, I look forward to our continued association and working with each of you.



