



ADVISORY BOARD MEETING

<u>Board Member</u>	<u>Alternate</u>	<u>Board Member</u>	<u>Alternate</u>
David Morritt	Lyndon Barnes	Donald Milner	S. Bruce Blain
Robert Love	Kate Menear	Gordon Goodman	John Birch
Mike Swartz	Paul Wilson	Ken Crofoot	Eugene Cipparone
Julia Holland	James C. Tory	Melanie Koszegi	Natasha MacParland
William Scott	David E. Woollcombe	Margaret McNee	TBA

Tuesday, February 25, 2020 at 8:30 a.m.
Goodmans LLP
34th Floor, Bay Adelaide Centre, West Tower
333 Bay Street.
Toronto, Ontario

DIAL-IN INFORMATION for those participating by phone:

Toronto:	416-915-3623
Toll Free North America:	1-877-211-3621
Conference ID #:	558 181 8200#

AGENDA

	<u>Responsibility</u>	<u>Est. Time</u>	<u>Tab</u>
1. Constitution of Meeting	Ken Crofoot		
2. Appointment of Secretary	Ken Crofoot		
3. Approval of the Minutes of December 10, 2019 Meeting <i>Proposed Resolution: To approve the minutes.</i>	Ken Crofoot	5 mins	3.1
4. Business Arising Out of the Minutes	Ken Crofoot		
5. Comments of Chair	Ken Crofoot	5 mins	



	<u>Responsibility</u>	<u>Est. Time</u>	<u>Tab</u>
6. Market Update and Reinsurance Renewal Planning	Ryan Durrell	10 mins	
7. Report of the General Manager	Patrick Mahoney	30 mins	
7.1 December 31, 2019 Financial Management Report			7.1
7.2 Presentation of the Actuary to the Audit Committee			7.2
7.3 2020 Operating Budget			7.3
<i>Proposed Resolution: To approve the 2020 Budget</i>			
7.4 Surplus Policy			7.4
<i>Proposed Resolution: To confirm the Surplus Policy</i>			
8. Committee Reports		30 mins	
8.1 Audit Committee	Gord Goodman		
8.1.1 Audit Findings report			8.1.1
8.1.2 Audited Financial Statements			8.1.2
<i>Proposed Resolution: To adopt the Audited Financial Statements</i>			
8.1.3 Signing of P&C1 for February 28, 2020			
8.2 Claims Committee	Bill Scott		8.2
8.3 Risk Management Committee	Julia Holland		
8.4 Policy Committee	Donald Milner		
9. Other Business			
9.1 Quarterly Report of the Investment Manager	Patrick Mahoney	5 mins	9.1
9.2 Colchester Reinsurance Security Agreement	Patrick Mahoney	10 mins	9.2
10. Next Meeting – June 23, 2020			
11. Annual Dinner – Thursday, April 30, 2020 at Canoe			

Anticipated Adjournment Time: 10:30 a.m.

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

Minutes of a Meeting of the Advisory Board

8:30 a.m.
Goodmans LLP
34th Floor, Bay Adelaide Centre, West Tower
333 Bay Street
Toronto, Ontario

Tuesday, December 10, 2019

Present:

Ken Crofoot (Chair)	Goodmans LLP
Melanie Koszegi	Davies Ward Phillips & Vineberg LLP
Robert Love	Borden Ladner Gervais LLP
Gordon Goodman	Cassels Brock & Blackwell LLP
Donald Milner	Fasken Martineau DuMoulin LLP
Margaret McNee (via phone)	McMillan LLP
David Morritt (via phone)	Osler, Hoskin & Harcourt LLP
Julia Holland	Torys LLP
Mike Swartz (via phone)	WeirFoulds LLP
Patrick Mahoney	Office of the General Manager, CLLAS
Norma Ibbetson	Office of the General Manager, CLLAS
Ryan Durrell	Axxima

Absent:

Bill Scott	McCarthy Tétrault LLP
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1. Constitution of Meeting

The Chair brought the meeting to order.

2. Appointment of Secretary

Norma Ibbetson acted as Secretary.

3. Approval of Minutes of the September 10, 2019 Meeting of the Advisory Board

It was moved by Gord Goodman and seconded by Don Milner that the minutes of the September 10, 2019 meeting of the Advisory Board be approved, as amended. The motion was carried unanimously.

4. Business Arising Out of the Minutes

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

5. Comments of the Chair

The Chair advised the Board that due to new insurance legislation in Quebec, there had been recent discussions with the Quebec regulator (the “AMF”) with respect to CLLAS’ status. Patrick Mahoney reminded the Board that CLLAS is licenced in all provinces in which CLLAS firms have offices, with the exception of Quebec. At the time, Quebec’s insurance legislation did not include provisions allowing for reciprocals, meaning that reciprocals would be regulated as incorporated insurers. CLLAS engaged in discussions with the AMF at that time and it was agreed that CLLAS did not need to be licensed so long as it provided the AMF with its annual filings and did not seek to insure firms based in Quebec.

Quebec has recently updated its insurance legislation and now allows for reciprocals. Patrick and Sarah Chevalier met with the AMF on December 6, 2019 to ensure that there are no concerns with how CLLAS is operating. The preliminary view of the AMF is that nothing has changed and that CLLAS does not need to be licenced. CLLAS will be advised by the AMF if it needs to do anything further.

6. Market Update and Reinsurance Renewal Planning

Ryan Durrell updated the Board with respect to renewal planning for July 1, 2020. The market is continuing to harden. Over the past few weeks, several Lloyds syndicates have announced that they are going into run-off, not because they are in financial difficulty but because they cannot make the return their investors require given current limitations imposed by Lloyds. These syndicates include Vibe, which is active on the CLLAS program, and Pioneer, which was replaced last year. Swiss Re’s lead underwriter, with whom CLLAS had a strong relationship, is leaving the company which means we will have to cultivate a new relationship. Overall, a challenging renewal at July 1, 2020 is expected. Mr. Durrell advised that he and Mr. Mahoney will be in London in March on other business and that they will take the opportunity to get a preliminary indication of the appetite of current and new markets.

7. IFRS 17 (Risk Adjustment)

CLLAS’ actuary, Julie-Linda Laforce joined the meeting by conference call. Included in the Board package was a condensed version of the recent Audit Committee education session presentation on IFRS 17 (risk adjustment).

IFRS 17 is a new financial reporting standard for insurance and reinsurance contracts which takes effect January 1, 2022. While the standard is not yet final and changes or a further deferral are still possible. Management intends to prepare mock-up financials on the new basis during 2020. This requires Board input on a number of accounting policy decision, the most notable of which concerns the risk adjustment.

The IFRS 17 risk adjustment will conceptually replace the current Provision for Adverse Deviation or “PfAD”, and this is the number that required Board input.

The Risk Adjustment is to represent the compensation that CLLAS requires for bearing the uncertainty about the amount and timing of its cash flow. The actuary will be responsible for applying the Board's decision to the liabilities which will appear in the financial statements.

Ms. Laforce explained the concepts underlying the risk adjustment and provided considerations for various options which could be considered, including:

1. The Board could choose to manage claims volatility via the Surplus/Surplus Management Plan, resulting in a 0% risk adjustment;
2. The Board could choose to adopt something similar to the current PfAD level as set by actuaries, resulting in a 6% risk adjustment;
3. The Board could choose something in the middle, for example a 3% risk adjustment.

To maintain the status quo, CLLAS would need to adopt a 6% risk adjustment, however as a reciprocal, without a motive for profit, CLLAS could adopt a 0% risk adjustment. Whatever the choice is, the risk adjustment factor and resulting confidence level will be disclosed in the financial statements.

It was moved by Gord Goodman and seconded by Melanie Koszegi that the risk adjustment be set at 6%. The motion was carried unanimously.

(Ms. Laforce left the meeting)

8. Report of the General Manager's Office

Financial Statements for the Period Ending September 30, 2019

Mr. Mahoney presented CLLAS' financial management report as at September 30, 2019.

As shown on Exhibit II, CLLAS experienced an underwriting gain (premiums minus claims and expenses) for the first nine months of the year of \$1.2million. After taking into account investment income (including unrealized losses arising during the period) the gain was \$1.35 million. The Budget Variance (Exhibit IV) shows that expenses for the year are tracking under budget for the nine-month period. Management Services fees are also running under budget.

Most of CLLAS' risk metrics are within its risk limits as shown on Exhibit V. Those that exceed the risk targets are addressed in the cover memorandum. The main item of note was the level of concentration of one reinsurer, which resulted not from an increase in that reinsurer's participation but a decrease in the overall level of CLLAS liabilities resulting from closing older claims (from a period prior to that reinsurer's participation).

At September 30, 2019, CLLAS had a \$13.7 million surplus. CLLAS had cash and approved securities well in excess of the minimum AMRGF requirement mandated by Alberta insurance law. CLLAS' MCT ratio at the same date was estimated to be 669%, well in excess of both CLLAS' internal target and regulatory expectations.

Subscriber Accounts at June 30, 2019

The CLLAS Subscribers Accounts as at June 30, 2019 were included with the meeting materials. The statements are an information item and no action is required by the Board.

The Board was reminded that the Subscribers Accounts allocate CLLAS' assets and liabilities amongst its subscribers in accordance with CLLAS Rules. Board members were invited to follow up with the General Manager's office after the meeting if they had any questions after reviewing the accounts.

Confirmation of Reinsurance Risk Management Policy

CLLAS' Reinsurance Risk Management Policy sets out the policies and procedures by which CLLAS manages its reinsurance risk. The policy was first adopted in June 2016. The policy was reviewed and updated in 2018 but requires review and confirmation each year.

It was moved by Robert Love and seconded by Don Milner that the Reinsurance Risk Management Policy be adopted as presented. The motion was carried unanimously.

Confirmation of ORSA including ERM Policy

CLLAS adopted its first Own Risk and Solvency Assessment (ORSA) report in 2016 and it required to file a second "full" report by the end of 2019. At its June 2019, meeting the Board reviewed its risk appetite statement and conducted a qualitative evaluation of its material risks. At the September 2019 meeting, the Board reviewed and approved revisions to the quarterly risk metrics.

Mr. Mahoney reviewed the key finding of the actuarial modelling and described the nature of the stress testing undertaken by the actuaries. He said that management recommends that, based on CLLAS' risk appetite, it adopt an internal surplus target of 210%, that is, no change to the current target.

Mr. Mahoney advised that the ERM Policy had been updated based on the discussions at the earlier Board meetings.

It was moved by Don Milner and seconded by Mike Swartz that the ORSA report be adopted as presented and that the ERM policy be approved. The motion was carried unanimously.

9. Committee Reports

Report of the Audit Committee

Gordon Goodman reported on behalf of the Audit Committee. The audit planning meeting took place on October 29, 2019, with Deloitte in attendance.

At that meeting, the Audit Committee also reviewed the annual Reinsurance Security Report. The key points in that review have already been discussed in this meeting.

Report of the Claims Committee

In the absence of the Committee Chair, Patrick Mahoney reported to the Board. The Committee had its regular quarterly meeting in October and claims activity is relatively quiet at the moment. Included in the materials are some charts summarizing CLLAS' claims activity at September 30, 2019. There has been a second social engineering claim where client funds were mis-directed. This was highlighted as a risk management alert for the firms.

Report of the Risk Management Committee

Julia Holland reported to the Board. Ken Crofoot, Ryan Durrell, John Walker and Ms. Holland met to discuss and review the questions in advance of re-audits of the firms to better link risk management practices and claims. The cost of the individual audits will be approximately \$20,000 and she requested that CLLAS consider reimbursing the firms for 50% of cost as has been done in the past. The surveys are relatively concise this time. A change in process is that the people who fill out the form will be chosen by Mr. Walker as opposed to the firm itself. It is anticipated the audits will be in advance of the Spring CLLAS reinsurance renewal.

Report of the Policy Committee

Donald Milner reported to the Board.

One of the firms recently raised the issue of indemnity provisions that firms are seeing in outside counsel guidelines and client contracts. The Board had a short discussion about the potential insurance implications of agreeing to those clauses.

10. Other Business

Quarterly Report of the Investment Manager at September 30, 2019

This is an information item for the Board.

Investment Policy

The Investment Policy was last Updated in December 2015. It is a conservative investment policy. No changes are being recommended but it is necessary for the Board to review and, if appropriate, re-confirm the Policy.

It was moved by Julia Holland and seconded by Donald Milner that the Investment Policy be re-confirmed as presented. The motion was carried unanimously.

Annual Dinner

Information item only to note the date change to April 30, 2020 and the venue is Canoe.

There was no further business.

11. Next Meeting

The next regularly scheduled meeting of the Board will be on February 25, 2020.

There being no further business, the meeting was terminated.

Chairman

Secretary



MEMORANDUM

DATE: February 18, 2020
TO: CLLAS Advisory Board
FROM: Patrick Mahoney
COPY:
RE: December 31, 2019 Financial Management Report

CLLAS' financial management report for the year ended December 31, 2019 is attached. Included are the following exhibits:

Exhibit I:	Statement of Financial Position
Exhibit II:	Statement of Comprehensive Income
Exhibit III:	Statement of Changes in Equity
Exhibit IV:	Budget Variance Analysis
Exhibit V:	Summary of Risk Metrics
Exhibit VI:	Alberta Maintenance of Reserve and Guarantee Fund

Financial Results

As shown on Exhibit II, CLLAS experienced an underwriting gain (premiums minus claims and expenses) of \$827,000 for year, with a total comprehensive gain (after taking into account realized and unrealized gains/losses on the investment portfolio) of \$1.3 million. Loss experience has been favourable, expenses are down from a year prior, and investment income is up; the three factors together contributed to a strong year for CLLAS.

As shown on Exhibit I, CLLAS' surplus at December 31, 2019 stood at just over \$13.6 million.

The Budget Variance (Exhibit IV) shows that expenses finished the year under budget by about \$115,000. This will be discussed under separate cover in the memo addressing CLLAS' 2020 operating budget but in short, Axxima fees are well under budget and no costs have been incurred to date on the special services (typically attributable to the retention of external legal counsel) or risk management lines. Premium taxes were considerably over budget, but this is a timing issue which will be discussed in the budget memo.

The key regulatory solvency test that CLLAS is required to comply with what is known as the Alberta Maintenance of Reserve and Guarantee Fund ("AMRGF"). CLLAS must maintain "cash and approved securities" in excess of the reserve fund plus the guarantee fund required by the Alberta regulator. Exhibit 6 of the financial management report shows that the AMRGF required for CLLAS at December 31, 2019 is \$10.5 million and that CLLAS exceeds that requirement by \$11.7 million.



The other solvency test monitored by CLLAS is the Minimum Capital Test (“MCT”). At December 31, 2019, CLLAS’s MCT ratio was 712%. This result is well above CLLAS’ internal target of 210%.

Risk Metrics

Exhibit V presents the results of the CLLAS’ risk metrics. You will recall that these risk metrics were reviewed and revised in late 2019 as part of CLLAS’ ORSA process. This is the first time the revised risk metrics have been presented as part of the financial management report. As indicated in the footnotes, some of the qualitative metrics will be assessed and measured for the first time over the course of 2020, and are simply marked “n/a” for the time being.

The Exhibit shows the year-end results for 2017, 2018 and 2019 result against risk targets and risk limits. Most of the metrics at December 31, 2019 are within CLLAS’ risk targets. The items of note are discussed below.

Line 9: As has been discussed as part of CLLAS’ Reinsurance Security Report, a couple of CLLAS reinsurers have A- ratings with AM Best and/or S&P.

Line 10: Again as noted as part of CLLAS’ Reinsurance Security Report, the Argo Syndicate (Lloyds) reinsures 19.6% of CLLAS’ total liabilities. This is an increase from the previous year’s number of 12.7% and exceeds CLLAS’ risk limit. The increase is not due to an increase in Argo’s participation and in fact the dollar value of CLLAS’ liabilities with Argo has reduced from \$12.6 million to \$11.6 million. The reason for the increase in percentage terms is the overall reduction in CLLAS’ total liabilities due to the closing of some significant claims over the past year. Still, this is a situation that bears monitoring and appropriate moves to continue diversifying CLLAS’ reinsurance support should be made when market conditions permit.

Please contact me if you have any questions with respect to the statements or the risk metrics.

Sincerely,

Patrick Mahoney, General Manager

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

FINANCIAL MANAGEMENT REPORT

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

QUARTERLY FINANCIAL MANAGEMENT REPORT

December 31, 2019

CONTENTS

Exhibit I	Statement of Financial Position
Exhibit II	Statement of Comprehensive Income
Exhibit III	Statement of Changes in Equity
Exhibit IV	Operating Budget Variance Analysis
Exhibit V	Risk Metrics
Exhibit VI	Alberta Maintenance of Reserve and Guarantee Funds

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF FINANCIAL POSITION
December 31, 2019

	As at December 31, 2019	As at December 31, 2018
ASSETS		
Cash	3,784,745	5,081,001
Short term investments	12,342,761	7,128,611
Bonds	6,015,184	5,911,332
Interest income due and accrued	20,531	20,988
Premium receivable	1,254,203	1,635,998
Other receivable	0	0
Prepaid expenses	144,413	140,827
Deferred policy acquisition costs	26,365	106,582
Unearned reinsurance premium ceded	3,626,526	2,736,021
Reinsurance recoverable	351,056	2,996,041
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	59,504,000	87,941,000
	<u>87,069,785</u>	<u>113,698,402</u>
LIABILITIES		
Accounts payable & accrued charges	268,892	289,973
Premium taxes payable	61,532	45,179
Unearned premium	4,618,813	3,664,920
Due to reinsurers	2,111,955	1,935,175
Provision for unpaid claims and adjustment expenses	66,388,000	95,430,000
Premium deficiency liability	0	0
	<u>73,449,192</u>	<u>101,365,246</u>
SUBSCRIBERS' EQUITY		
Surplus	13,573,163	12,367,745
Accumulated Other Comprehensive Income (Loss)	47,430	(34,590)
	<u>13,620,593</u>	<u>12,333,155</u>
	<u>87,069,785</u>	<u>113,698,402</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF COMPREHENSIVE INCOME
For the Period Ending December 31, 2019

	Current Year		Prior Year	
	Quarter December 31, 2019	Year to Date December 31, 2019	Quarter December 31, 2018	Year to Date December 31, 2018
Written Premium	0	9,288,383	0	7,390,585
Gross Written Premiums	0	9,288,383	0	7,390,585
Less: Reinsurance Ceded	0	7,292,904	0	5,517,391
Net Written Premiums	0	1,995,479	0	1,873,194
Change in Unearned Premiums	501,596	(63,389)	472,147	69,723
Earned Premiums	501,596	1,932,090	472,147	1,942,917
Claims Paid	292,837	(353,063)	23,340	(144,867)
Change in IBNR	46,000	(173,000)	(210,000)	(338,000)
Change in Case Reserve	(216,000)	(432,000)	(80,156)	(104,000)
Premium Deficiency Expense	0	0	0	0
Incurred Claims	122,837	(958,063)	(266,816)	(586,867)
Management and operating expenses	241,467	1,431,238	267,573	1,557,345
Reinsurance fees	71,875	283,250	69,750	279,000
Premium taxes	174,836	348,485	53,291	209,892
Total Operating Expenses	488,178	2,062,973	390,614	2,046,238
Underwriting Gain (Loss)	(109,420)	827,181	348,349	483,546
Investment Income	105,000	378,237	97,583	315,238
Income on Claim Related Matters	0	0	0	0
Interest Income on Premium Tax	0	0	0	0
NET GAIN/(LOSS)	(4,420)	1,205,418	445,932	798,784
Other comprehensive income (loss)				
Unrealized gains (losses) on available for sale financial assets arising during the year	(62,789)	82,020	74,865	(12,822)
Recognition of realized (gain) loss included in income	-	0	-	-
Other comprehensive income (loss) for the year	(62,789)	82,020	74,865	(12,822)
Total comprehensive income (loss)	(67,209)	1,287,438	520,797	785,963

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF CHANGES IN EQUITY
December 31, 2019

	Minimum Surplus	Additional Surplus	Unrealized gains and losses on AFS financial assets	Total Equity
Balance, beginning of year	50,000	12,317,745	(34,590)	12,333,155
Prior year adjustment		-		-
Comprehensive income (loss) for the year				
Net gain (loss) for the year		1,205,418		1,205,418
Other comprehensive income (loss)				
Change in unrealized gain on available-for-sale assets			82,020	82,020
Recognition of realized (gain) loss on available-for-sale assets			(0)	(0)
Total comprehensive income (loss) for the year		1,205,418	82,019	1,287,437
Distribution of premium surplus		-		-
Balance at December 31, 2019	50,000	13,523,163	47,429	13,620,593

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS
FOR THE PERIOD ENDED December 31, 2019

	Annual Budget	Year to Date Budget %	Year to Date Budget \$	Year to Date Actual \$	Fav/(Unfav) Variance \$
MANAGEMENT SERVICES* (See Note 1)	501,500	100%	501,500	460,898	40,602
PROFESSIONAL SERVICES					
Actuarial Services	90,000	100%	90,000	93,833	(3,833)
Reinsurance Matters	300,000	100%	300,000	230,077	69,923
Strategic Matters	160,000	100%	160,000	95,178	64,822
Sub-Total Professional Services	550,000		550,000	419,088	130,912
GST/HST on Consulting Fees	136,695		136,695	114,398	22,297
Total Management & Professional Services * (See Note 2)	1,188,195		1,188,195	994,384	193,811
OTHER EXPENSES					
Audit Expenses	117,000	100%	117,000	119,210	(2,210)
Annual Dinner	7,500	100%	7,500	5,731	1,769
Premium Taxes	224,000	100%	224,000	348,485	(124,485)
Chairman's Expenses	3,000	100%	3,000	-	3,000
Chairman's Honourium	150,000	100%	150,000	150,000	-
Reinsurance Expense	8,500	100%	8,500	7,800	700
D&O Insurance	20,000	100%	20,000	18,036	1,964
Office Expenses	25,000	100%	25,000	19,977	5,023
Office Expenses - Scanning Offsite Files	38,000	100%	38,000	45,025	(7,025)
Claims: Borderaux (LawPro/LIF)	16,800	100%	16,800	15,975	825
Special Services	25,000	100%	25,000	-	25,000
Miller Insurance Fees (Reins. Comm.) (See Note 3)	286,000	100%	286,000	283,250	2,750
I.B.C Statistical Plan Fees	3,000	100%	3,000	1,113	1,887
Assessment Fees	3,000	100%	3,000	4,847	(1,847)
Investment counsel fees	27,000	100%	27,000	26,703	297
Investment - Custodial	16,000	100%	16,000	17,092	(1,092)
Risk Management/Loss Prevention	15,000	100%	15,000	-	15,000
License Fee	5,000	100%	5,000	4,663	337
Insurance: Sundry	-		-	683	(683)
Sub-total	989,800		989,800	1,068,589	(78,789)
TOTAL	2,177,995		2,177,995	2,062,973	115,022

*** NOTE 1: MANAGEMENT SERVICES**

The actual budget of \$604,00 has been reduced to \$501,500 as a result of Commissions on CLLAS associate program.

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

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

First Quarter, ending March 31st	21%
Second Quarter, ending June 30th	41%
Third Quarter, ending September 30th	17%
Fourth Quarter, ending December 31st	21%
	<u>100%</u>

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

The annual budget is based upon the annual fee actual for the policy year 2018/2019 and estimated for the policy period 2019/2020.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
SUMMARY OF RISK METRICS
December 31, 2019

Exhibit V

Risk Category	Risk Metric	December 31, 2017	December 31, 2018	December 31, 2019	Green Zone (Meets Target)	Yellow Zone	Red Zone (Limit Exceeded)
General	(1) AMRGF - Excess of Cash and Approved Securities Over Regulatory Requirement	\$7,749,500	\$6,765,000	\$11,670,500	5,000,000 and above	\$2,500,000 to \$5,000,000	Less than \$2,500,000
	(2) MCT Ratio	451%	521%	712%	210% and above	n/a	Less than 210%
	(3) Status of Governance Policies	Up to date	Up to date	Up to date	Up to date	Items outstanding	Materially behind schedule
Insurance	(4) Gross Loss Ratio	46%	369%	42%	Less than 150%	150% to 300%	Over 300%
	(5) Net Loss Ratio	45%	-22%	-36%	Less than 50%	50% to 100%	Over 100%
	(6) Risk of Systemic Loss	n/a	n/a	n/a	Nothing on horizon	Some concerns raised	Adverse experience anticipated
Premium & Strategy	(7) Actual Expenses vs. Budget	99%	96%	95%	Less than 105%	105% to 120%	Over 120%
	(8) State of the Market Outlook	n/a	n/a	n/a	Nothing on horizon	Some concerns raised	Adverse experience anticipated
Reinsurance	(9) Reinsurer Credit Rating	A- to A+	A- to A+	A- to A+	A or above	A-	B+ and below
	(10) Maximum Concentration with a Single Reinsurer excl. Colchester	12.8%	12.7%	19.6%	Less than 10%	10% to 15%	Over 15%
Operational	(11) Board Discussion of Prior Quarter Risk Metrics	Discussed corrective measures	Discussed corrective measures	Discussed corrective measures	Discussed corrective measures	Received but no discussion	Not received
	(12) Resiliency Capacity - People (e.g. redundancy, succession)	n/a	n/a	n/a	Score of 4 or 5 out of 5	Score of 3 out of 5	Score of 1 or 2 out of 5
	(13) Resiliency Capacity - Data/Systems	n/a	n/a	n/a	Score of 4 or 5 out of 5	Score of 3 out of 5	Score of 1 or 2 out of 5
	(14) Advisory Board Turnover in Last 12 Months	0	2	1	0 to 2 members	3 to 4 members	5 or more members
	(15) Key Management/Advisor Turnover in Last 36 Months	0	2	1	0 to 1 person	2 to 3 people	4 or more members
Investments	(16) Investment Manager Compliance Statement	In compliance	In compliance	In compliance	In compliance	Temporarily or slightly not in compliance	Consistently or materially not in compliance
Regulatory Compliance	(17) Regulatory Outlook Report	n/a	n/a	n/a	No significant issues noted	Issues being addressed	Significant issues outstanding

Notes

- (1) = From Exhibit 6.
- (2) MCTs per P&C-1 filings. Target based on ORSA analysis.
- (3) Reviewed annually in December.
- (4) = Gross incurred losses / gross earned premiums. Gross losses from the actuarial valuations. Premiums exclude the effect of any return of surplus.
- (5) = Net incurred losses / net earned premiums. Net losses derived from the financial statements. Premiums exclude the effect of any return of surplus.
- (6) To be reviewed annually starting in 2020.
- (7) = Actual expenses / budget expenses. From the financial statements.
- (8) To be reviewed annually starting in 2020.
- (9) Based on A.M. Best. information from report on reinsurance security (October 23, 2019).
- (10) Based on claim liabilities exposure. Lloyds syndicates are assessed separately. 2019 information from report on reinsurance security (October 23, 2019).
- (12) To be reviewed annually starting in 2020.
- (13) To be reviewed annually starting in 2020.
- (16) Reviewed quarterly.
- (17) To be reviewed annually starting in 2020.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
For the Period Ending December 31, 2019

ALBERTA MAINTENANCE OF RESERVE AND GUARANTEE FUNDS

(Section 99 and 100)

	Current Year to Date 12/31/2019 (in \$000's)	Prior Year End 12/31/2018 (in \$000's)
<u>Reserve Fund</u>		
Premiums collected or credited having one year or less to run	(1) 9,288	7,391
Less: Amount paid to licensed reinsurers	(2) 7,233	5,465
Premiums collected with more than one year to run, less expired portion	(3) -	-
Less: Amount paid to reinsurers on premiums on line 3, less expired portion.	(4) -	-
Subtotal (lines 1, minus line 2, plus line 3, minus line 4)	(5) 2,055	1,926
Reserve Fund Required (50% of Line 5)	(6) 1,028	963
<u>Guarantee Fund</u>		
Total Liabilities	(7) 73,449	101,365
Less: Unearned Premiums	(8) 4,619	3,665
Less: Recoverable from licensed reinsurers	(9) 59,435	87,357
Plus: Statutory Margin	(10) 50	50
Guarantee Fund Required (Line 7 minus Lines 8 and 9 plus line 10)	(11) 9,445	10,393
TOTAL RESERVE & GUARANTEE FUND REQUIRED (Line 6+11)	(12) 10,473	11,356
Cash & Approved Securities	(13) 22,143	18,121
Excess of Cash & Securities over Reserve & Guarantee Fund (line 13 minus line 12)	(14) 11,671	6,765



Actuaries & Insurance Management Advisors

Canadian Lawyers Liability Assurance Society

Actuarial Valuation of Policy Liabilities as at December 31, 2019

Presentation to the Audit Committee
February 13, 2020

CLLAS

Scope of the Actuarial Valuation

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

CLLAS

- Please note that the Valuation results presented herein are draft. Our final signed Valuation results will be provided once we receive the following:
 - Receipt of auditor letter on specified audit procedures and data reliance
 - Confirmation from management that there are no subsequent events which would cause a deviation in the Valuation results in excess of our materiality standard
- Per the Canadian Actuarial Standards of Practice, changes having an impact in excess of our standard of materiality as of December 31, 2019 may need to be reflected and/or disclosed in the Valuation report and may result in a change in the financial statements

CLLAS

Case Reserves vs. Actuarial Reserves

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

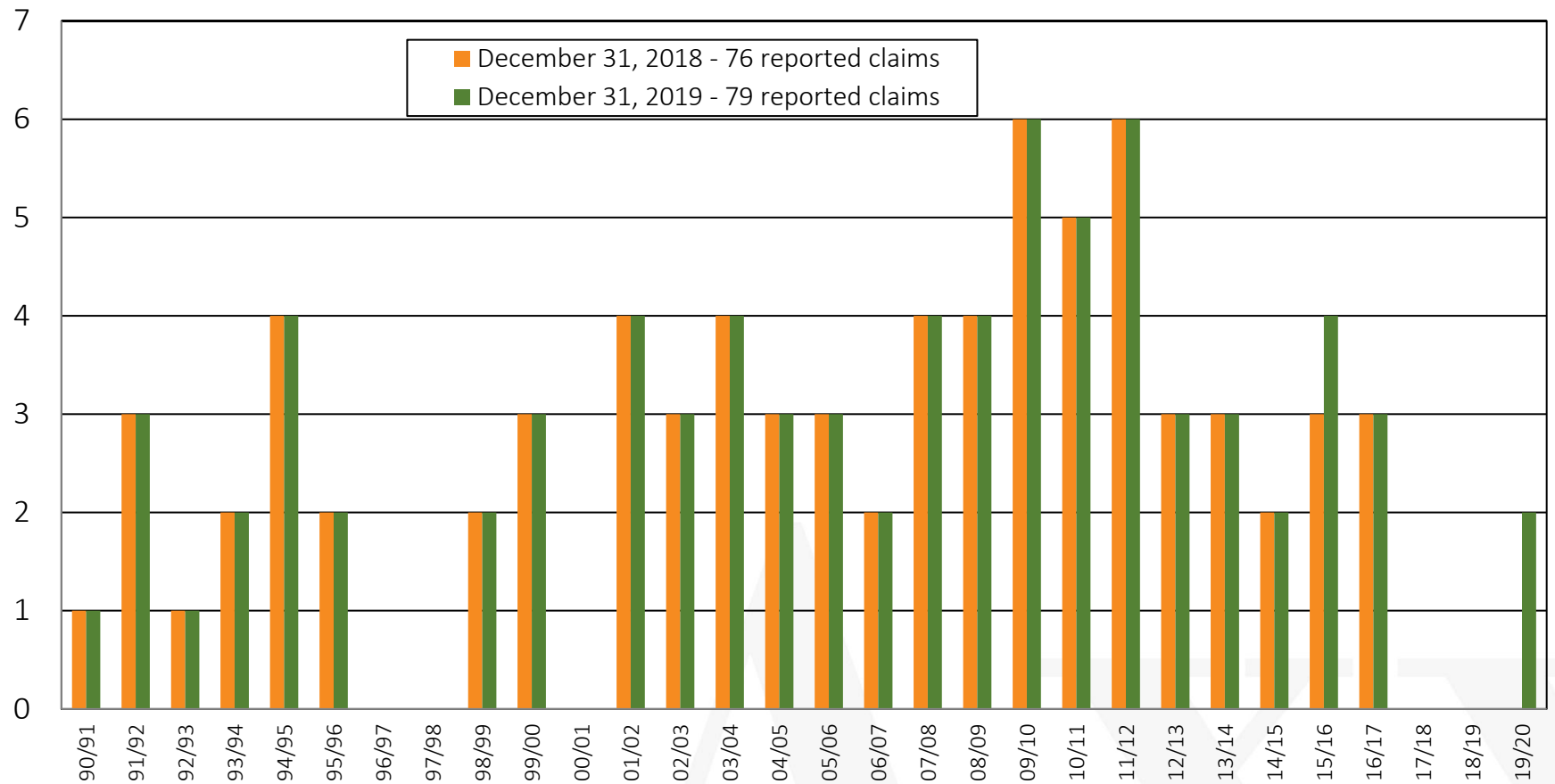
CLLAS

Actuarial Methodology

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

CLLAS

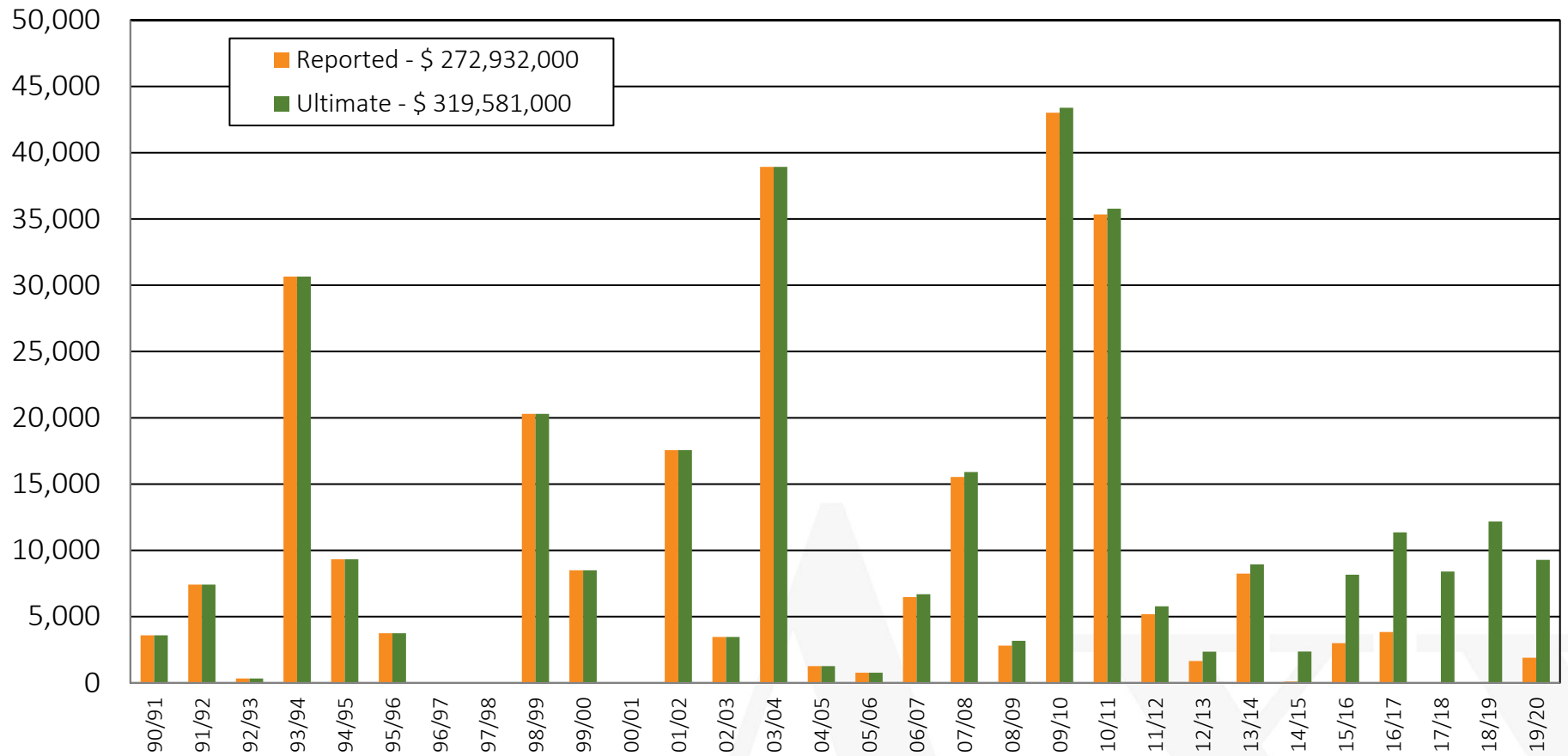
Reported Incurred Loss Activity – Claim Counts *



* Includes non-zero claims only

CLLAS

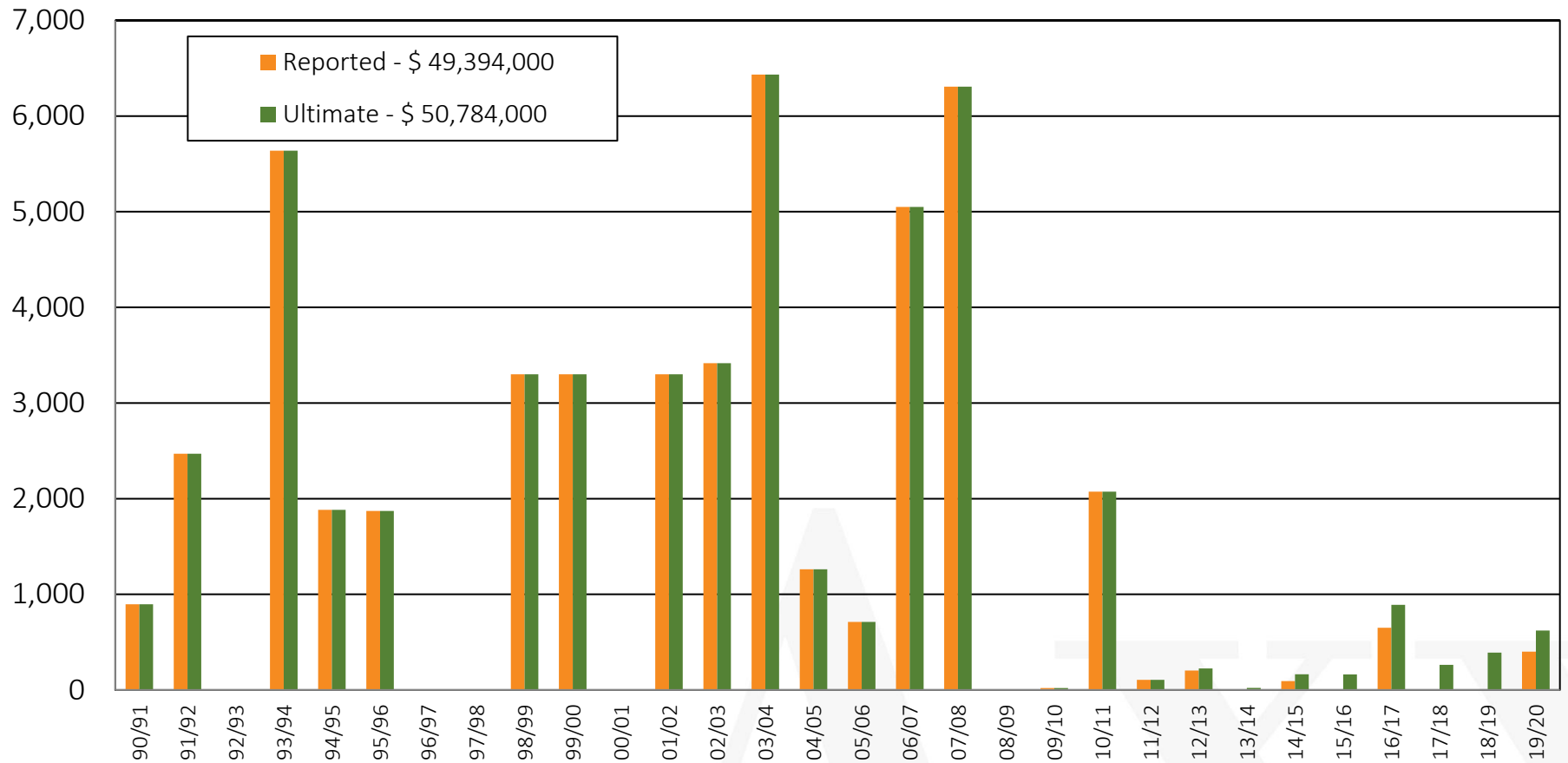
Gross Reported vs. Ultimate Losses* (in \$000's)



* Excluding ULAE

CLLAS

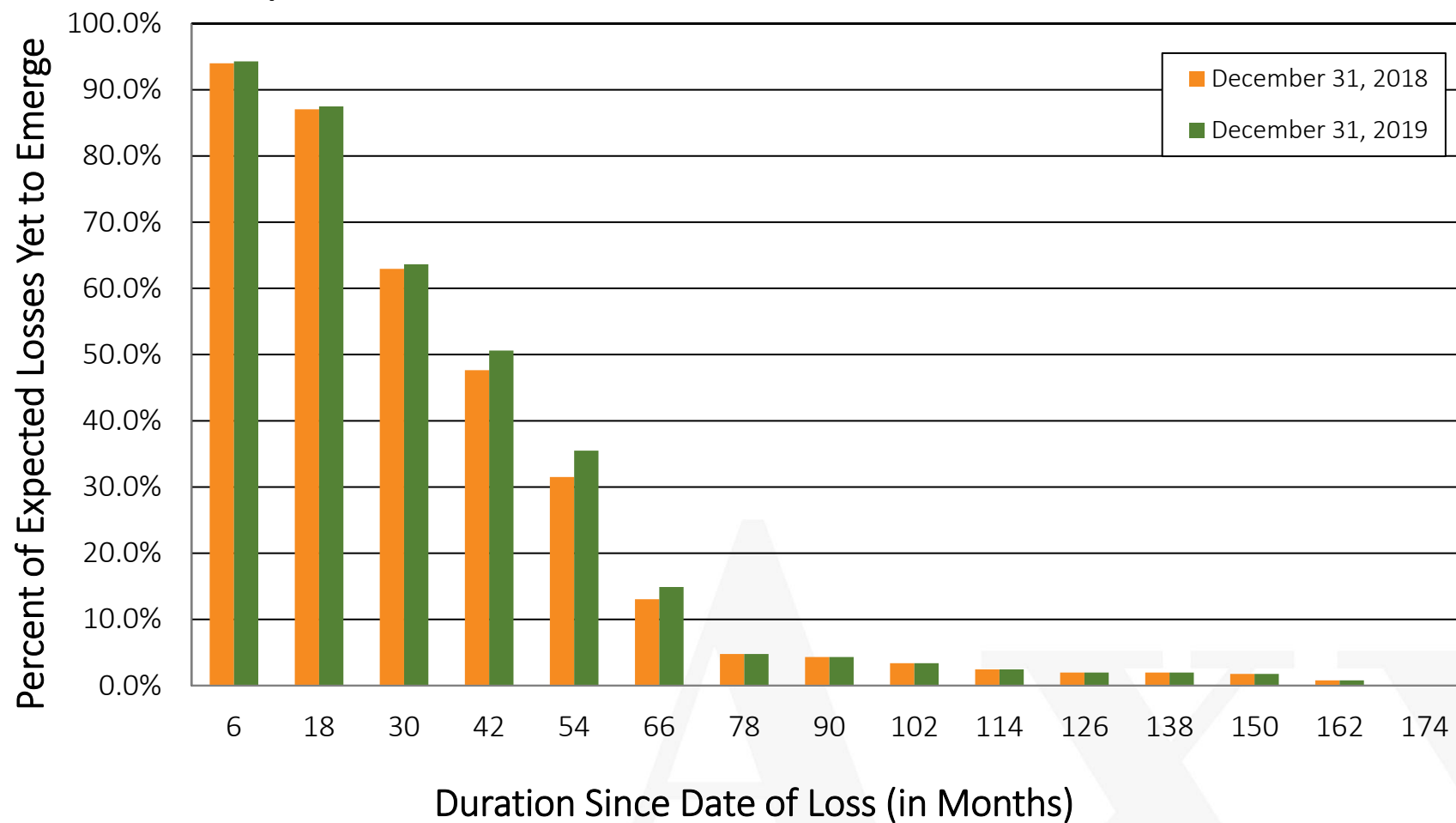
Net Reported vs. Ultimate Losses* (in \$000's)



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

CLLAS

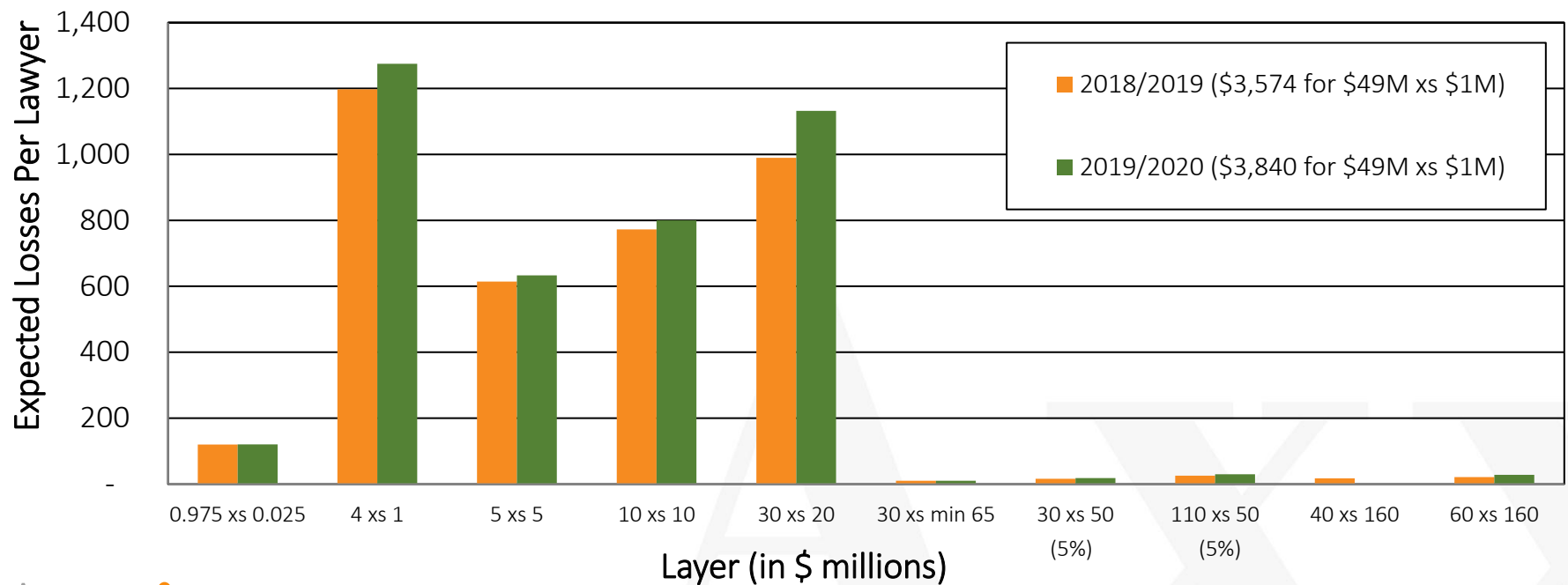
Loss Development Factors



CLLAS

2019/2020 Expected Loss Costs

- Revision of expected loss costs for 2019/2020 reflects emerging expectations of expected losses in each layer.
- The \$49M xs \$1M layer is broken down into smaller layers for valuation purposes: \$4M xs \$1M, \$5M xs \$5M, \$10M xs \$10M and \$30M xs \$20M.



CLLAS

Arrangement between CLLAS and Colchester for 2019/2020

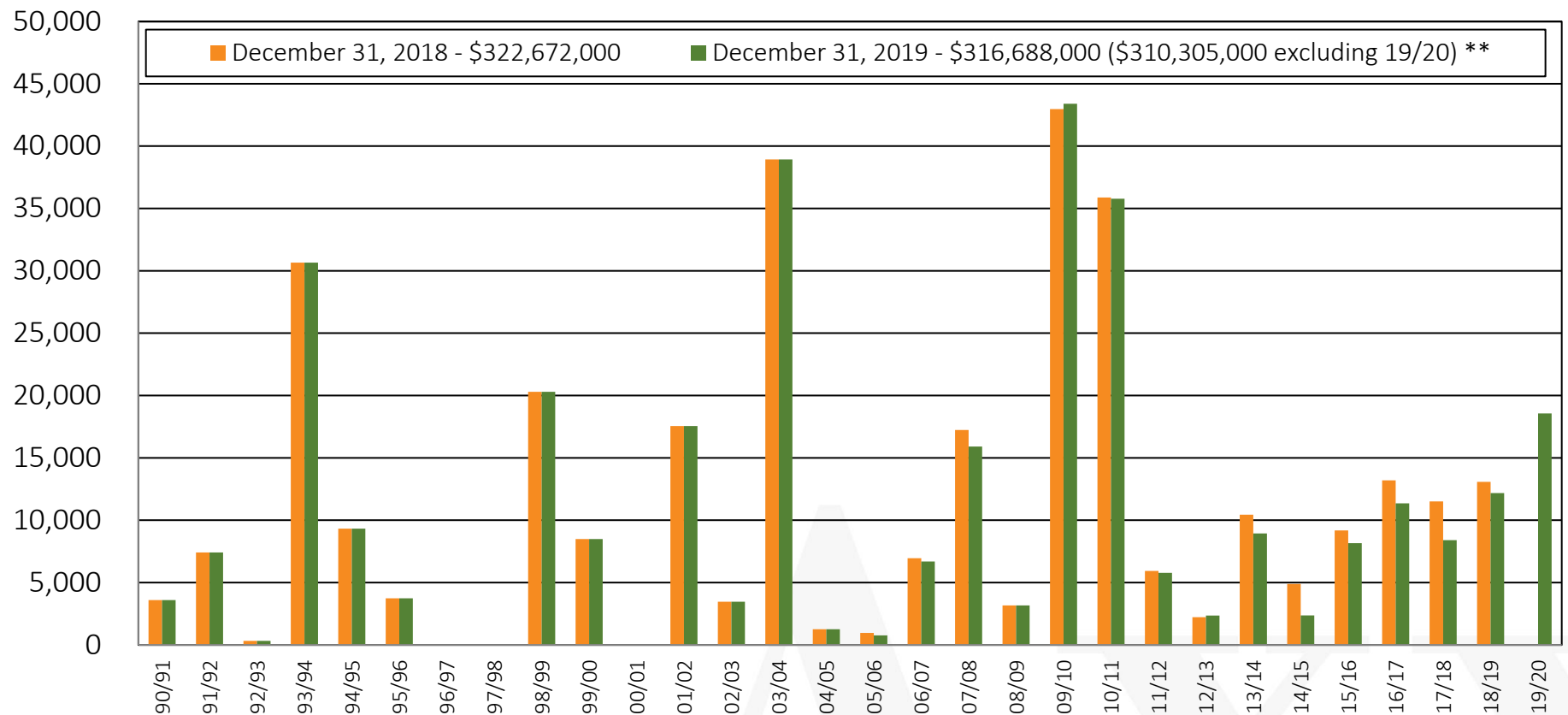
- Colchester retains 23% of the layer \$49,000,000 xs \$1,000,000 and 10% of the layer \$60,000,000 xs \$160,000,000
- The per-claim retention for CLLAS subject to the aggregate limit includes:
 - 100% of the layer \$975,000 xs \$25,000
 - 0% of the layer \$49,000,000 xs \$1,000,000
- Colchester provides aggregate reinsurance coverage of \$10,000,000 in excess of a \$5,000,000 limit

Loss Portfolio Transfer to Colchester on June 30, 2012

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

CLLAS

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

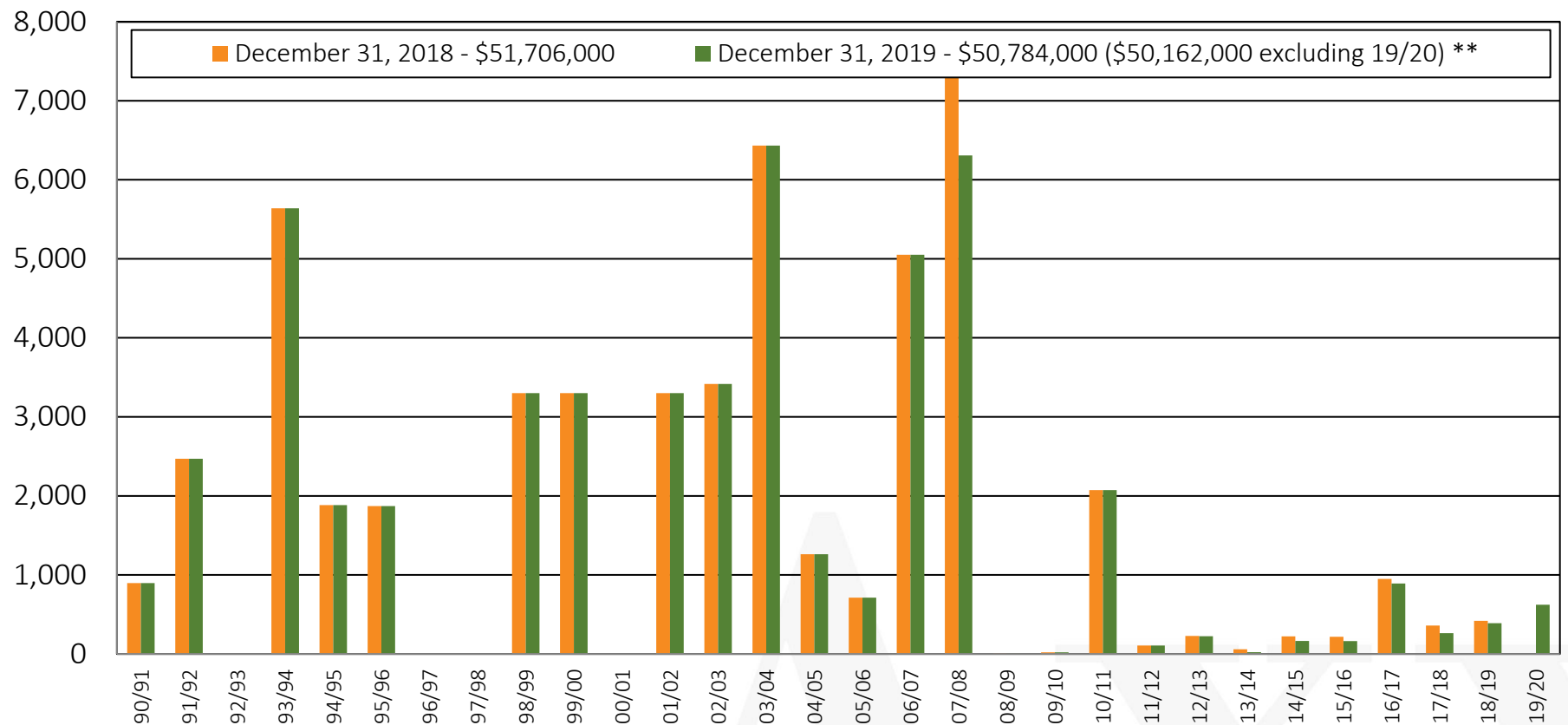


* Excluding ULAE

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

CLLAS

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



* Excluding ULAE

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

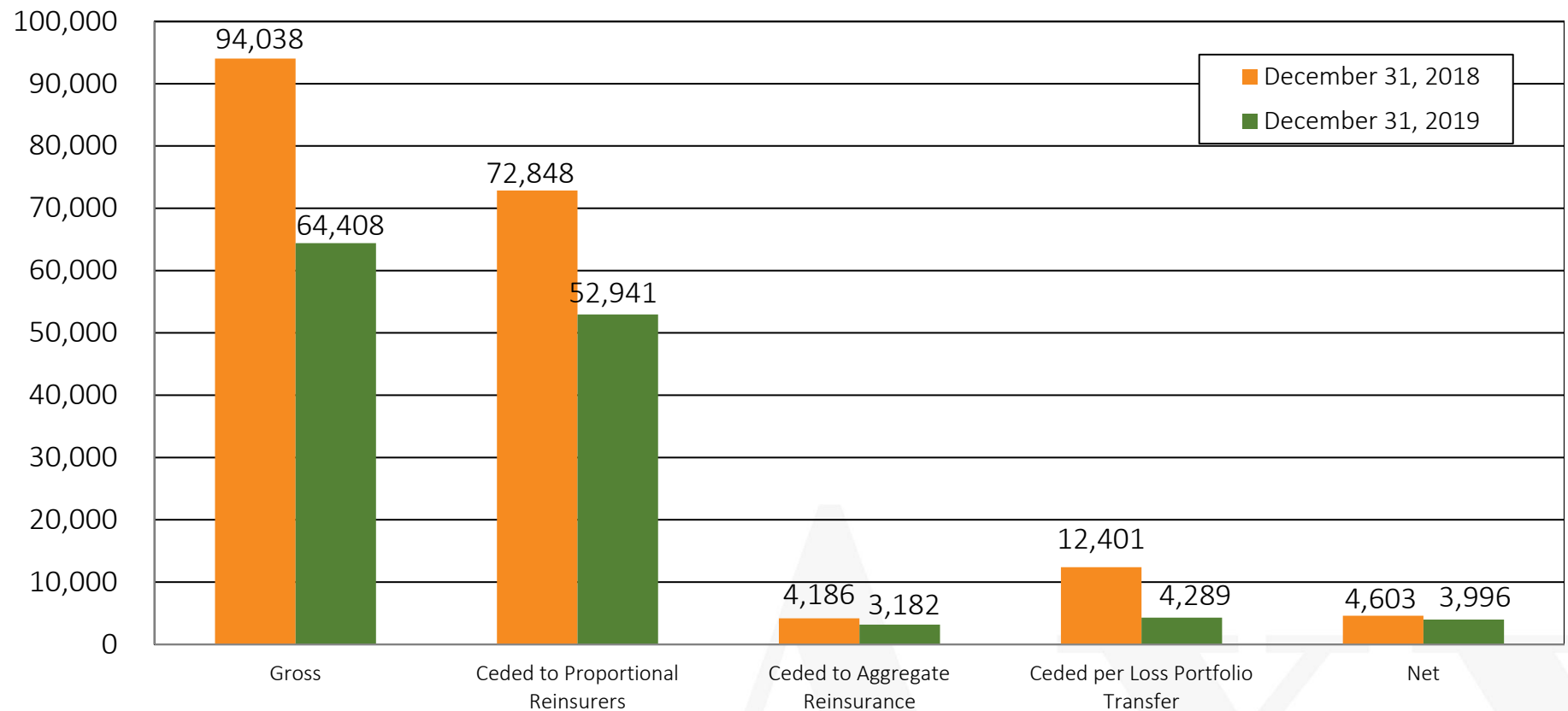
CLLAS

Unallocated Loss Adjustments Expenses (ULAE)

- Represents the provision for the claims management function to service existing obligations if CLLAS were to cease writing business on December 31, 2019
- Loading of 3.95% applied to gross case reserves and gross provisions for IBNR (increase from 2.95% as of December 31, 2018)
- Provision for ULAE at December 31, 2019: \$2,447,000
- The provision for ULAE is entirely retained by CLLAS

CLLAS

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



* On an undiscounted basis

CLLAS

Valuation Basis

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

Discounted Liabilities

- The discount rate is used for the discounting of future claims payments
- A discount rate of 1.90% (2.40% in 2018) was selected based on the market yield of CLLAS' fixed income portfolio at December 31, 2019 since CLLAS has classified its fixed income portfolio as available-for-sale per IFRS 9

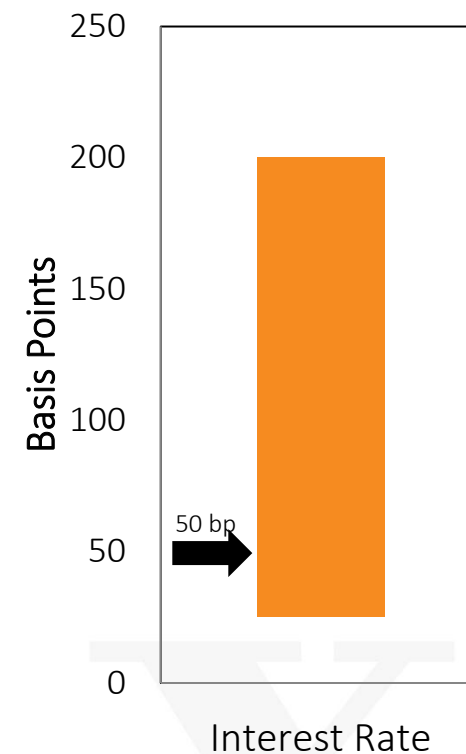
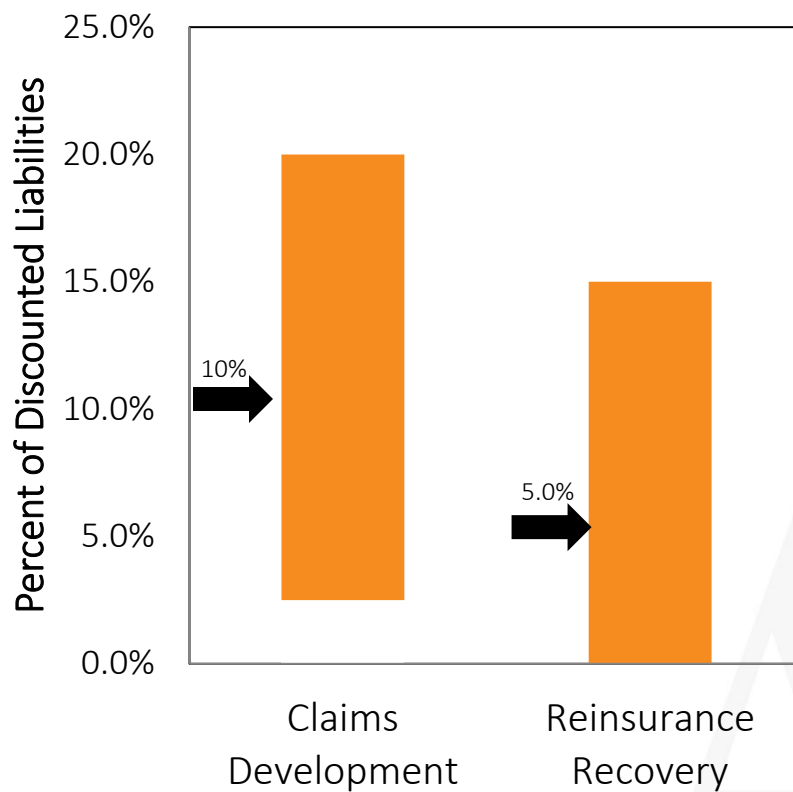
CLLAS

PFAD reflects three variables:

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

CLLAS

Selected Margins for Adverse Deviation



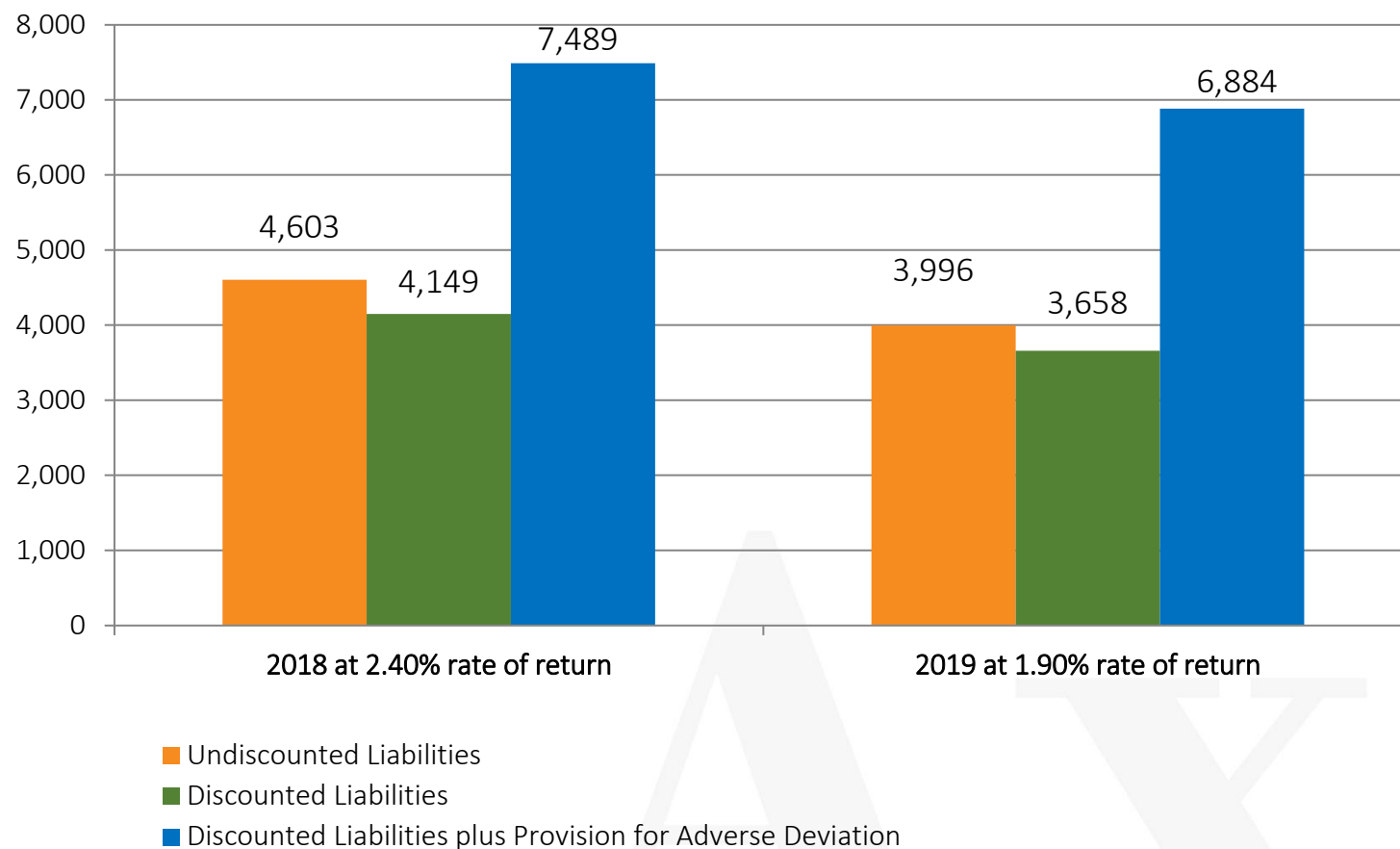
CLLAS

Impact of changes in methodology and assumptions

- There was no change in methodology in the valuation at December 31, 2019.
- The impact of the change in loss development factors, ULAE load, discount rate and reinsurance PFAD led to an increase of \$931,000 in net discounted claim liabilities

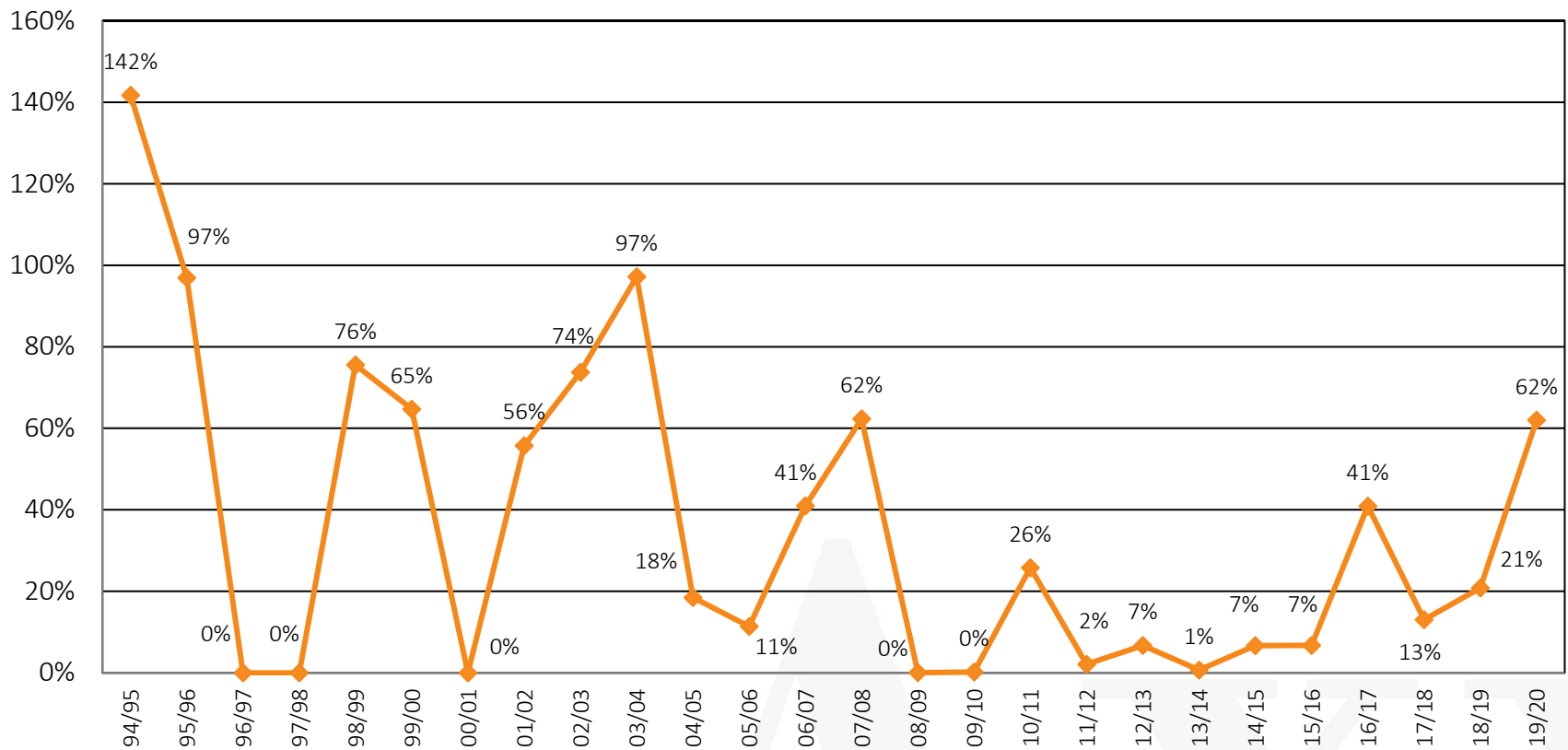
CLLAS

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



CLLAS

Net Ultimate Loss Ratio*



* Excluding ULAE

CLLAS

Premium Liabilities

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

Net unearned premiums

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

- The premium deficiency is \$0
- The deferred policy acquisition expense asset is \$26,000



discussion

February 14, 2020

Private & Confidential

Mr. Ken Crofoot, Chair
Canadian Lawyers Liability Assurance Society
Goodmans LLP
Bay Adelaide Centre
333 Bay Street, Suite 3400
Toronto, ON M5H 2S7

Dear Ken,

The purpose of this letter is to set out the proposed operating budget for CLLAS for 2020, including the proposed budget for the provision by Axxima of Management and Professional Services.

TOTAL OPERATING BUDGET FOR 2020

The draft total operating budget for CLLAS for 2020 is presented in Attachment A to this letter, together with the budget and actual figures for 2019. Overall, CLLAS finished 2019 \$115,000, or 5.2% under budget. A discussion of the notable “Other Expense” lines is immediately below, and the Management and Professional Services lines are addressed in the second part of this letter.

- **Audit Expenses.** This line was slightly over budget in 2019 due to a \$3,000 accrual for unforeseen audit expenses which seems unlikely to materialize. The budget for 2020 assumes a 3% increase to the basic audit fee, and includes \$7,000 for an independent peer review of the actuarial valuation. This peer review is required every three years and the last such review was performed on the 2017 year-end valuation.
- **Premium Taxes.** Premium taxes, which are a percentage of premium, came in well over budget in 2019. The primary reason for this is timing of recognition of the premium tax expense. Accounting rules required us to write off some of CLLAS’ deferred policy acquisition costs (DPAC) in 2019. This does not affect the amount of premium taxes or when payments are due, but it does affect the timing of recognizing those expenses. In essence, this means that \$110,000 of premium taxes attributable to the first half of 2020 have been expensed in 2019. The impact of this can be seen both in the higher 2019 “Actual” column, and the lower 2020 “Budget” column. An additional minor cause of the variance was that when the

2019 budget was prepared early in 2019, we assumed a 10% increase in the CLLAS rates for the July 1, 2019 renewal. This assumption proved to be optimistic. Note that the 2020 budget assumes a further 10% increase in the CLLAS premium at July 1, 2020.

- **Chairman's Expenses.** This item, which tracked miscellaneous expenses of the Chair (unrelated to the annual dinner and the London renewal trip) has been budgeted at \$3,000 but in the last number of years has not been used. We propose to eliminate this item going forward and include any expenses in the Reinsurance Expense line (currently used to track Board member expenses for the London renewal trip).
- **Offsite Storage/Scanning.** This budget item was set in 2019 for dealing with 30+ years of offsite file storage. CLLAS scanned and shredded files that needed to be retained, and shredded files that did not. The project was completed in 2019 and CLLAS has no more files in offsite storage. We still maintain about two shelves worth of old paper claim files (where the files are still open, although all new material is stored electronically). These files are maintained on-site and will be scanned/shredded as they close. Those costs will be minor and will be tracked under the General Office Expense line.
- **Special Services.** This line is for expenses related to external legal and other professional services provided to CLLAS. In 2019, we incurred no costs on this line, but we propose to maintain the budget as is for 2020.
- **BWI Fees (formerly Miller Fees).** BWI fees for the 2019/20 policy year were agreed at \$287,500. There is a small favourable variance because, when the 2019 budget was set, it was assumed that the fees would be slightly higher. The fee for 2020/21 has not yet been agreed. For budget purposes, we have assumed no change to the fee.
- **Risk Management/Loss Prevention.** The Risk Management/Loss Prevention line came in well under budget for 2019. We propose a budget of \$110,000 for 2020. This is due to the risk management audits being conducted by John Walker and it assumes that CLLAS will cover up to \$10,000 per CLLAS firm and \$5,000 per associate firm. This is a significant increase in the risk management budget but very little has been incurred on this line in recent years (aside from hard costs related to CLLAS' risk management seminars). In addition, in the past the risk management audits were spread over multiple years, whereas this time Mr. Walker expects to complete all the audits in a single year. The budget should fall back to its traditional level in 2021.

PROFESSIONAL AND MANAGEMENT SERVICES

1. Management Services

Management Services are provided on a fixed fee basis, with the exception of Claims Analysis, which is a variable line item related to management of CLLAS' active large loss files. Due to the reduced volume of claims activity in 2019, compared with recent years, Management Services finished the year \$40,600 under its budget of \$501,500. The proposed fixed fee budget for 2020 (net of credits, as discussed below) is \$396,000, a reduction of 21.0% from 2019. This reduction is the result of a slightly reduced fixed fee offset by an increased amount of commissions (including profit sharing) received by Axxima's insurance brokerage, as discussed below.

Details of the Management Services budget by line are presented in the table below.

Activity	2019 Budget	2019 Actual	Fav/ (Unfav) Variance	2020 Budget (proposed)	Change (\$)	Change (%)
(a) Financial	\$192,000	\$192,000	\$ 0	\$198,000	\$ 6,000	3.1%
(b) General Admin.	\$102,000	\$102,000	\$ 0	\$104,000	\$ 2,000	2.0%
(c) Claims Admin.	\$230,000	\$230,000	\$ 0	\$220,000	(\$ 10,000)	-4.3%
(d) Claims Analysis*	\$ 80,000	\$39,398	\$40,602	\$ 72,000	(\$ 8,000)	-10.0%
Subtotal	\$604,000	\$563,398	\$40,602	\$594,000	(\$ 10,000)	-1.7%
(e) Less Credit	\$102,500	\$102,500	\$ 0	\$198,000	\$ 95,500	93.2%
Total	\$501,500	\$460,898	\$40,602	\$396,000	(\$105,500)	-21.0%

* Variable

(a) **Financial Reporting.** Activity on the Financial Reporting line increases slightly each year, notwithstanding that IFRS 17 implementation is being tracked under the Strategic line through the initial implementation phases. We propose an increase of \$6,000 (3.1%) to this line to reflect the current level of activity as well as wage inflation.

(b) **General Administration.** The General Administration line includes such activities as Board meeting preparation, renewal applications, insurance policy preparation, certificate issuance, risk management initiatives, website maintenance, Subscriber

enquiries re coverage, etc. Activity was at the expected level in 2019 and we are proposed a 2.0% (wage inflation) increase in this line for 2020.

- (c) **Claims Administration.** The Claims Administration line has been reduced significantly over the past few years, from \$300,000 in 2015, to \$230,000 in 2019, due in part to lower claims volumes flowing from the departure of two firms and in part to process efficiencies within Axxima. We propose a further \$10,000 (4.3%) reduction to this line for 2020. Note that Axxima's involvement in managing/overseeing cyber claims is included in this line.
- (d) **Claims Analysis.** The Claims Analysis line tracks activity on the claims where CLLAS is actively involved in claims management (due to the nature or significance of the particular claims). You may recall that 2018 was a busy year for significant claims, and as a result, we increased the budget on this line from \$72,000 to \$80,000. As it turned out, 2019 was a quieter year and the increase was not necessary, so we propose to bring the line back down to \$72,000 for 2020. This line is variable, with fees adjusted to actual on a quarterly basis.
- (e) **Credit re CLLAS-Facilitated Policies.** Since 2017, the fixed fee budgets are net of a credit which represents commissions and/or profit sharing received by Axxima's insurance brokerage in connection with the Associate Firm and cyber programs. There is a one-year lag between receipt of funds by Axxima and application against the fixed fee, i.e. funds received in calendar year 2019 are applied against the 2020 fixed fee. Details for 2019 and 2020 are as follows:
- **Commissions:** In 2019, the CLLAS Associate firms renewed their policies, resulting in commissions of \$46,101 (\$39,716 in 2018). As well, eight CLLAS firms and one Associate firm bound or renewed cyber policies under the CLLAS program. Resulting in commissions of \$107,462 (\$62,762 in 2018). Combined, this results in a credit of \$153,500 (\$102,500 in 2018) which will be applied against the 2020 fixed fee budget.
 - **Profit Sharing:** As discussed, the CLLAS Associate Firm program includes a profit sharing element and it has been agreed that profit sharing amounts received by Axxima from underwriters will be applied against the next fixed fee budget, subject to CLLAS' acknowledgement of the obligation to potentially repay the funds based on future loss experience. A year ago, we indicated that two years of

profits sharing payments were coming due, and we estimated the amounts at \$21,010.50 and \$20,509.70 respectively. We confirm that we are in the process of collecting \$44,722 in respect of these two years and as a result, \$44,500 will be applied against the 2020 fixed fee. Note that these amounts remain exposed to losses, although it is not currently expected that any open claims will develop into the Program's layer.

Attachment B to this letter contains a brief summary of the activity associated with each of the Management Services lines discussed above.

2. Professional Services

Professional Services, i.e. actuarial, reinsurance and strategic services, are provided on a fee-for-service basis. Budgets are set at the beginning of the year, with the actual cost depending on the level of activity throughout the year. Professional Services Fees finished the year about \$130,000 (23.8%) under budget. The Actuarial line was slightly over budget and the other two lines (Reinsurance and Strategic Services) were materially under budget.

As set out in the table below, we are proposing a \$15,000 decrease to the Actuarial Services budget for 2020, and no change to the budgets for the other two lines. Overall, this amounts to a 2.7% decrease over the budget for 2019. Details by line are discussed after the table.

		2019 Budget	2019 Actual	Fav/ (Unfav) Variance	2020 Budget (proposed)	Change (\$)	Change (%)
(a)	Actuarial	\$ 90,000	\$ 93,833	(\$ 3,833)	\$ 75,000	(\$15,000)	-16.7%
(b)	Reinsurance	\$300,000	\$230,077	\$ 69,923	\$300,000	\$ 0	0.0%
(c)	Strategic	\$160,000	\$ 95,178	\$ 64,822	\$160,000	\$ 0	0.0%
	Total	\$550,000	\$419,088	\$130,912	\$535,000	(\$15,000)	-2.7%

- (a) **Actuarial Services.** Activity on the Actuarial line was slightly over budget last year. The 2019 budget line was increased by \$20,000 over 2018 to take into account the ORSA report that was prepared and filed with the regulator in 2019. A full report is required only every three years (absent a material change in CLLAS' risk profile) so this work will not be required in 2020. As a result, we proposed to reduce this budget to \$75,000 for 2020.

(b) **Reinsurance Services.** The July 1, 2019 reinsurance renewal was a difficult one from a pricing perspective due to the hardening insurance market. Two Lloyd's syndicates (Hamilton and Pioneer) withdrew from the market and had to be replaced and Swiss Re reduced its participation. Notwithstanding this, the placement was largely completed using "overcapacity" built up over the past several years, highlighting the importance of continuing to introduce new reinsurers and maintain existing relationships with reinsurers. Our expectation for the July 1, 2020 renewal is that the market will continue to be very difficult and that some of CLLAS' capacity will need to be replaced. We propose to maintain the budget for Reinsurance Services at the same level as 2019.

(c) **Strategic Services.** Fees for Strategic Services in 2020 finished the year well under budget. Activities in the year included:

- On-going work related to CLLAS' cyber program, including reviewing applications, binding firms, issuing certificates, investigating excess limits and discussions with CLLAS firms not yet in the program. Fees associated with work on the cyber program totaled about \$45,000, which compares favourably to the \$107,000 in commissions earned on the program in 2019 (to be credited to CLLAS in 2020).
- IFRS 17 implementation is also being tracked separately. This work resulted in fees of just over \$13,000 in 2019. Activity in this area is expected to pick up over the next few years.
- Other activities on this line in 2019 included:
 - The Associate Firm initiative, including the renewal of the two current Associate Firms and discussions with prospective firms;
 - Discussions with former CLLAS firms related to their surplus;
 - Review of the new Quebec *Insurers Act* and meeting with the Quebec regulator (AMF) re implications for CLLAS; and
 - Renewal of the CLLAS D&O policy, including investigation of additional limits.

Activity on the Strategic Services line is difficult to predict but we propose that the budget for Strategic Services remain unchanged for 2020.

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



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

Sincerely,

A handwritten signature in black ink, appearing to be "PM" followed by a flourish.

Patrick Mahoney

Copy: CLLAS Advisory Board

**Canadian Lawyers Liability Assurance Society
2020 Operating Budget**

	2019 Budget	2019 Actual	Fav/ (Unfav) Variance	Proposed 2020 Budget
MANAGEMENT SERVICES	501,500	460,898	40,602	396,000
PROFESSIONAL SERVICES				
Actuarial Services	90,000	93,833	(3,833)	75,000
Reinsurance Matters	300,000	230,077	69,923	300,000
Strategic Matters	160,000	95,178	64,822	160,000
Sub-Total Professional Services	550,000	419,088	130,912	535,000
Total Management & Professional Services	1,051,500	879,985	171,515	931,000
HST on Consulting Fees	136,695	114,398	22,297	121,030
Total Consulting Services	1,188,195	994,384	193,811	1,052,030
OTHER EXPENSES				
Audit Expenses	117,000	119,210	(2,210)	127,000
Annual Dinner	7,500	5,731	1,769	7,500
Premium Taxes	224,000	348,485	(124,485)	174,000
Chairman's Expenses	3,000	0	3,000	0
Chairman's Honourarium	150,000	150,000	0	150,000
Reinsurance Expense	8,500	7,800	700	8,500
D&O Insurance	20,000	18,036	1,964	20,000
Office Expenses - General	25,000	19,977	5,023	25,000
Office Expenses - Offsite Storage/Scanning	38,000	45,025	(7,025)	0
Claims Bordereaux (LawPRO/LIF)	16,800	15,975	825	17,600
Special Services	25,000	0	25,000	25,000
Reinsurance Fee (Bretton Woods International)	286,000	283,250	2,750	287,500
Statistical/Assessment Fees	6,000	5,959	41	6,000
Investment Counsel Fees	27,000	26,703	297	33,000
Investment - Custodial Fees	16,000	17,092	(1,092)	19,000
Risk Management/Loss Prevention	15,000	0	15,000	110,000
Licensing Fees	5,000	4,663	337	5,000
Insurance Sundry	0	683	(683)	0
Sub-total	989,800	1,068,589	(78,789)	1,015,100
TOTAL	2,177,995	2,062,973	115,022	\$2,067,130

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Management Services - Overview of Activity by Budget Line

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

1. Financial Reporting

The Financial Reporting area involves all financial functions including:

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

2. General Administration

The General Administration line covers work relating to:

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

3. Claims Administration

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

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

4. Claims Analysis

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

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

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



CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Surplus Management Policy

Last Updated
June 21, 2017



SURPLUS MANAGEMENT POLICY

Effective date: June 21, 2017

1. Purpose and Scope

CLLAS' surplus management policy sets out the process through which CLLAS proactively manages its surplus position through premium adjustments in order to achieve its surplus target.

The surplus management policy relies on the risk appetite and surplus target set in the Enterprise Risk Management ("ERM") policy and Own Risk and Solvency Assessment ("ORSA"). The purpose of this policy is to document the practices and responsibilities with respect to CLLAS' management of surplus.

This policy is intended to both supplement and complement existing policies and procedures of CLLAS. This policy covers all activities and items that could potentially impact the level of surplus of CLLAS.

2. Objectives

The primary purpose of CLLAS is to provide a risk management program, including self-insurance and risk financing, to its Subscribers. Its overriding objective is to fulfill this purpose through cost-efficient and stable premiums, while maintaining a prudent surplus level to meet its obligations.

3. Surplus Target

CLLAS' surplus target is a Minimum Capital Test ("MCT") ratio of 210% as adopted in the ORSA.

CLLAS is also subject to the Alberta Maintenance of Reserve and Guarantee Fund ("AMRGF") requirement in the Alberta *Insurance Act*. As part of CLLAS' ORSA, it was determined that the 210% MCT ratio target should be more than adequate to ensure that the AMRGF test is met on an on-going basis, but CLLAS acknowledges that notwithstanding anything in this policy, the Superintendent of Insurance has the authority to require additional surplus contributions forthwith should CLLAS' surplus not meet the AMRGF.



4. Surplus Management

CLLAS has adopted the following surplus management plan:

Surplus Level	Action
Below regulatory expectations	Advisory Board to declare a premium assessment to rebuild, at a minimum, to a surplus level meeting regulatory expectations
Between regulatory expectations and surplus target	No action
Above surplus target	Advisory Board to consider and, if appropriate, approve premium credits

The adopted surplus management plan allows for Board discretion and flexibility in determining, with the actuary's input, any premium adjustments within the principles stated above.

5. Roles and Responsibilities with Respect to Surplus Management

The Advisory Board is ultimately responsible for overseeing the management of CLLAS' surplus position. The Advisory Board is responsible for the following:

- Confirming this policy annually, and approving any material amendments to it;
- Annually approving premium adjustments, including premium assessments and premium credits; and
- Comprehensively reviewing the surplus target and surplus management policy at least every three years to ensure that it continues to reflect CLLAS' tolerance to risk.

The Office of the General Manager is responsible for the implementation of the Board-approved strategy and overall business performance. In particular, it is responsible for the following:

- Monitoring performance, internal controls and prudent business activities designed to ensure adequate levels of surplus;
- Monitoring the effectiveness of, and compliance with, this policy on an on-going basis;
- Notifying the Advisory Board should the surplus fall below the internal target;
- Notifying the Superintendent of Insurance should the surplus fall below the internal target or below regulatory requirements;
- Periodically performing adequate stress tests on CLLAS' surplus position; and
- Recommending changes to this policy to the Advisory Board.

The actuary is responsible for annually recommending appropriate premium adjustments in accordance with this policy.

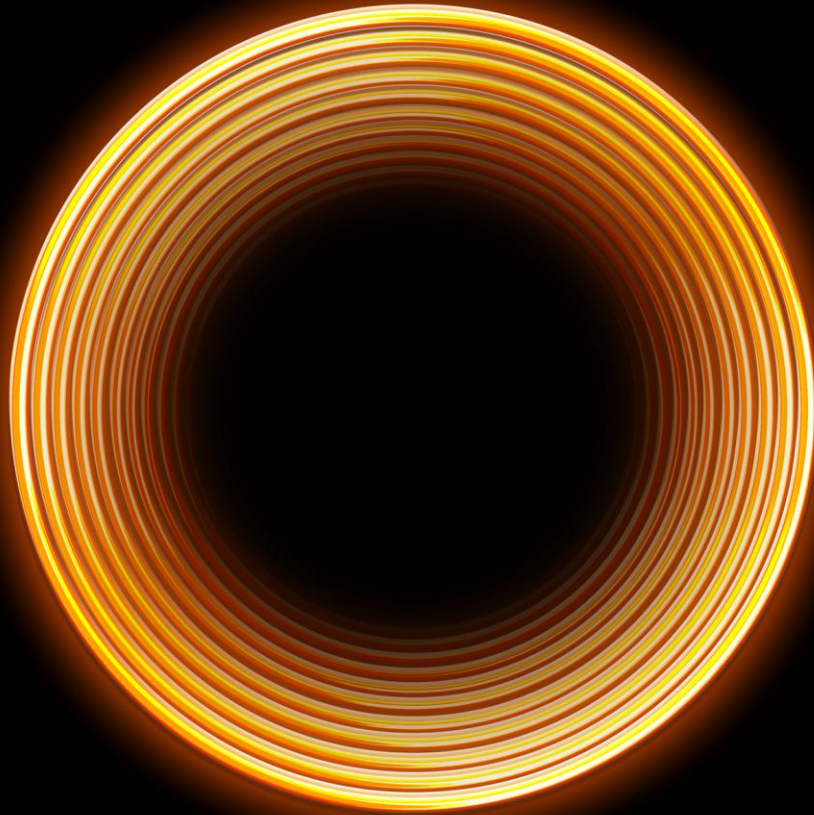


6. Authority

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

7. History of Modifications

This policy was first approved by the Advisory Board on June 21, 2017.



Canadian Lawyers Liability Assurance Society
Audit results for the year ended December 31, 2019
To be presented February 13, 2020



Laurie Markus

Lead Client Service Partner

Tel: 416-601-6697

Email: lmarkus@deloitte.ca

February 10, 2020

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

Dear Audit Committee Members:

We are pleased to submit this report on the status of our audit of Canadian Lawyers Liability Assurance Society ("the Society") for the 2019 fiscal year. This report summarizes the scope of our audit, our findings to date and reviews certain other matters that we believe to be of interest to you.

As agreed in our engagement letter dated October 4, 2019, we have performed an audit of the financial statements of Canadian Lawyers Liability Assurance Society as of and for the year ended December 31, 2019, in accordance with Canadian generally accepted auditing standards ("GAAS"). We have also audited the Minimum Capital Test on page 30.61 of the P&C Quarterly Return of the Society as at December 31, 2019 in accordance with the financial reporting provisions of Guideline A – Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies. We expect to issue our audit reports thereon upon their approval by the Board of Directors and completion of the outstanding matters noted on page 3 of this report.

This report summarizes our findings during the audit to date. Our audit has been conducted in accordance with the audit plan that was presented to the Audit Committee members at the meeting on October 29, 2019.

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

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

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

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

Yours truly,

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants

Executive summary

Outstanding items




- Receipt of the final Appointed Actuary Report
- Receipt of signed management representation letter
- Performance of subsequent events procedures
- Completion of minor documentation items
- Completion of Engagement Quality Control Review

We plan to issue our audit opinions dated February 25, 2020 following completion of the above procedures and approval of the financial statements by the Advisory Board.

Significant risks

Findings

- 1 Provision for unpaid claims and adjustment expense, gross and net of amount recoverable from reinsurers (valuation)
- 2 Revenue recognition
- 3 Risk of management override of controls

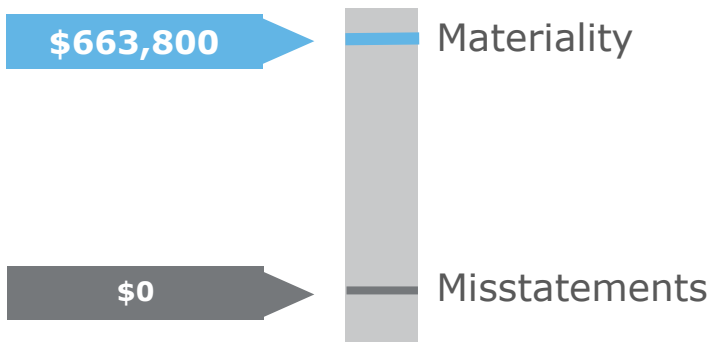
 Completed, no issues noted.  Completed, insights identified.  Completed, significant findings identified.

Changes from audit plan

Materiality was determined on the basis of unpaid claims and adjustment expenses, consistent with prior year. We have decreased our selected factor from 2% to 1%, to align with the priorities of the users of the Society's financial statements. This change has resulted in a decrease in our materiality at year-end. As a result of this decrease we will be performing additional testing over claims.

Our audit approach was consistent with the audit plan presented to the audit committee on October 29, 2019.

Misstatements



Other matters of interest

Use of service organizations

We obtained RBC IS controls report and tested the design and implementation of complimentary user entity controls noting no issues.

Use of the work of specialists and experts







- **Actuarial experts:** Assessed the valuation and adequacy of the provision for unpaid and unreported claims liability noting no issues.

Misstatements

- No corrected or uncorrected misstatements
- No disclosure misstatements

Matters of interest

Significant risks dashboard

Risk	Audit response consistent with plan	Status and findings	Our response	Our conclusion
Provision for unpaid claims and adjustment expenses, gross and net of amount recoverable from reinsurers (valuation)			We completed our audit as planned, utilizing our actuarial specialists in the execution of our work. This included assessing the reasonableness of key assumptions and methodologies, testing the underlying data and independent recomputations of the actuarial reserves.	The results of audit procedures were satisfactory
Revenue recognition			Assurance standards include the presumption of a fraud risk involving improper revenue recognition. We completed our audit as planned, agreeing all premiums recorded to supporting documentation, recomputing unearned premiums and obtaining confirmation from CLLAS members.	The results of audit procedures were satisfactory
Risk of management override of controls			Assurance standards include the presumption of a significant risk of management override of controls. We completed our audit as planned, testing the appropriateness of large or unusual journal entries using data analytical tools to identify journal entries of audit interest and examining accounting estimates for bias.	The results of audit procedures were satisfactory

Legend

-  Completed. Results of procedures satisfactory.
-  Completed. Insights identified.
-  Completed. Significant findings identified.
-  In progress.

Auditing Standards Update



Revised CAS 540, Auditing Accounting Estimates and Related Disclosures

This revised auditing standard is effective for audits of financial statements for periods beginning on or after December 15, 2019.

Drivers for the Revised Standard

- Changes in financial reporting frameworks and standards include a greater focus on complex accounting estimates
- Recurring inspection findings by regulators around auditing accounting estimates highlights the importance of fostering professional skepticism
- Need to improve communication and transparency between auditors and those charged with governance/regulators on complex accounting estimates



Revised CAS 540, Auditing Accounting Estimates and Related Disclosures

What can you expect from your auditor?

Management

- Greater focus in assessing how management understands the nature, extent, risks, and controls associated with accounting estimates
- Varying audit procedures to drive work efforts based on assessed risk levels including consideration to adopt a control reliance approach to auditing accounting estimates
- More interaction with management's experts
- Specific written management representations

Communication with Those Charged with Governance

- Audit committees can expect to have enhanced dialogue on accounting estimates. This may include the auditor's views and assessment of:
 - significant qualitative aspects of the entity's accounting practices relating to accounting estimates and related disclosures;
 - indicators of management bias;
 - appropriateness of management's methods, assumptions and data used; and
 - significant deficiencies in internal controls around accounting estimates

Balance sheet <i>In thousands of Canadian \$</i>	December 31, 2019	December 31, 2018
Cash	3,785	5,081
Short term investments	12,343	7,129
Bonds, including accrued interest	6,015	5,911
Interest income due and accrued	21	21
Premiums receivable	1,254	1,636
Prepaid expenses	144	141
Deferred policy acquisition costs	134	106
Reinsurers' share of unearned premiums	3,627	2,736
Reinsurance receivable	351	2,996
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	59,504	87,941
Total assets	87,178	113,698
Accounts payable and accrued charges	331	335
Unearned premiums	4,619	3,665
Due to reinsurers	2,112	1,935
Provision for unpaid claims and adjustment expenses	66,388	95,430
Total liabilities	73,450	101,365
Total equity	13,728	12,333
Total liabilities and equity	87,178	113,698

Delivering Audit Quality



Delivering audit quality

Evolving today with a vision for tomorrow

Our 2019 Audit Quality Report

We share highlights of our key audit quality results, and the specific actions we have taken to advance audit quality and steps undertaken to enhance our quality management system.

We also provide our perspectives on the evolving audit quality landscape and how Deloitte is actively engaged in shaping the future of the profession.

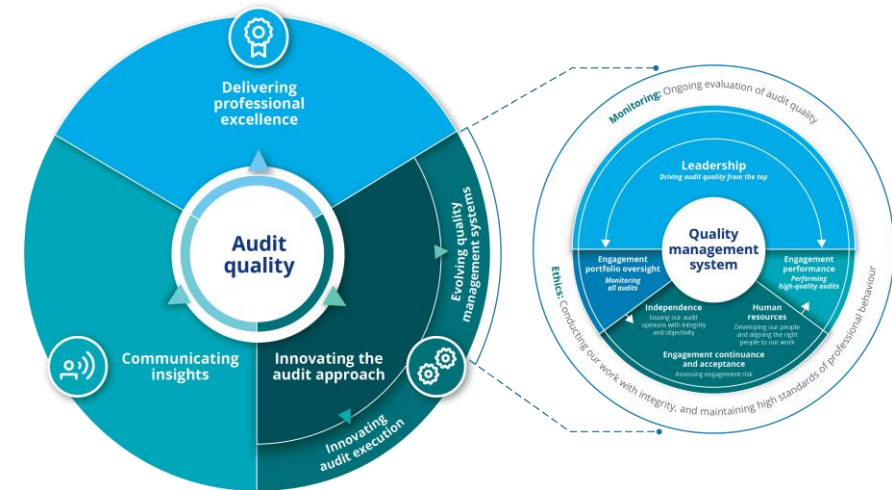
Through our culture of innovation, continuous advancement, and agility, we aim to steadily cultivate the conditions required to support our people who audit public companies to deliver high quality consistently across all audits.

Our priorities for the future are consistent with the direction CPAB has provided to continue advancing audit quality and strengthening quality management systems. We continue to advance our practice wide processes, building on our strong audit quality foundation.



To learn more, click [here](#) to read our **2019 Audit Quality Report**.

We elevated our definition of audit quality, explicitly highlighting our quality management systems as a critical element in achieving consistent high quality across all engagements.



CPAB Fall Inspection Results

The Canadian Public Accountability Board (CPAB) is charged with assessing the state of audit quality in Canada through an annual inspection process by which it inspects all Firms serving Canada's reporting issuers. CPAB's inspection methodology includes the inspection of engagement files and an assessment of the effectiveness of the Firms' existing quality management system.

CPAB issued their 2019 Fall Inspection Results report in October, prior to the completion of its 2019 inspections, to address past feedback from directors who are seeking more timely commentary on audit quality. CPAB will publish their final findings and overall evaluation of Firms' quality management systems in March 2020.

After each inspection cycle, CPAB privately reports to each Firm on the results of its inspection. CPAB's public reporting takes the form of an annual report on its views following the inspections of all Firms.




Follow this [link](#) to read the 2019 CPAB Fall Inspections Results.

Delivering audit quality

How did we do?

We communicated in our audit plan how we planned to enhance quality for the audit of the Society. We would like to report how we think we measured up against that plan.

Our self-assessment:

	Not started	Initial discussions held	In progress	Complete
 Delivering professional excellence				
Professional skepticism	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Independence	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
New accounting standards	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
 Innovating audit execution				
Process innovations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Innovation tools	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
 Communicating insights				
Regulatory and auditing developments	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Audit committee oversight of internal audit	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Significant judgements and estimates	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
 Evolving Quality Management Systems				



- We continue to apply a high level of professional skepticism in executing the audit.
- We applied “Milestones” in managing our timeline which assisted us in optimizing interim work and timely reviews.
- We utilized our Deloitte Innovation tool Spotlight to test journal entries and noted no instances of unusual entries, which would indicate management override of control.
- We implemented Deloitte Way Workflows for cash testing to improve our efficiency and audit quality.

Question for the Audit Committee: How did we do?

We welcome the opportunity to discuss audit quality in more depth.

We believe our quality management systems are integral to achieving high quality consistently. Our work to date is a significant contributor to our advances in audit quality over the last several years. Audit leadership have developed a variety of processes that apply throughout the annual audit cycle to assess each audit engagement for risks that it will be unable to execute the audit plan it has presented to the Audit Committee. We highlight three of these processes:

- Our Partner portfolio review process ensures the assigned partner’s workload affords him/her the capacity to provide the necessary attention to each engagement assignment.
- Resource allocation monitoring processes provide independent information to audit leadership where staffing developments (for example, staff departures or reassignments) leave an engagement without sufficient resources to fulfill the initial audit plan.
- Centralized electronic access to engagement files allows monitoring, independent of the engagement team, to assess the progress of audits as the reporting deadline approaches so that we can identify instances where our ability to meet the targeted deadlines may be jeopardized.

Appendices



Appendix 1 – Required communications with Those Charged with Governance

Canadian GAAS require that we communicate to Those Charged with Governance (TCWG) on the following matters:

Required communication	Reference/Comments
Any significant changes to the planned audit strategy / identified significant risks, and the reasons for such changes.	See Executive Summary for change to materiality selected factor.
Fraud or possible fraud identified through the audit process, unless prohibited by law or regulation.	None noted.
Matters involving non-compliance with laws and regulations that come to our attention, unless prohibited by law or regulation.	None noted.
Uncorrected and corrected misstatements, including disclosure misstatements.	None noted.
All significant deficiencies in internal control identified during the audit.	No deficiencies to report.
<p>A draft copy of the auditor's report(s) we expect to issue including circumstances that affect the form and content of the auditor's report, if any, including:</p> <ul style="list-style-type: none"> • Expected modifications to our opinion(s), including the circumstances that led to the expected modification and the wording of the modification. • Inclusion of an Emphasis of Matter/Other Matter paragraph, and the related wording • A material uncertainty related to going concern is reported • An uncorrected material misstatement of the other information is reported 	See Appendix 3. We expect to issue unmodified auditor's reports.
Significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.	See Appendix 2.
Our views of any significant accounting practices that are not the most appropriate to the particular circumstances of the entity (including any bias in management's judgments related to any of these matters).	
Our evaluation of whether the presentation of the financial statements and the related disclosures are in conformity with the applicable financial accounting framework, including consideration of the form, arrangement, and content of the financial statements.	In our judgment, the significant accounting practices and policies, selected and applied by management are, in all material respects, acceptable under IFRS and are appropriate to the particular circumstances of the Society.

Appendix 1 – Required communications with Those Charged with Governance (cont’d)

Required communication	Reference/Comments
Significant matters arising from the audit that were discussed with management and material written communications between management and us, including management representation letters.	A draft version of the management representation letter to be signed by management has been provided separately.
All relationships between the Society and us that, in our professional judgment, may reasonably be thought to bear on our independence and related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.	See Appendix 4.
A statement that, in our judgment, the engagement team and others in our firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.	
Any breaches to our independence, including the action we have taken / propose to take.	

Appendix 2 – Significant accounting policies, judgments and estimates

Changes in accounting practices and policies and/or application of new and revised accounting standards

Significant accounting policies and practices

The Society's significant accounting policies have been included in Note 3 to the Financial Statements. No issues were noted with the significant accounting policies and practices selected and applied by management, including the related financial statement disclosures.

The Society has disclosed the deferral of *IFRS 9 Financial Instruments* and has included disclosure of the future accounting changes for Insurance Contracts and Financial Instruments.

Significant accounting estimates

During the year ended December 31, 2019, management advised us that there were no significant changes in the basis for determining accounting estimates or in judgments relating to the application of the accounting policies.

Balance sheet <i>In thousands of Canadian \$</i>	December 31, 2019	December 31, 2018
Cash	3,785	5,081
Short term investments	12,343	7,129
Bonds, including accrued interest	6,015	5,911
Interest income due and accrued	21	21
Premiums receivable	1,254	1,636
Prepaid expenses	144	141
Deferred policy acquisition costs	134	106
Reinsurers' share of unearned premiums	3,627	2,736
Reinsurance receivable	351	2,996
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	59,504	87,941
Total assets	87,178	113,698
Accounts payable and accrued charges	331	335
Unearned premiums	4,619	3,665
Due to reinsurers	2,112	1,935
Provision for unpaid claims and adjustment expenses	66,388	95,430
Total liabilities	73,450	101,365
Total equity	13,728	12,333
Total liabilities and equity	87,178	113,698

Bonds are composed of bonds issued or guaranteed by the Government of Canada, any province in Canada or Canadian corporations having a rating of A or better. There are no Bonds that require the use of unobservable inputs to determine fair value. There were no impairments or impairment concerns noted during 2019.

Provision for unpaid claims and adjustment expenses recoverable from reinsurers include balances due from reinsurance companies for paid and unpaid losses. Amounts recoverable from reinsurers are estimated and recognized in a manner consistent with the reserve for losses associated with the related reinsurance contract. The Society reflects reinsurance balances on a gross basis in the statement of financial position to reflect the credit risk related to reinsurance. No concerns were noted with respect to the credit standing of the Society's reinsurance counterparties.

Provision for unpaid claims and adjustment expenses is calculated in accordance with accepted actuarial practice in Canada and involves estimates of loss activity that are, by necessity, subject to uncertainty and are derived from a wide range of possible outcomes. They have been estimated in a manner materially consistent with the approach followed in the prior year. Assumption changes increased net liabilities by \$780,819 and the change in the discount rate and PfAD decreased net liabilities by \$150,590. Management's estimate of these actuarial liabilities is the most significant area of measurement uncertainty which utilizes complex models and significant management judgement for assumptions.

Subscriber withdrawals occur periodically and judgment is involved in determining the appropriate timing of recognition and valuation of amounts and appropriate note disclosures

Appendix 3 – Draft version of our Auditor’s Reports

Draft Auditor’s Report on CLLAS Financial Statements

Independent Auditor’s Report

To the Advisory Board of Canadian Lawyers Liability Assurance Society

Opinion

We have audited the financial statements of Canadian Lawyers Liability Assurance Society (the “Society”), which comprise the statements of financial position as at December 31, 2019, and the statements of comprehensive income (loss), changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Society as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards (“Canadian GAAS”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Society’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Society’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Society’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Society to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

(To be signed Deloitte LLP)

Chartered Professional Accountants

Licensed Public Accountants

Toronto, Ontario

February [.], 2020

Appendix 3 – Draft version of our Auditor’s Reports

Draft Auditor’s Report on CLLAS Minimum Capital Return

Independent Auditor’s Report

To the Advisory Board of Canadian Lawyers Liability Assurance Society, and the Provincial Superintendents of Financial Institutions/Insurance

Opinion

We have audited the Minimum Capital Test on page 30.61 of the P&C Quarterly Return of Canadian Lawyers Liability Assurance Society (the “Society”) as at December 31, 2019 (the “MCT”).

In our opinion, the accompanying MCT of the Society as at December 31, 2019 is prepared, in all material respects, in accordance with the financial reporting provisions of Guideline A – Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies effective January 1, 2019 (the “Guideline”) prescribed by the Office of the Superintendent of Financial Institutions Canada (“OSFI”).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards (“Canadian GAAS”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the MCT section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the MCT in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to the fact that the MCT has been prepared in accordance with the financial reporting provisions of the Guideline. The MCT is prepared to assist the Society to meet the requirements of the Provincial Superintendents of Financial Institutions/Insurance. As a result, the MCT may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Unaudited Information

We have not audited the schedules and exhibits except for page 30.61 of the Society’s P&C Quarterly Return. Accordingly, this auditor’s report and our opinion do not cover the schedules and exhibits on the other pages of the Society’s P&C Quarterly Return.

Other Matter

We issued a separate auditor’s report dated February 25, 2020 on the financial statements on pages 20.10 through 20.54 of the Society’s P&C Quarterly Return.

Responsibilities of Management and Those Charged with Governance for the MCT Return

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

In preparing the MCT, management is responsible for assessing the Society’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Society’s financial reporting process.

Auditor’s Responsibilities for the Audit of the MCT Return

Our objectives are to obtain reasonable assurance about whether the MCT is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this MCT.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the MCT, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Society’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the MCT or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Society to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

(To be signed Deloitte LLP)

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario

February 25, 2020

Appendix 3 – Draft version of our Auditor’s Reports

Draft Auditor’s Report on CLLAS P&C Return

Independent Auditor’s Report

To the Advisory Board of Canadian Lawyers Liability Assurance Society, and the Provincial Superintendents of Financial Institutions/Insurance

Opinion

We have audited the financial statements of Canadian Lawyers Liability Assurance Society (the “Society”), which comprise the statements of assets and liabilities and equity at December 31, 2019, and the statements of income, retained earnings, comprehensive income (loss) and accumulated other comprehensive income (loss), reserves, changes in equity and cash flows for the year then ended on pages 20.10 through 20.54 of the Society’s P&C Quarterly Return and pages 20.52 and 20.60 of the Society’s P&C Annual Supplement, which includes the notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Society as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards (“Canadian GAAS”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unaudited Information

We have not audited the schedules and exhibits except for those on pages 20.10 through 20.54 of the Society’s P&C Quarterly Return and those on pages 20.52 and 20.60 of the Society’s P&C Annual Supplement. Accordingly, this auditor’s report and our opinion do not cover the schedules and exhibits on the other pages of the Society’s P&C Quarterly Return and P&C Annual Supplement.

Other Matter

We issued a separate auditor’s report dated February 25, 2019 on the MCT on page 30.61 of the Society’s P&C Quarterly Return.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Society’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Society’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Society’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Society to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

(To be signed Deloitte LLP)

Chartered Professional Accountants

Licensed Public Accountants

Toronto, Ontario

February 25, 2020

Appendix 4 – Independence

February 10, 2020

Private and confidential

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

Dear Members:

We have been engaged to perform an audit of the financial statements of Canadian Lawyers Liability Assurance Society (the "Society") as of and for the year ended December 31, 2019 and as contained on pages 20.10 to 20.60 of the Society's P&C Annual Return in accordance with Canadian generally accepted auditing standards.

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

We are not aware of any relationships between the Deloitte Entities and the Society and its affiliates, or persons in financial reporting oversight roles at the Society and its affiliates, that under the Rules of Professional Conduct of the applicable Chartered Professional Accountants provincial/territorial regulator/ordre of Ontario may reasonably be thought to bear on independence, that have occurred from February 11, 2019 to February 10, 2020.

The total fees charged to the Society for audit services were \$94,317 during the period covered by the financial statements.

We hereby confirm that we are independent with respect to the Society in accordance with the Rules of Professional Conduct of the applicable Chartered Professional Accountants provincial/territorial regulator/ordre of Ontario as of February 10, 2020.

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

We look forward to discussing with you the matters addressed in this letter at our upcoming meeting on February 13, 2020.



Chartered Professional Accountants
Licensed Public Accountants

Financial statements of Canadian Lawyers Liability Assurance Society

December 31, 2019

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Independent Auditor's Report

To the Advisory Board of
Canadian Lawyers Liability Assurance Society

Opinion

We have audited the financial statements of Canadian Lawyers Liability Assurance Society (the "Society"), which comprise the statements of financial position as at December 31, 2019, and the statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Society as at December 31, 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Society's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Society's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Society to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants
Licensed Public Accountants
[DATE]
Toronto, Ontario

Canadian Lawyers Liability Assurance Society

Statement of financial position

As at December 31, 2019

	Notes	2019 \$	2018 \$
Assets			
Cash at bank		3,784,745	5,081,001
Short term investments	4	12,342,761	7,128,611
Bonds	4	6,015,184	5,911,332
Interest income due and accrued		20,531	20,988
Premiums receivable	6	1,254,203	1,635,998
Prepaid expenses		144,413	140,827
Deferred policy acquisition costs		26,365	106,582
Reinsurers' share of unearned premiums		3,626,526	2,736,021
Reinsurance receivable		351,056	2,996,041
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	5	59,504,000	87,941,000
		87,069,784	113,698,401
Liabilities			
Accounts payable and accrued charges		330,424	335,152
Unearned premiums		4,618,813	3,664,920
Due to reinsurers		2,111,955	1,935,175
Provision for unpaid claims and adjustment expenses	5	66,388,000	95,430,000
		73,449,192	101,365,247
Equity			
Minimum surplus	12	50,000	50,000
Additional surplus	12	13,523,163	12,317,745
Accumulated other comprehensive (loss) income		47,429	(34,591)
Total equity		13,620,592	12,333,154
		87,069,784	113,698,401

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

On behalf of the Advisory Board

_____, Chair of the Audit Committee

_____, Director

Canadian Lawyers Liability Assurance Society

Statement of comprehensive income (loss)

Year ended December 31, 2019

	Notes	2019 \$	2018 \$
Premiums			
Written premiums		9,288,383	7,390,585
Reinsurance ceded		7,292,904	5,517,391
Net written premiums		1,995,479	1,873,194
Change in unearned premiums		(63,389)	69,723
Earned premiums		1,932,090	1,942,917
Expenses			
Claims	5	(958,063)	(586,867)
Premium deficiency adjustment		—	—
Operating expenses	7	1,714,487	1,836,345
Premium taxes		348,485	209,892
		1,104,909	1,459,370
Underwriting income (loss) for the year		827,181	483,547
Investment income	4	378,237	315,238
Net income (loss) for the year		1,205,418	798,785
Change in unrealized losses on available-for-sale financial assets arising during the year		82,020	(12,822)
Other comprehensive loss		82,020	(12,822)
Comprehensive income (loss)		1,287,438	785,963

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

Canadian Lawyers Liability Assurance Society

Statement of changes in equity

Year ended December 31, 2019

	Minimum surplus \$	Additional surplus \$	Accumulated other comprehensive income \$	Total equity \$
Balance December 31, 2017	50,000	11,518,960	(21,769)	11,547,191
Net income (loss)	—	798,785	—	798,785
Other comprehensive income (loss)	—	—	(12,822)	(12,822)
Distribution of premium surplus	—	—	—	—
Balance December 31, 2018	50,000	12,317,745	(34,591)	12,333,154
Net income (loss)	—	1,205,418	—	1,205,418
Other comprehensive income (loss)	—	—	82,020	82,020
Distribution of premium surplus	—	—	—	—
Balance December 31, 2019	50,000	13,523,163	47,429	13,620,592

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

Canadian Lawyers Liability Assurance Society

Statement of cash flows

Year ended December 31, 2019

	2019 \$	2018 \$
Operating activities		
Net income (loss) for the year	1,205,418	798,785
Changes in non-cash items		
Interest income due and accrued	457	(2,456)
Premiums receivable	381,795	146,636
Reinsurers' share of unearned premiums	(890,505)	(194,768)
Prepaid expenses	(3,586)	(1,327)
Deferred policy acquisition costs	80,217	(3,272)
Reinsurance receivable	2,644,985	(2,378,285)
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	28,437,000	8,627,000
Provision for unpaid claims and adjustment expenses	(29,042,000)	(9,069,000)
Premium deficiency liability		
Unearned premiums	953,893	125,045
Due to reinsurers	176,780	286,144
Accounts payable and accrued charges	(4,728)	(178,460)
Amortization of bond premium	(53,402)	(45,764)
Amortization of bond discount	10,000	10,496
Cash (used in) provided by operating activities	3,896,324	(1,879,226)
Financing activity		
Refund of premium surplus	—	—
Investing activities		
Purchase of bonds	(464,200)	(1,648,590)
Disposal of bonds	450,000	800,000
Purchase of short term investments	(55,103,380)	(65,426,955)
Disposal of short term investments	49,925,000	70,095,401
Cash provided by (used in) investing activities	(5,192,580)	3,819,856
Net (decrease) increase in cash	(1,296,256)	1,940,630
Cash balance, beginning of year	5,081,001	3,140,371
Cash beginning, end of year	3,784,745	5,081,001
Cash balance comprises		
Cash at bank	3,784,745	5,081,001
Interest received	335,292	277,514

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

1. Description of business

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

The address and registered office is Bay Adelaide Centre - West Tower, 333 Bay Street, Suite 3400, Toronto, Ontario, M5H 2S7.

The Society does not have any employees and is managed by an independent third party that reports to the Advisory Board. The Advisory Board has the authority and responsibility for planning, directing and controlling the activities of the entity. The Chair of the Advisory Board receives an annual honorarium of \$150,000 (\$150,000 in 2018) and the other members of the Advisory Board receive no compensation.

2. Basis of preparation

Statement of compliance

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

These financial statements have been prepared on the historical cost basis, except for the valuation of financial instruments which are measured at fair value and outstanding claims and reinsurance are measured at discounted amounts.

3. Significant accounting policies

These financial statements reflect the following policies:

Use of estimates and judgments

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

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

Notes 5: Provision for unpaid claims and adjustment expenses

Notes 8: Reinsurance Program

Insurance premiums and deferred acquisition costs

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

3. Significant accounting policies (continued)

Insurance premiums and deferred acquisition costs (continued)

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

Reinsurance

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

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

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

Provision for unpaid claims and adjustment expenses

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

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

Investments

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

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

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

3. Significant accounting policies (continued)

Impairments

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

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

Accounting changes

- (i) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4):

On September 12, 2016, the IASB issued amendments to IFRS 4 to address accounting mismatches and volatility that may arise in profit or loss in the period between the effective date of IFRS 9, Financial Instruments ("IFRS 9") and the new insurance contracts standard, IFRS 17 Insurance Contracts, issued May 2017. The amendments apply in the same period in which an insurer adopts IFRS 9.

The amendments introduce two approaches that may be adopted by insurers in the period between the effective date of IFRS 9 and IFRS 17, effective January 1, 2021 (however, the IASB has tentatively decided to propose deferring the effective date to January 1, 2022):

- overlay approach – an option for all issuers of insurance contracts to reclassify amounts between profit or loss and other comprehensive income for eligible financial assets by removing any additional accounting volatility that may arise from applying IFRS 9; and
- temporary exemption – an optional temporary exemption from IFRS 9 for entities whose activities are predominately connected with insurance. This exemption allows an entity to continue to apply existing financial instrument requirements in International Accounting Standards ("IAS") 39, Financial Instruments: Recognition and Measurement ("IAS 39") to all financial assets until the earlier of the application of IFRS 17 or January 1, 2022.

The Society has adopted the temporary exemption, and adopted amendments to IFRS 4 in its financial statements for the current year.

An entity is permitted to continue applying IAS 39 if the following conditions are met:

- it has not applied IFRS 9 before; and
- its activities are predominantly connected with insurance on its annual reporting date immediately before April 1, 2016

3. Significant accounting policies (continued)

Accounting changes (continued)

- (i) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4): (continued)

An entity's activities are predominantly connected with insurance if:

- its liabilities arising from contracts in scope of IFRS 4 are significant compared with the total liabilities
- the ratio of its liabilities connected with insurance compared with its total liabilities is:
 - greater than 90 percent; or
 - greater than 80 percent but less than or equal to 90 percent, and the entity does not engage in a significant activity unconnected with insurance

The Society's total liabilities as at December 31, 2015 were \$111,113,316 of which \$110,202,627 pertain to insurance liabilities. Since the Society's predominance ratio is greater than 90%, it qualifies for the temporary exemption.

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

On July 24, 2014 the IASB issued the complete IFRS 9 standard. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

The Society has adopted the temporary exemption described previously, and will adopt the amendments to IFRS 9 in its financial statements for the annual period in which the Society adopts IFRS 17, Insurance Contracts. The Society continues to assess the impact of these changes on the financial statements.

- (iii) IFRS 17, Insurance Contracts ("IFRS 17"):

On May 18, 2017 the IASB issued IFRS 17 Insurance Contracts. The new standard is effective for annual periods beginning on or after January 1, 2021 (however, the IASB has proposed deferring the effective date to January 1, 2022). IFRS 17 will replace IFRS 4 Insurance Contracts.

This standard introduces consistent accounting for all insurance contracts. The standard requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires a company to recognize profits as it delivers insurance services, rather than when it receives premiums.

The Society intends to adopt IFRS 17 in its financial statements for the annual period beginning on its effective date. On November 14, 2018 the IASB voted to propose a one-year deferral of the effective date for IFRS 17, the new insurance contracts Standard, to 2022. The IASB also decided to propose extending to 2022 the temporary exemption for insurers to apply the financial instruments Standard, IFRS 9, so that both IFRS 9 and IFRS 17 can be applied at the same time. The extent of the impact of adoption of the standard has not yet been determined.

4. Investments

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

	Fair value and carrying value	2019 Amortized cost	Fair value and carrying value	2018 Amortized cost
	\$	\$	\$	\$
Short term investments	12,342,761	12,366,783	7,128,611	7,135,002
Bonds	6,015,184	5,943,731	5,911,332	5,939,531
	18,357,945	18,310,515	13,039,943	13,074,533

The difference between amortized cost and market value of the AFS investments consists of gross unrealized gains of \$90,238 (\$31,215 in 2018) and gross unrealized losses of \$42,808 (\$65,806 in 2018).

The Society limits its bonds to securities issued or guaranteed by the Government of Canada, any province of Canada or Canadian corporations having a rating of A or better. Short term investments are invested in securities issued by the Government of Canada or a Canadian Province having a rating of A or better, or a Canadian Chartered Bank having a rating of R-1 or better. These securities have a maturity of less than 1 year from the purchase date.

(b) Maturity profile of investments as at December 31:

	Within 1 year	1 - 5 years	Over 5 years	2019 Total
	\$	\$	\$	\$
Short-term investments	12,342,761			12,342,761
Government of Canada bonds	—	914,030	558,934	1,472,964
Canadian public authorities bonds	—	1,183,647	1,122,606	2,306,253
Canadian corporate bonds	551,815	1,018,035	666,117	2,235,967
Total fair value	12,894,576	3,115,712	2,347,657	18,357,945

	Within 1 year	1 - 5 years	Over 5 years	2018 Total
	\$	\$	\$	\$
Short-term investments	7,128,611	—	—	7,128,611
Government of Canada bonds	250,154	647,036	553,910	1,451,100
Canadian public authorities bonds	—	1,176,097	1,086,670	2,262,767
Canadian corporate bonds	200,605	1,297,309	699,551	2,197,465
Total fair value	7,579,370	3,120,442	2,340,131	13,039,943

4. Investments (continued)

(c) Net investment income has the following components:

	2019 \$	2018 \$
Interest income		
Bonds	104,436	91,976
Cash, cash equivalents and short term investments	230,399	187,994
	334,835	279,970
Amortization of discount (premium) on investments	43,402	35,268
Realised gain (loss) on disposal	—	—
Total net investment income	378,237	315,238

(d) Fair value measurements

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

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

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

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

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

	Level 1 \$	Level 2 \$	Level 3 \$	2019 Total \$
Cash at bank	3,784,745	—	—	3,784,745
Investments – available-for-sale				
Short term investments	—	12,342,761	—	12,342,761
Bonds	—	6,015,184	—	6,015,184
	3,784,745	18,357,945	—	22,142,690
				2018
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Cash at bank	5,081,001	—	—	5,081,001
Investments – available-for-sale				
Short term investments	—	7,128,611	—	7,128,611
Bonds	—	5,911,332	—	5,911,332
	5,081,001	13,039,943	—	18,120,944

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

5. Unpaid claims and adjustment expenses

(a) Nature of unpaid claims and adjustments expenses

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

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

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

5. Unpaid claims and adjustment expenses (continued)

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

	Gross \$	Ceded \$	Net \$
Provision for unpaid claims and adjustment expenses, December 31, 2017	104,499,000	96,568,000	7,931,000
Incurring claims and claim adjustment expenses			
Provision for current year claims	6,723,000	6,125,000	598,000
Increase (decrease) in provision for claims of prior years	23,656,088	24,763,955	(1,107,867)
Increase (decrease) in provision due to discount rate change	(965,000)	(888,000)	(77,000)
Total incurred	29,414,088	30,000,955	(586,867)
Payments and recoveries attributable to			
Current year claims	—	—	—
Prior years claims	(38,483,088)	(38,627,955)	144,867
	(38,483,088)	(38,627,955)	144,867
Provision for unpaid claims and adjustment expenses, December 31, 2018	95,430,000	87,941,000	7,489,000
Incurring claims and claim adjustment expenses			
Provision for current year claims	9,442,837	8,103,000	1,339,837
Increase (decrease) in provision for claims of prior years	(7,076,969)	(4,628,068)	(2,448,901)
Increase (decrease) in provision due to discount rate change	1,426,000	1,275,000	151,000
Total incurred	3,791,868	4,749,932	(958,064)
Payments and recoveries attributable to			
Current year claims	(292,837)	—	(292,837)
Prior years claims	(32,541,031)	(33,186,932)	645,901
	(32,833,868)	(33,186,932)	353,064
Provision for unpaid claims and adjustment expenses, December 31, 2019	66,388,000	59,504,000	6,884,000

5. Unpaid claims and adjustment expenses (continued)

(c) Provision for unpaid claims and adjustment expenses

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

	Undiscounted	Discounted at 1.90%	Provisions for adverse deviation	2019 Value per accepted actuarial practice
	\$	\$	\$	\$
Provision for unpaid claims and adjustment expenses				
Gross	64,408,000	59,170,000	7,218,000	66,388,000
Recoverable from reinsurers	60,412,000	55,512,000	3,992,000	59,504,000
Net	3,996,000	3,658,000	3,226,000	6,884,000

	Undiscounted	Discounted at 2.40%	Provisions for adverse deviation	2018 Value per accepted actuarial practice
	\$	\$	\$	\$
Provision for unpaid claims and adjustment expenses				
Gross	94,037,000	85,197,000	10,233,000	95,430,000
Recoverable from reinsurers	89,434,000	81,048,000	6,893,000	87,941,000
Net	4,603,000	4,149,000	3,340,000	7,489,000

(d) Key assumptions

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

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

The estimated undiscounted outstanding liabilities are discounted to reflect the time value of money using a selected discount rate of 1.90% (2.40% in 2018) which is based on the expected market yield of the Society's investment portfolio of bonds and short term assets.

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

5. Unpaid claims and adjustment expenses (continued)

(d) Key assumptions (continued)

Changes in the assumptions used in the December 31, 2019 actuarial valuation resulted in a total increase in net liabilities of \$ 780,819 (increase of \$517,738 in 2018), which is due to the change in loss development factors used in the Bornhuetter-Ferguson method and unallocated loss adjustment expense load increased from 2.95% to 3.95% (increased from 2.60% to 2.95% in 2018). The change in the discount rate and provisions for adverse deviation assumptions led to a further increase in the net liabilities of \$150,590 (decrease of \$77,000 in 2018).

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

6. Premiums receivable

All subscribers are large reputable Canadian law firms, and no significant credit risk is expected. All amounts are due by January 1, 2020.

7. Expenses by nature

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

	2019	2018
	\$	\$
Management services	852,705	967,759
Legal and professional	592,779	629,380
Other expenses	269,003	239,206
Total	1,714,487	1,836,345

8. Reinsurance program

(a) The Society has obtained proportional reinsurance coverage which limits its net liability to a maximum amount of \$ 975,000 effective for the annual coverage period beginning on July 1, 2019 (\$975,000 in July 1, 2018) on any one loss.

(b) Colchester Reinsurance Limited (Colchester) is an off-shore captive reinsurer domiciled in Barbados. The shareholders of Colchester are twelve Toronto based legal firms or their related service corporations. Those twelve shareholders are unrelated to each other. However, each of Colchester's shareholders is, or is related to the Society's current and past subscribers. For the annual coverage period beginning on July 1, 2019, Colchester received from the Society premiums of \$1,330,072 (\$428,716 in July 1, 2018).

Colchester provides aggregate stop-loss reinsurance protection for a portion of the Society's retained risk. On July 1, 2019 this reinsurance had an attachment point of \$5,000,000 (\$5,000,000 on July 1, 2018), and an annual aggregate limit of \$ 10,000,000 (\$10,000,000 on July 1, 2018). Starting July 1, 2011, the attachment point and limit were determined with reference to the combined net claim liabilities of the Society and Colchester. Starting on July 1, 2012 the attachment point and limit are solely determined with reference to the net claim liabilities of the Society.

8. Reinsurance program (continued)

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

As at December 31, 2019, the total reserves held and recoverable on the Society's financial statements relating to LPT was \$ 4,566,102 (\$12,779,738 in 2018). A Reinsurance Security Agreement (RSA) is in place which requires Colchester to set up on behalf of the Society deposits equal to 115% of Colchester's share of claim liabilities. At December 31, 2019 the value of the security deposits exceeds the required amount.

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

9. Income taxes

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

10. Equity

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

Under the terms of the Society's Reciprocal Insurance Exchange Agreement, the Society is obligated to return a share of the Society's surplus (if any) to a departed Subscriber subsequent to the fifth anniversary of its departure, based on that Subscriber's participation in the Society. A Subscriber withdrew from the Society on June 30, 2012. As a result, an initial refund of premium surplus of \$1,500,000 was made to that Subscriber at December 31, 2017. There were no withdrawals during the year.

11. Risk management

Insurance risk management

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

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

11. Risk management (continued)

Insurance risk management (continued)

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

Claim development

Uncertainty exists on reported claims in that all information may not be available at the reporting date; therefore, the claim cost may rise or fall at some date in the future when the information is obtained. In addition, claims may not be reported to the Society immediately; therefore, estimates are made as to the value of claims incurred but not yet reported, a value which may take some months to finally determine. In order to determine the liability, assumptions are developed considering the characteristics of the line of business, the historical pattern of payments, the amount of data available and any other pertinent factors. In general, the longer the term required for the settlement of a group of claims, the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported. The following table shows the development of claims over a 10 year period, on both a gross and net of reinsurance basis:

11. Risk management (continued)

Claim development (continued)

Analysis of claims development – net and gross

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Estimate of ultimate (by underwriting year)											
End of year	8,322,000	4,665,000	463,000	411,000	440,000	424,000	444,000	387,000	419,000	622,000	
One year later	9,795,000	107,000	423,000	380,000	413,000	392,000	1,062,000	360,000	390,000		
Two years later	2,073,000	107,000	334,000	269,000	308,000	281,000	950,000	263,000			
Three years later	2,073,000	107,000	435,000	197,000	284,000	218,000	891,000				
Four years later	2,073,000	107,000	362,000	131,000	222,000	162,000					
Five years later	2,073,000	107,000	281,000	59,000	164,000						
Six years later	2,073,000	107,000	227,000	22,000							
Seven years late	2,073,000	107,000	225,000								
Eight years later	2,073,000	107,000									
Nine years later	2,073,000										
Current estimate of ultimate	2,073,000	107,000	225,000	22,000	164,000	162,000	891,000	263,000	390,000	622,000	4,919,000
Cumulative payments	(2,073,000)	(107,000)	(203,000)	—	(43,000)	—	(650,000)	—	—	(293,000)	(3,369,000)
Net liability	—	—	22,000	22,000	121,000	162,000	241,000	263,000	390,000	329,000	1,550,000
Provision for unpaid claims and adjusting expenses recoverable from insurers											
Ten year net liability											1,550,000
Effect of discounting and PFAD											2,886,000
Unallocated loss adjustment expense											2,448,000
Provision for unpaid claims and adjusting expenses recoverable											59,504,000
Gross liability in statement of financial position											66,388,000

11. Risk management (continued)

Sensitivities

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

The table below shows the effect on net income and equity of a +/- 5% change in the expected losses and the effect of a +/- 0.5% change in the discount rate applied to claims provisions for the year ended December 31, 2019

	2019		2018	
	Net income for the year	Equity	Net income for the year	Equity
	\$	\$	\$	\$
5% increase in expected losses	(169,000)	(169,000)	(106,000)	(106,000)
5% decrease in expected losses	177,000	177,000	157,000	157,000
0.5% increase in discount rate	151,000	151,000	151,000	151,000
0.5% decrease in discount rate	(156,000)	(156,000)	(156,000)	(156,000)

Financial risk management

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

(a) Credit risk

Credit risk is the risk of loss due to the failure of debtors to make payments when due. Credit risks are primarily associated with invested assets and amounts due from policyholders and reinsurance counterparties. The investment portfolio's exposure to credit risk is managed through policies and procedures including a credit evaluation by the investment manager and investment guidelines which specify investment quality and exposure limits. The portfolio is monitored and reviewed regularly by the Board. Premiums due from policyholders present minimal risk due to the short term nature of the receivable and the historic/financial relationship with the Society as a Reciprocal Insurance Exchange. The Society evaluates the financial condition of its reinsurers and monitors concentrations of credit risk of the reinsurers to minimize its exposure to significant losses from their insolvency. The Society believes that it has taken appropriate steps to manage credit risk and has made appropriate provision for any such exposures. One of the primary reinsurers is Colchester Reinsurance Limited as discussed in Note 8. The credit risk related to Colchester is managed by maintaining a security account pursuant to the RSA and a quarterly review of Colchester's financial condition. The balance held in the account at December 31, 2019 is \$38,454,437 (\$49,017,698 in 2018).

11. Risk management (continued)

Financial risk management (continued)

(a) Credit risk (continued)

(i) Exposure to credit risk

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

	2019	2018
	\$	\$
Cash	3,784,745	5,081,001
Short term investments	12,342,761	7,128,611
Bonds	6,015,184	5,911,332
Interest income due and accrued	20,531	20,988
Premiums receivable	1,254,203	1,635,998
Reinsurance recoverable	351,056	2,996,041
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	59,504,000	87,941,000
Total credit exposure	83,272,480	110,714,971

(ii) Concentration of credit risk

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

	2019	2018
	%	%
R-1 (high)	67%	55
AAA	8%	11
AA	25%	34
	100%	100

11. Risk management (continued)

Financial risk management (continued)

(b) Liquidity risk

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

				2019
	Due within 1 year	1 to 5 year	Over 5 years	Total
	\$	\$	\$	\$
Provision for unpaid claims and adjustment expenses (net)	924,000	3,299,000	2,661,000	6,884,000
Due to reinsurers	2,111,955	—	—	2,111,955
Accounts payable and accrued charges	330,424	—	—	330,424
	3,366,379	3,299,000	2,661,000	9,326,379
2018				
	Due within 1 year	1 to 5 year	Over 5 years	Total
	\$	\$	\$	\$
Provision for unpaid claims and adjustment expenses (net)	1,079,000	3,786,000	2,624,000	7,489,000
Due to reinsurers	1,935,175	—	—	1,935,175
Accounts payable and accrued charges	335,152	—	—	335,152
	3,349,327	3,786,000	2,624,000	9,759,327

(c) Market risk

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

(i) Interest rate risk

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

11. Risk management (continued)

Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

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

The estimated impact of a 1% increase in interest rates would decrease the market value of the fixed income portion of the investment portfolio by \$346,756 (\$326,288 in 2018) which would be recorded in OCI. This impact would be offset on an economic basis by a decrease in the estimated unpaid claims and adjustment expense of \$295,000 (\$297,000 in 2018) recorded through income. Conversely, a 1% decrease in interest rates would increase the market value of the fixed income portion of the investment portfolio by \$243,198 (\$241,045 in 2018) which would be recorded in OCI. This impact would be more than offset on an economic basis by an increase in the estimated unpaid claims and adjustment expense of \$319,000 (\$319,000 in 2018) recorded through net income.

(ii) Equity risk

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

(iii) Currency risk

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

12. Surplus management and adequacy

Equity is comprised of minimum and additional surplus and AOCI. At December 31, 2019, the equity was \$13,620,592 (\$12,333,154 in 2018). The Society's objectives for the management of surplus are for the prudent operation of the reciprocal and to provide relatively predictable premium costs for its members over time. A surplus management policy is approved by the Advisory Board which oversees the surplus management process.

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

The Society is regulated by the Superintendent of Insurance, Alberta and in British Columbia, Ontario and Nova Scotia where licenses are held, all of which expect incorporated insurance companies to meet a Minimum Capital Test ("MCT") ratio of capital available to capital required of at least 150%. As of December 31, 2019, the Society's MCT was 712.38% (496.27% in 2018). However, the minimum regulatory standard for reciprocals in Alberta is adjusted equity exceeding \$50,000. The Society's practice is to maintain a surplus level which is significantly higher than the regulatory minimum. The Society's surplus adequacy is evaluated regularly and this evaluation takes into account the gross exposure to risk, the level and nature of reinsurance purchased and the resulting net exposure to members. Input from the appointed actuary, which includes an assessment of loss volatility, is factored into this evaluation.

12. Surplus management and adequacy (continued)

In accordance with sections 99 and 100 of the Alberta Insurance Act, the Society is required to maintain a reserve and guarantee fund. At December 31, 2019 the total reserve and guarantee funds required are as follows:

	2019	2018
	\$	\$
Reserve fund		
Net premiums written during the period	9,288,000	7,391,000
Less: Amounts paid to licensed reinsurers	7,233,000	5,465,000
	2,055,000	1,926,000
Requirement	50%	50%
	1,027,500	963,000
Guarantee fund		
Total liabilities	73,449,000	101,365,000
Less: Unearned premiums	4,619,000	3,665,000
Recoverable from licensed reinsurers	59,435,000	87,357,000
Add: Statutory margin	50,000	50,000
	9,445,000	10,393,000
Total of reserve and guarantee fund	10,472,500	11,356,000
Cash and approved securities	22,143,000	18,121,000
Excess of cash and securities over reserve and guarantee fund	11,670,500	6,765,000

13. Fair value disclosure

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

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

14. Contingent liability

The Society's Reciprocal Insurance Exchange Agreement (the "Agreement") contains provisions addressing the rights and liabilities of a Subscriber (a "Departing Subscriber") which elects to withdraw from the Society at the end of an Underwriting Period. These include the obligation of the Society to pay to the Departing Subscriber the amount of declared credits or the obligation of the Departing Subscriber to pay to the Society the amount of declared assessments, in each case, based on the Departing Subscriber's participation in the Society. Any such payment obligation to or by a Departing Subscriber is to be determined and paid subsequent to the fifth anniversary of the date of departure of the Departing Subscriber.

A Subscriber elected to withdraw from the Society on June 30, 2012 and, accordingly, a determination of a payment obligation to or by such Departing Subscriber was made subsequent to June 30, 2017. The obligations of the Society and the Departing Subscriber under the Agreement continue to apply, and a determination of any further payment obligation to or by the Departing Subscriber will be made subsequent to June 30, 2022. In the event that it is determined that the Society has a payment obligation to such Departing Subscriber, then depending on the amount of such payment obligation and the amount of the Society's equity at that time, such payment obligation may have a material effect on the equity position of the Society.

A Subscriber elected to withdraw from the Society on June 30, 2017 and, accordingly, a determination of any payment obligation to or by such Departing Subscriber will be made subsequent to June 30, 2022. In the event that it is determined that the Society has a payment obligation to such Departing Subscriber, then depending on the amount of such payment obligation and the amount of the Society's equity at that time, such payment obligation may have a material effect on the equity position of the Society.

15. Date of authorization for issue

The financial statements were authorized for issue by the Advisory Board on February 25, 2020.



Actuaries & Insurance Management Advisors

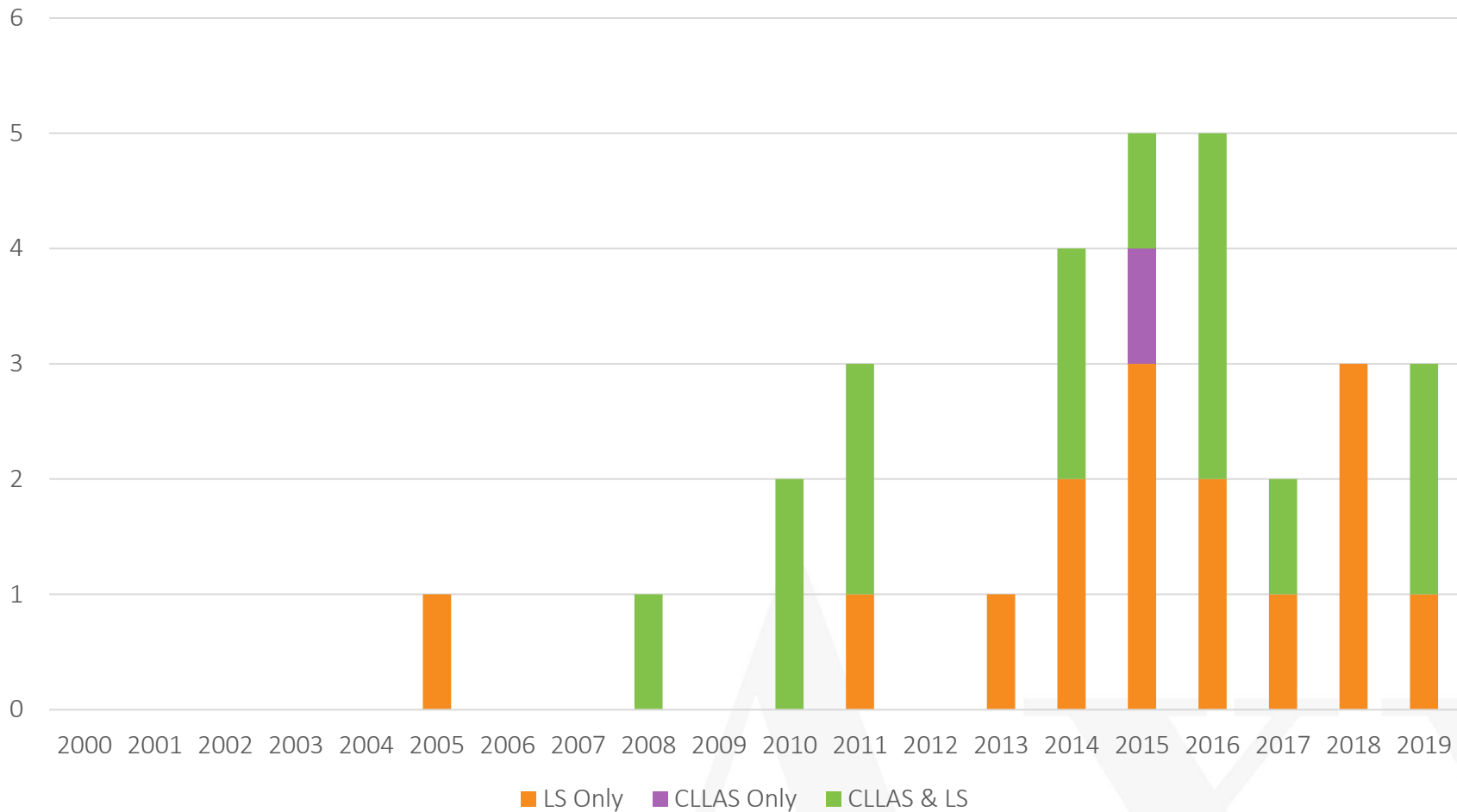
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CLLAS

Open Large Loss Claims Summary
As at December 31, 2019

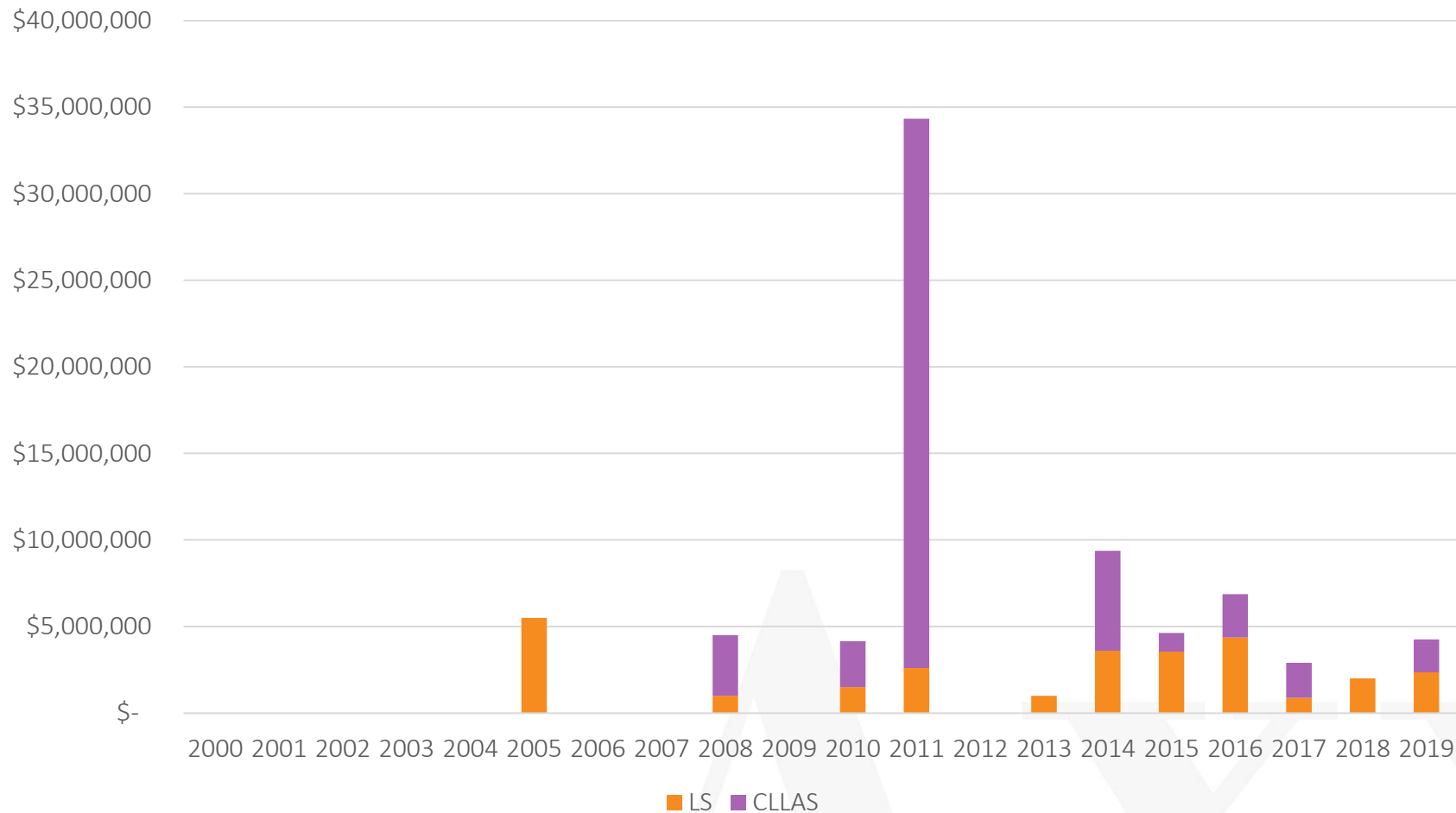
Open Large Loss Claims

Number of Claims by Insurer



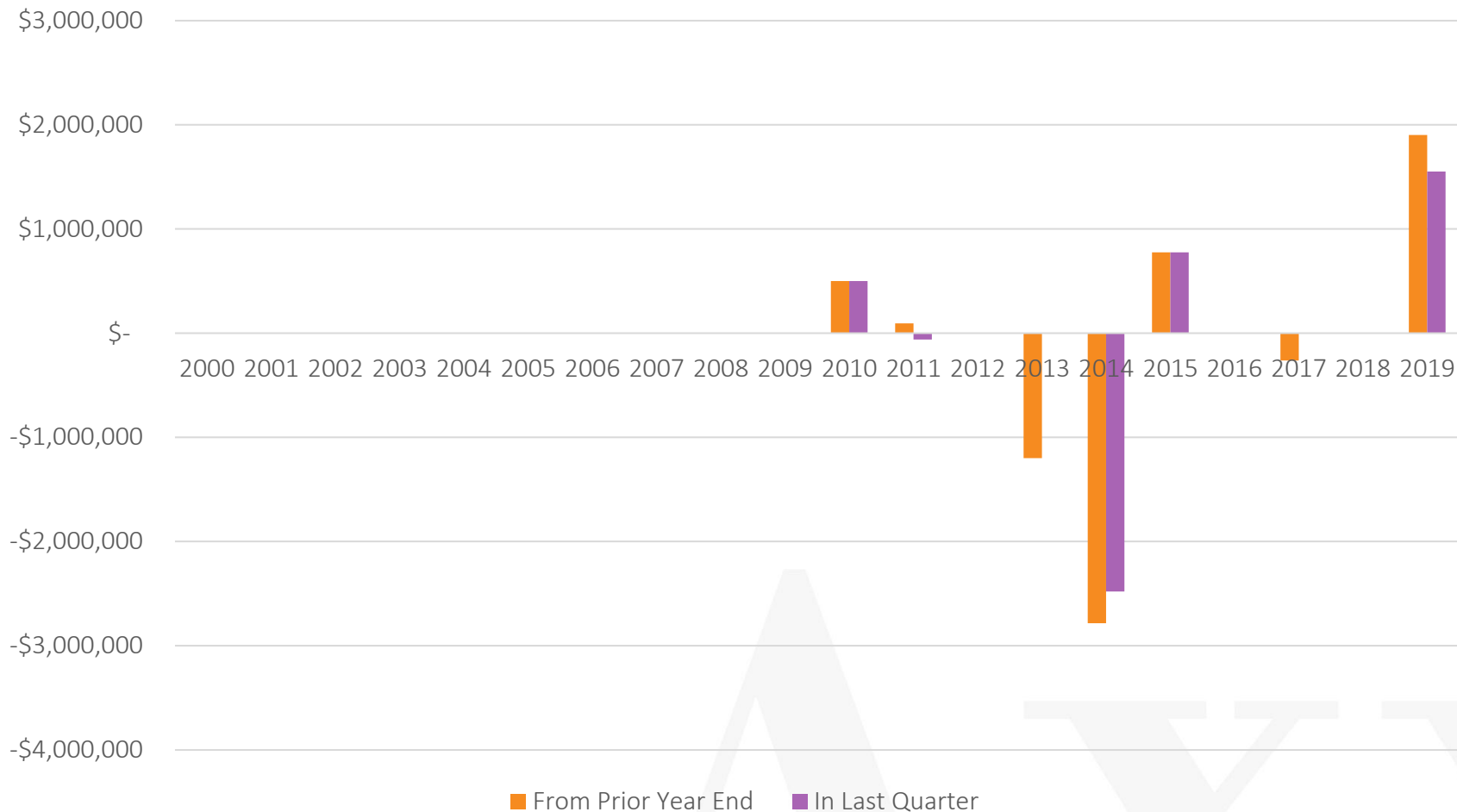
Open Large Loss Claims

Incurred Amounts by Insurer



Open Large Loss Claims

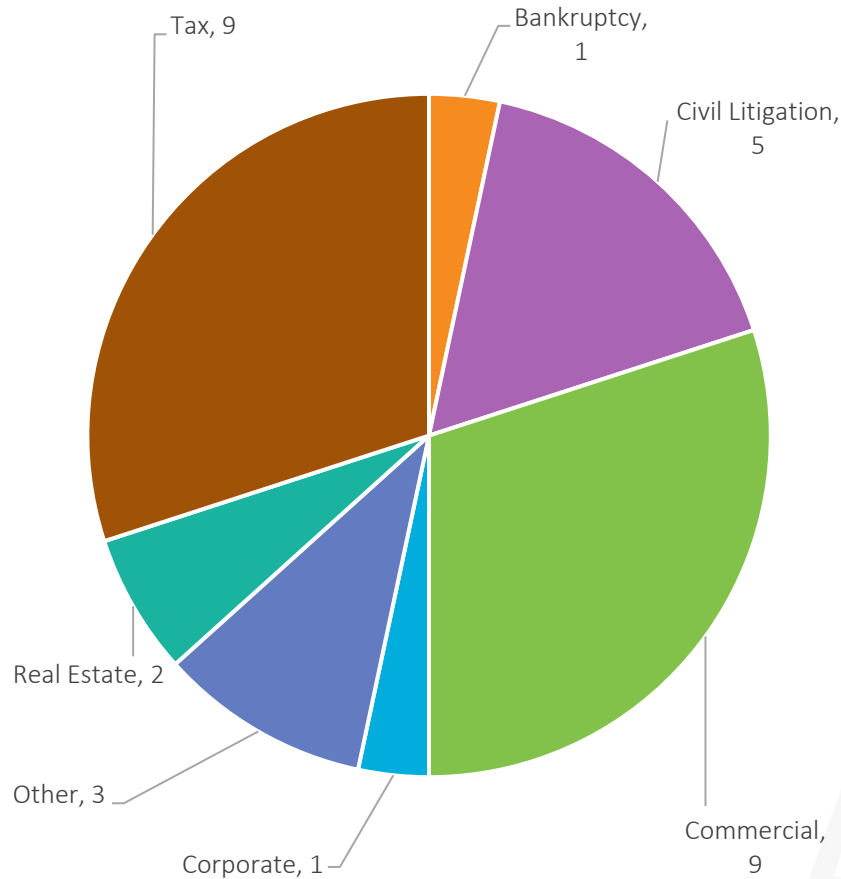
Change in Incurred Amounts (CLLAS)



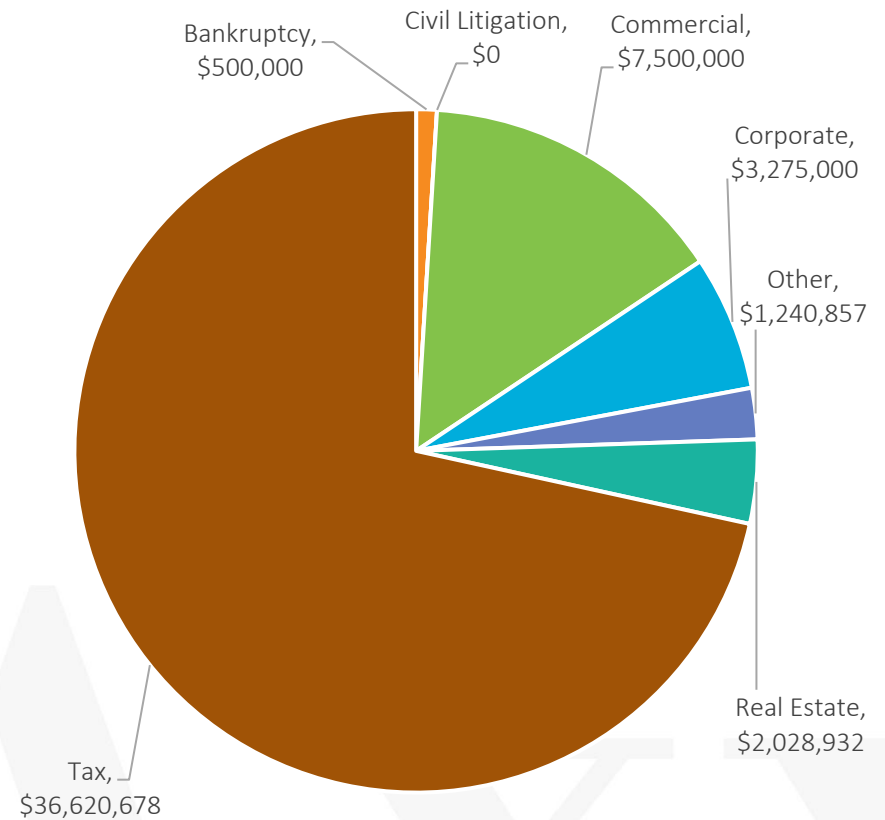
Open Large Loss Claims

By Area of Law

Number of Claims (CLLAS & LS)

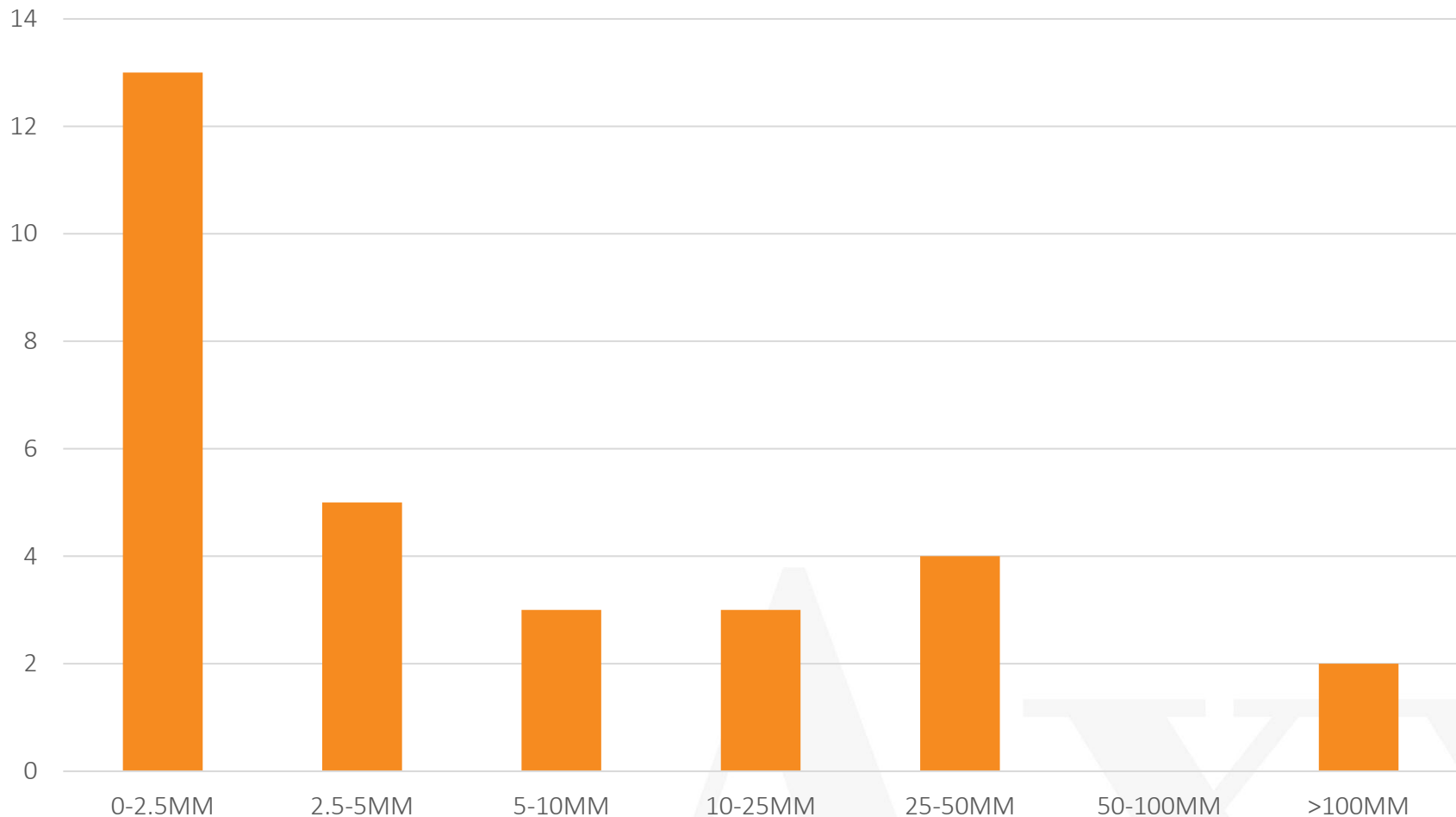


CLLAS Incurred



Open Large Loss Claims

Number of Claims by Best Estimate of Worst Case



Open Large Loss Claims

Claim Count Movement in Quarter

Policy Year	Law Society Only	CLLAS Only	CLLAS & Law Society
2000	0	0	0
2001	0	0	0
2002	0	0	0
2003	0	0	0
2004	0	0	0
2005	0	0	0
2006	0	0	0
2007	0	0	0
2008	0	0	0
2009	0	0	0
2010	0	0	0
2011	1	0	0
2012	0	0	0
2013	0	0	0
2014	0	0	-1
2015	0	0	0
2016	-1	0	0
2017	0	0	0
2018	0	0	0
2019	0	0	1

Notes

Slide 1

- Illustrates the number of open claims by insurer.
- LS Only: Large (\$500,000+) Law Society (“LS”) claims which have not yet developed into CLLAS (\$1,000,000+) claims
- CLLAS Only: Claims which are typically drop-down claims where the Law Society does not respond
- CLLAS & LS: Claims where amounts have been incurred by both the Law Society and CLLAS

Slide 2

- Illustrates the aggregate incurred amounts (paid + reserved) by policy year
- Identifies the quantum yet to be crystalized and highlights extraordinary years

Slide 3

- Illustrates movements in paid (always positive, except in cases of recovery) and reserved amounts
- Positive values highlight strengthening of reserves, or adverse claim development. Negative values highlight reduced reserves or better than expected outcomes

Notes (Cont'd)

Slide 4

- Illustrates the split between areas of law for the number of open claims and the incurred amounts (paid + reserved)
- Highlights the law areas of claims being actively managed

Slide 5

- Based on counsel's best estimate of the worst case outcome of each open claim
- Highlights the potential claim sized being actively managed

Slide 6

- Illustrates the emergence or closure (including reduction of incurred value below the large loss monitoring threshold of \$500,000) of claims over the previous quarter
- Note: Claims may move between Law Society Only, CLLAS & Law Society, and CLLAS Only

CLLAS
CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

INVESTMENT REPORT
DECEMBER 31, 2019

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CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

COMMENTARY FOR THE QUARTER ENDING DECEMBER 31, 2019

Review of Market Yields

Longer term bond yields shifted higher during October and for the balance of the quarter yields bounced in a sideways trading range. At the end of December, the increase in yields over the fourth quarter ranged from 18 basis points for the 3-year Canada to a high of 33 basis points for the 10-year issue. Meanwhile, the yield on 3-month Treasury Bills closed the quarter practically unchanged.

As a result of short rates holding steady while longer yields moved higher, the yield curve ended the year with a slight upward slope after being inverted at the close of the third quarter. At the end of December, the yield on the 10-year issue was 4 basis points above the 3-month Treasury bill rate after being 28 basis points lower three months earlier.

	Jan. 01/95	Jun. 30/19	Sep. 30/19	Dec. 31/19
3-month Treasury Bills	6.80%	1.66%	1.65%	1.66%
5-year Canadas	8.99%	1.39%	1.40%	1.68%
10-year Canadas	9.09%	1.46%	1.37%	1.70%

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

Over the quarter, the market value of the Long Term Investment Fund decreased \$51,673 which represents a capital decline of 0.9%.

At December 31, 2019, the average term to maturity of the Long Term Investment Fund was 4.0 years and the duration was 3.8 years.

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

<i>Distribution at December 31, 2019</i>	<i>Valuation</i>	<i>%</i>
Short Term Investment Fund	\$12,365,662	67.3%
Long Term Investment Fund	\$6,014,709	32.7%
TOTAL COMBINED VALUATION	\$18,380,371	100.0%

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

The following pages set out tables, commentary and schedules on the items listed below:

- Total Returns vs. Benchmarks - Gross and Net of Fees
- Distribution of Securities in the Long Term Investment Fund
by Credit Risk and by Maturity
- Compliance Statement
- Quarterly Performance Report - Gross of Fees: Long Term Investment Fund
- Bond Market Commentary and Future Policy
- Security Holdings in the Short Term and Long Term Investment Funds
Listed and Valued Separately as at December 31, 2019
- Security Purchases and Sales
- Cash Reconciliations
- External Individual Credit Rating Report

LONG TERM INVESTMENT FUND

**TIME-WEIGHTED RATES OF TOTAL RETURN
FOR PERIODS ENDING DECEMBER 31, 2019**

	3 Years*	2 Years*	1 Year	Last 3 months
<i>Long Term Investment Fund – Gross of Fees</i>	<i>2.23%</i>	<i>3.00%</i>	<i>4.18%</i>	<i>-0.20%</i>
<i>Long Term Investment Fund – Net of Fees</i>	<i>1.95%</i>	<i>2.71%</i>	<i>3.89%</i>	<i>-0.27%</i>
Benchmark Portfolio **	2.16%	3.03%	4.16%	-0.35%

*Annualized

** The Benchmark Portfolio is based on the sum of the following total return indices:

60% Canada Short Bond Index
40% Canada Mid Bond Index

SHORT TERM INVESTMENT FUND

**TIME-WEIGHTED RATES OF TOTAL RETURN
FOR PERIODS ENDING DECEMBER 31, 2019**

	Since Inception Oct. 01/08 *	3 Years*	2 Years *	1 Year	Last 3 Months
<i>Short Term Investment Fund – Gross of Fees</i>	<i>0.91%</i>	<i>1.30%</i>	<i>1.59%</i>	<i>1.71%</i>	<i>0.41%</i>
<i>Short Term Investment Fund – Net of Fees</i>	<i>0.79%</i>	<i>1.18%</i>	<i>1.46%</i>	<i>1.57%</i>	<i>0.38%</i>
Benchmark Portfolio **	0.86%	1.20%	1.49%	1.68%	0.43%

* Annualized

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

LONG TERM INVESTMENT FUND

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

	Dec. 17/13	Mar. 31/19	Jun. 30/19	Sep. 30/19	Dec. 31/19
Bonds, Treasury Bills & Cash Less than 1 year term	100.0%	7.5%	12.4%	9.1%	9.2%
Canadas Greater than 1 year term		20.3%	24.5%	24.6%	24.5%
Provincials Greater than 1 year term		38.4%	38.4%	38.4%	38.3%
Corporates Greater than 1 year term		33.8%	24.7%	27.9%	28.0%
TOTAL PORTFOLIO	100.0%	100.0%	100.0%	100.0%	100.0%

LONG TERM INVESTMENT FUND

DISTRIBUTION OF SECURITIES BY MATURITY
(Based on Market Values)

	Mar. 31/19	Jun. 30/19	Sep. 30/19	Dec. 31/19
Under 1 year	7.5%	12.4%	9.1%	9.2%
1 - 3 years	27.6%	25.2%	25.1%	28.6%
3 - 5 years	24.9%	22.2%	26.5%	23.2%
5 - 7 years	24.9%	26.5%	25.6%	28.8%
7 - 10 years	15.1%	13.6%	13.7%	10.2%
TOTAL	100.0%	100.0%	100.0%	100.0%
Average Maturity (yrs)	4.20	4.33	4.31	4.05
Average Duration (yrs)	3.88	4.02	3.99	3.76

SHORT TERM INVESTMENT FUND

	Mar. 31/19	Jun. 30/19	Sep. 30/19	Dec. 31/19
Short Term Average Duration (yrs)	0.08	0.10	0.12	0.11

COMPLIANCE WITH INVESTMENT POLICY STATEMENT

AT DECEMBER 31, 2019

	Investment Limits	Investment Funds	Compliance
<i>Short Term Investment Fund</i>			
Maximum Term of Any Issue	1 year	0.2 years	Yes
Minimum Percentage of Total Fund (Short & Long)	40% of Total	67.3%	Yes
Minimum Canada & Provincial Percentage	50%	51.6%	Yes
Minimum Provincial Quality	A	N/A	Yes
Minimum Bank CD & BA Quality	R1 (high)	R1 (high)	Yes
<i>Long Term Investment Fund</i>			
Maximum Term of Any Issue	10 years	8.2 years	Yes
Maximum Percentage of Total Fund (Short & Long)	60% of Total	32.7%	Yes
Minimum Canada Percentage	20%	24.5%	Yes
Maximum Provincial Percentage	40%	38.3%	Yes
Minimum Canada & Provincial Percentage	60%	62.8%	Yes
Minimum Provincial Quality *	A	AA (low)	Yes
Maximum Corporate Percentage	40%	37.2%	Yes
Minimum Corporate Quality *	A	AA (low)	Yes

* At time of purchase

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

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

Martin, Lucas & Seagram Ltd.
 PERFORMANCE REPORT
 GROSS OF FEES
CLLAS – LONG TERM INVESTMENT FUND
(RBC Investor Services)
From 09-30-19 to 12-31-19

Portfolio Value on 09-30-19	6,066,382
Accrued Interest	43,811
Contributions	0
Withdrawals	-62,809
Realized Gains	0
Unrealized Gains	-51,673
Interest	62,809
Dividends	0
Change in Accrued Interest	-23,280
Portfolio Value on 12-31-19	6,014,709
Accrued Interest	20,531
Average Capital	6,091,358
Total Gains before Fees	-12,145
IRR for 0.25 Years	-0.20%

BOND MARKET COMMENTARY AND FUTURE POLICY

It was a banner year for global equity markets in 2019, with the MSCI World Index posting its strongest advance since the financial crisis a decade ago. During the fourth quarter, stocks continued to build upward momentum and by year end most indices, including Canada's and the U.S., had eclipsed their previous highs. On the other hand, North American bond prices, which had been moving higher during the first eight months of last year, turned lower in September and continued to trend down over the balance of the year. The latest rally in stocks and pullback in bond prices coincided with a rebound in some economic data, another cut in U.S. administered interest rates and the agreement of a limited "phase-one" trade deal between China and the U.S., which de-escalated the trade war. Meanwhile, the yield curve, which had signaled that a recession may lay ahead when it inverted during the summer months, returned to an upward slope. This helped ease fears that a loss of momentum in the global economy would lead to an economic downturn.

South of the border, the longest economic expansion on record continued in the third quarter, with U.S. GDP coming in better than expected at a 1.9% annualized gain. The largest contributions to growth came from consumption and government spending, with residential investment also providing some lift. These sectors more than offset the weakness in business fixed investment, manufacturing and trade, which have been weighed down by the imposition of higher tariffs. However, trade negotiations with China have progressed and strong job gains have driven unemployment in the U.S. to a 50-year low. Indeed, U.S. employers have now added jobs for a record 10 consecutive years. This underlying strength was reiterated in the Federal Reserve's most recent statement, which contained a more upbeat view on the economy and indicated that the current stance of monetary policy was appropriate to support the expansion and meet the 2% inflation objective. This increased expectations that the Fed will leave administered rates unchanged this year.

China recorded a growth in GDP of 6% last year, which falls at the low end of Beijing's growth objective of 6 to 6.5%. While tariffs previously imposed by the U.S. have succeeded in reducing China's exports, the latter's imports have declined at an even faster pace. This import slump, which was exacerbated by Mr. Trump's protectionist rhetoric, fueled uncertainty within China and thus weakened investment demand. Despite the "phase one" trade deal, bilateral trade tensions are likely to persist and China's economic growth is not expected to accelerate this year. Mounting debt loads are becoming a growing concern and will likely discourage aggressive stimulus from government. However, China's leaders will be striving to achieve close to 6% growth in order to meet a much-publicized goal of doubling economic growth from 2010 levels by the end of this year.

In Europe, earlier tariffs on trade continue to ripple across the area's supply chains. Indeed, Germany narrowly avoided a technical recession in the third quarter and the euro area as a whole recorded GDP growth of just 0.2%. While the European Central Bank (ECB) stood by its earlier decision to drop interest rates to negative 0.5% and restart its quantitative easing program, the ultra-loose monetary policies are having a diminished marginal effect on investment and consumer spending. Given Europe's fragile economic backdrop, it is fortunate that the risk of a no-deal Brexit, which would seriously disrupt business and finance across the region, has receded. Boris Johnson's Conservative Party's resounding victory in last month's U.K. election should allow an

easier path to get legislation passed and eventual approval of a EU-U.K. trade deal. However, there is still considerable uncertainty that such a deal can be finalized by the end of this year as Mr. Johnson's campaign had promised. Aside from numerous political minefields within the U.K., British lawmakers will need to contend with EU negotiators who are determined to avoid a precedent that could encourage other members to leave.

Closer to home, Canada's economy grew at a modest annualized pace of 1.3% during the third quarter. Like other developed economies, amid mounting global economic pressures, Canada's trade and manufacturing sectors have slumped. Furthermore, the low savings rate in Canada, together with elevated household debt levels, could weigh on consumption going forward. Nevertheless, last year's employment and wage gains have thus far offset these headwinds and supported gains in the housing sector, which recently recorded its best performance since the implementation of tighter mortgage lending standards two years ago. Furthermore, non-residential investment contributed in the third quarter and the Bank of Canada Business Outlook Survey suggests this may continue. Amid these underlying strengths, the Bank of Canada (BoC) decided to leave the overnight lending rate unchanged in its most recent policy announcement. Unlike most major central banks, which cut rates last year, the BoC has held its key policy interest rate unchanged at 1.75% over the past 16 months. While the latest domestic economic data suggests that growth will fall well short of the bank's projections, it seems likely that the bank will refrain from cutting rates, at least over the near term, as some of the weakness has been attributed to temporary factors. Furthermore, progress on the trade front, following the signing of the U.S.-China trade deal and passage of the updated North American trade agreement (USMCA), has alleviated trade uncertainties that were clouding the outlook. As a result, many forecasters expect the BoC to hold rates steady through the first half of this year.

For the time being, investor optimism has been given a significant boost in the wake of the "phase-one" trade deal and the UK election results. These positive developments have alleviated short-term headwinds that were weighing on the global economy. Sentiment has also been lifted by expectations that the major central banks will continue to add liquidity and by the stock markets' resilience to the recent escalation of geopolitical tensions in the Mideast. While these developments fuelled risk-on trades and exerted downward pressure on bond prices during the fourth quarter, prices have regained some of the lost ground since year end.

While global economic growth shows signs of stabilizing and some risks to the outlook have receded, there are few clear signs that global growth will markedly accelerate. In view of the sluggish economic backdrop, subdued inflationary pressures and the likelihood the monetary authorities are in a holding pattern, we believe bond yields will remain in a sideways trading range with a modest upward bias over the near term. Looking further ahead, we expect the upside for bond yields will be relatively contained compared to historical interest rate cycles given the unprecedented levels of debt throughout the global economy. At this juncture, we believe the Long Term Fund's laddered maturity structure and duration of 3.8 years remains appropriate.

RWB/de

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

Martin, Lucas & Seagram Ltd.

CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)

Portfolio Holdings at December 31, 2019

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
CASH					
	Cash Account			10,983	0
MONEY MARKET ISSUES					
1,020,000	Royal Bank BA 1.81% due January 2, 2020	99.85	99.99	1,019,891	18,434
1,300,000	Canada Treasury Bill 1.630051% due January 9, 2020	99.69	99.96	1,299,480	21,126
1,270,000	Bank of Nova Scotia BA 1.78% due January 20, 2020	99.71	99.89	1,268,651	22,541
1,205,000	CIBC BA 1.789810% due January 27, 2020	99.58	99.86	1,203,273	21,476
1,200,000	Toronto Dominion Bank BA 1.788821% due January 31, 2020	99.56	99.84	1,198,026	21,371
1,300,000	Canada Treasury Bill 1.629963% due February 6, 2020	99.57	99.83	1,297,816	21,098
1,300,000	Canada Treasury Bill 1.629862% due February 20, 2020	99.56	99.77	1,296,991	21,096
1,195,000	Canada Treasury Bill 1.62% due March 5, 2020	99.57	99.71	1,191,477	19,276
1,295,000	CIBC BA 1.90% due March 17, 2020	99.58	99.59	1,289,729	24,502
1,305,000	Canada Treasury Bill 1.65% due March 19, 2020	99.56	99.64	1,300,328	21,444
				12,365,662	212,362
TOTAL PORTFOLIO				12,376,646	212,362

Disclosures:

1. Please note that the securities listed herein are held on your behalf by the above noted custodian. You may wish to contact them directly to determine if your account is covered by any recognized Investor Protection Plan and/or for information on how these securities are held.
2. The cost of each position shown in the account is the book cost (original cost adjusted for distributions, capital returns and re-orgs). For unit costs marked with an *, the book cost cannot be determined and the value shown is based on the closing market price on July 15, 2015.

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)
From 10-01-19 To 12-31-19

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
PURCHASES					
10-02-19	10-03-19	1,190,000	Canada Treasury Bill 1.579838% due November 28, 2019	99.76	1,187,122.58
10-25-19	10-28-19	1,260,000	Toronto Dominion Bank BA 1.780449% due November 22, 2019	99.88	1,258,465.32
10-29-19	10-30-19	1,020,000	Bank of Nova Scotia BA 1.791133% due November 29, 2019	99.85	1,018,500.60
10-31-19	11-01-19	1,205,000	CIBC BA 1.789810% due January 27, 2020	99.58	1,199,881.16
10-31-19	11-01-19	1,300,000	Canada Treasury Bill 1.629963% due February 6, 2020	99.57	1,294,393.10
10-31-19	11-01-19	1,300,000	Canada Treasury Bill 1.630051% due January 9, 2020	99.69	1,296,006.40
10-31-19	11-01-19	1,200,000	Toronto Dominion Bank BA 1.788821% due January 31, 2020	99.56	1,194,672.00
11-13-19	11-14-19	1,300,000	Canada Treasury Bill 1.629862% due February 20, 2020	99.56	1,294,335.90
11-22-19	11-22-19	1,270,000	Bank of Nova Scotia BA 1.78% due January 20, 2020	99.71	1,266,355.10
11-28-19	11-29-19	1,195,000	Canada Treasury Bill 1.62% due March 5, 2020	99.57	1,189,877.04
11-29-19	12-02-19	1,020,000	Royal Bank BA 1.81% due January 2, 2020	99.85	1,018,434.30
12-11-19	12-12-19	1,305,000	Canada Treasury Bill 1.65% due March 19, 2020	99.56	1,299,244.95
12-24-19	12-27-19	1,295,000	CIBC BA 1.90% due March 17, 2020	99.58	1,289,562.30
					15,806,850.75
SALES					
10-03-19	10-03-19	1,185,000	Canada Treasury Bill 1.610962% due October 3, 2019	100.00	1,185,000.00
10-28-19	10-28-19	1,260,000	Toronto Dominion Bank BA 1.775272% due October 28, 2019	100.00	1,260,000.00
10-29-19	10-29-19	1,020,000	CIBC BA 1.81999% due October 29, 2019	100.00	1,020,000.00
11-14-19	11-14-19	1,280,000	Canada Treasury Bill 1.60995% due November 14, 2019	100.00	1,280,000.00
11-22-19	11-22-19	1,260,000	Toronto Dominion Bank BA 1.780449% due November 22, 2019	100.00	1,260,000.00

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)
From 10-01-19 To 12-31-19

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
11-28-19	11-28-19	1,190,000	Canada Treasury Bill 1.579838% due November 28, 2019	100.00	1,190,000.00
11-29-19	11-29-19	1,020,000	Bank of Nova Scotia BA 1.791133% due November 29, 2019	100.00	1,020,000.00
12-12-19	12-12-19	1,270,000	Canada Treasury Bill 1.579898% due December 12, 2019	100.00	1,270,000.00
12-27-19	12-27-19	1,265,000	Royal Bank BA 1.799592% due December 27, 2019	100.00	1,265,000.00
					10,750,000.00

Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)
From 09-30-19 to 12-31-19

Cash Balance at September 30, 2019		<u>15,664.77</u>
ADD: Proceeds from Sales	10,750,000.00	
Capital Contribution	5,000,000.00	
Bond Interest Credited (from Long Term Investment Fund)	62,808.75	
Trust Company Interest	<u>318.31</u>	<u>15,813,127.06</u>
LESS: Cost of Purchases	-15,806,850.75	
Q3 2019 Investment Counsel Fees - Short Term Investment Fund	-2,056.60	
Q3 2019 Investment Counsel Fees - Long Term Investment Fund	-4,284.38	
Trust Company Charges	<u>-4,616.94</u>	<u>-15,817,808.67</u>
Cash Balance at December 31, 2019		<u><u>10,983.16</u></u>

Martin, Lucas & Seagram Ltd.							
EXTERNAL INDIVIDUAL CREDIT RATING REPORT - DECEMBER 31, 2019							
CLLAS - SHORT TERM INVESTMENT FUND							
			Unit	Total		Market	%
Quantity	Security	Rating	Cost	Cost	Price	Value	Assets
1,020,000	Royal Bank BA 1.81%	R-1 (high)	99.85	1,018,434	99.99	1,019,891	8.2%
	due January 2, 2020						
1,300,000	Canada Treasury Bill 1.630051%	R-1 (high)	99.69	1,296,006	99.96	1,299,480	10.5%
	due January 9, 2020						
1,270,000	Bank of Nova Scotia BA 1.78%	R-1 (high)	99.71	1,266,355	99.89	1,268,651	10.3%
	due January 20, 2020						
1,205,000	CIBC BA 1.789810%	R-1 (high)	99.58	1,199,881	99.86	1,203,273	9.7%
	due January 27, 2020						
1,200,000	Toronto Dominion Bank BA 1.788821%	R-1 (high)	99.56	1,194,672	99.84	1,198,026	9.7%
	due January 31, 2020						
1,300,000	Canada Treasury Bill 1.629963%	R-1 (high)	99.57	1,294,393	99.83	1,297,816	10.5%
	due February 6, 2020						
1,300,000	Canada Treasury Bill 1.629862%	R-1 (high)	99.56	1,294,336	99.77	1,296,991	10.5%
	due February 20, 2020						
1,195,000	Canada Treasury Bill 1.62%	R-1 (high)	99.57	1,189,877	99.71	1,191,477	9.6%
	due March 5, 2020						
1,295,000	CIBC BA 1.90%	R-1 (high)	99.58	1,289,562	99.59	1,289,729	10.4%
	due March 17, 2020						
1,305,000	Canada Treasury Bill 1.65%	R-1 (high)	99.56	1,299,245	99.64	1,300,328	10.5%
	due March 19, 2020						
				12,342,762		12,365,662	100%

Martin, Lucas & Seagram Ltd.
ESTIMATED REALIZED GAINS AND LOSSES - SETTLED TRADES
CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)
From 01-01-19 Through 12-31-19

Date	Quantity	Security	Cost Basis	Proceeds	Gain or Loss
-------------	-----------------	-----------------	-----------------------	-----------------	---------------------

PLEASE NOTE: If applicable, the cost basis on Income Trusts and L P Units has been adjusted for capital distributions in 2018.

Martin, Lucas & Seagram Ltd.
INVESTMENT PERFORMANCE
Net of Fees
CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)
December 31, 2019

Investment account RBCD-K.Habal-107611-001

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

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

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

Total Value Summary

Your investments have changed by 402,446 since the inception date. Note: In this report, the inception date is July 15, 2015 or the portfolio's start date if the account was opened after July 15, 2015.

Your investments have changed by 129,444 during the past year.

Amount invested since 07-15-15	118,345
Market value of portfolio on 12-31-19	12,376,646

Change In Portfolio Value

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

	Latest 1 Year	Inception To Date
From Date	12-31-18	07-15-15
Opening Market Value	7,138,172	11,855,855
Contributions	5,160,075	9,946,115
Withdrawals	-51,046	-9,827,770
Realized Gains	0	0
Unrealized Gains	22,900	22,900
Interest	114,691	431,714
Dividends	0	0
Portfolio Fees	-8,147	-52,169
Closing Market Value	12,376,646	12,376,646
Total Fees	-8,147	-52,169

Martin, Lucas & Seagram Ltd.
INVESTMENT PERFORMANCE
Net of Fees
CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)
December 31, 2019

Personal Rates of Return

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

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

	Annualized Latest 1 Year	Annualized Latest 3 Years	Annualized Latest 5 Years	Annualized Latest 10 Years	Annualized Inception To Date
This Portfolio	1.61%	1.12%	-	-	0.87%

What is a total percentage return?

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

Calculation method

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

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

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

Please note that performance returns shown in the quarterly investment reports were calculated on a time weighted basis and will accordingly differ from the above returns. Time weighted returns are the average returns of a portfolio independent of the amount that was invested during each period of the performance period. Time weighted performance is a better measure for evaluating an asset manager as such performance is not influenced by the amount invested during the period.

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

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

Martin, Lucas & Seagram Ltd.

CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)

Portfolio Holdings at December 31, 2019

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
GOVERNMENT BONDS					
250,000	Canada Housing Trust Ser 71 1.25% due June 15, 2021	96.83	99.24	248,103	3,125
200,000	Canada Housing Trust 2.4% Series 48 due December 15, 2022	100.37	101.52	203,034	4,800
200,000	Canada Housing Trust 2.35% due September 15, 2023	105.62	101.47	202,944	4,700
250,000	Canada Housing Trust 2.9% due June 15, 2024	102.64	103.94	259,850	7,250
300,000	Canada Housing Trust Ser. 70 2.25% due December 15, 2025	100.98	101.25	303,759	6,750
250,000	Canada Housing Trust No.1 2.350% due March 15, 2028	103.96	101.90	254,748	5,875
				<hr/> 1,472,437	<hr/> 32,500
PROVINCIAL BONDS					
250,000	British Columbia 3.25% due December 18, 2021	102.30	102.69	256,728	8,125
400,000	Ontario 3.15% due June 2, 2022	100.00	102.98	411,900	12,600
500,000	Ontario 2.85% due June 2, 2023	102.29	102.98	514,875	14,250
400,000	Ontario 2.60% due June 2, 2025	101.08	102.54	410,172	10,400
350,000	British Columbia 2.3% due June 18, 2026	104.40	101.13	353,966	8,050
350,000	Ontario 2.60% due June 2, 2027	97.56	102.41	358,449	9,100
				<hr/> 2,306,089	<hr/> 62,525
CORPORATE BONDS					
300,000	Bank of Montreal 2.84% due June 4, 2020	101.77	100.38	301,134	8,520
250,000	Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	104.57	100.29	250,723	6,408
200,000	Bank of Montreal 3.4% due April 23, 2021	100.65	101.75	203,506	6,800
150,000	Royal Bank 1.968% due March 2, 2022	100.05	99.65	149,480	2,952
250,000	National Bank of Canada 2.105% due March 18, 2022	102.04	99.94	249,850	5,263

Martin, Lucas & Seagram Ltd.

CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)

Portfolio Holdings at December 31, 2019

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
150,000	Wells Fargo 3.46% due January 24, 2023	102.36	103.60	155,406	5,190
250,000	Toronto Dominion Bank Dep. Note 3.226% due July 24, 2024	102.02	104.11	260,268	8,065
250,000	CIBC Deposit Note 3.3% due May 26, 2025	100.24	104.79	261,963	8,250
200,000	Wells Fargo & Company 2.975% due May 19, 2026	102.15	100.51	201,022	5,950
200,000	Bank of Nova Scotia Dep. Notes 2.62% due December 2, 2026	99.23	101.42	202,832	5,240
				2,236,183	62,637
TOTAL PORTFOLIO				6,014,709	157,662

Disclosures:

1. Please note that the securities listed herein are held on your behalf by the above noted custodian. You may wish to contact them directly to determine if your account is covered by any recognized Investor Protection Plan and/or for information on how these securities are held.
2. The cost of each position shown in the account is the book cost (original cost adjusted for distributions, capital returns and re-orgs). For unit costs marked with an *, the book cost cannot be determined and the value shown is based on the closing market price on July 15, 2015.

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)
From 10-01-19 To 12-31-19

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
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No transactions were found!

Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - LONG TERM INVESTMENT FUND
From 09-30-19 to 12-31-19

Cash Balance at September 30, 2019		0.00
ADD: Proceeds from Sales	0.00	
Bond Interest Credited (to Long Term Investment Fund)	62,808.75	
Transfer to Short Term Investment Fund	-62,808.75	0.00
LESS: Cost of Purchases	0.00	0.00
Cash Balance at December 31, 2019		0.00

Martin, Lucas & Seagram Ltd.

EXTERNAL INDIVIDUAL CREDIT RATING REPORT - DECEMBER 31, 2019

CLLAS - LONG TERM INVESTMENT FUND

					Unit	Total		Market	Pct.
Quantity	CUSIP	Security		Rating	Cost	Cost	Price	Value	Assets
GOVERNMENT BONDS									
250,000	13509PFJ7	Canada Housing Trust Ser 71 1.25%	due June 15, 2021	AAA	96.83	242,075	99.24	248,103	4.1%
200,000	13509PDL4	Canada Housing Trust 2.4% Series 48	due December 15, 2022	AAA	100.37	200,740	101.52	203,034	3.4%
200,000	13509PDV2	Canada Housing Trust 2.35%	due September 15, 2023	AAA	105.62	211,240	101.47	202,944	3.4%
250,000	13509PEF6	Canada Housing Trust 2.9%	due June 15, 2024	AAA	102.64	256,600	103.94	259,850	4.3%
300,000	13509PFD0	Canada Housing Trust Ser. 70 2.25%	due December 15, 2025	AAA	100.98	302,940	101.25	303,759	5.1%
250,000	13509PGF4	Canada Housing Trust 2.35%	due March 15, 2028	AAA	103.96	259,900	101.90	254,748	4.2%
						1,473,495		1,472,437	24.5%
PROVINCIAL BONDS									
250,000	110709BJ0	British Columbia 3.25%	due December 18, 2021	AA (high)	102.30	255,750	102.69	256,728	4.3%
400,000	68323AAW4	Ontario 3.15%	due June 2, 2022	AA (low)	100.00	400,000	102.98	411,900	6.8%
500,000	68323ABN3	Ontario 2.85%	due June 2, 2023	AA (low)	102.29	511,430	102.98	514,875	8.6%
400,000	68323ACX0	Ontario 2.60%	due June 2, 2025	AA (low)	101.08	404,305	102.54	410,172	6.8%
350,000	68323AEE0	Ontario 2.60%	due June 2, 2027	AA (low)	97.56	341,460	102.41	358,449	6.0%
350,000	11070TAJ7	British Columbia 2.3%	due June 18, 2026	AA (high)	104.40	365,400	101.13	353,966	5.9%
						2,278,345		2,306,089	38.3%
CORPORATE BONDS									
300,000	06367VCT0	Bank of Montreal 2.84%	due June 4, 2020	AA	101.77	305,307	100.38	301,134	5.0%
200,000	06367VJN6	Bank of Montreal 3.4%	due April 23, 2021	AA	100.65	201,300	101.75	203,506	3.4%
200,000	064151QE6	Bank of Nova Scotia Dep. Note 2.62%	due December 2, 2026	AA	99.23	198,460	101.42	202,832	3.4%
250,000	13596Z3Y9	CIBC Deposit Note 3.3%	due May 26, 2025	AA	100.24	250,600	104.79	261,963	4.4%
250,000	633067C27	National Bank of Canada 2.105%	due March 18, 2022	AA (low)	102.04	255,100	99.94	249,850	4.2%
150,000	780086KD5	Royal Bank 1.968%	due Mar 2, 2022	AA (high)	100.05	150,075	99.65	149,480	2.5%
250,000	891145S47	Toronto Dominion Bank Dep. Note 2.563%	due June 24, 2020	AA (high)	104.57	261,425	100.29	250,723	4.2%
250,000	891145T79	Toronto Dominion Bank Dep. Note 3.226%	due July 24, 2024	AA (high)	102.02	255,050	104.11	260,268	4.3%
150,000	94975ZBN5	Wells Fargo & Company 3.46%	due January 24, 2023	AA (low)	102.36	153,542	103.60	155,406	2.6%
200,000	949746RX1	Wells Fargo & Company 2.975%	due May 19, 2026	AA (low)	102.15	204,300	100.51	201,022	3.3%
						2,235,159		2,236,183	37.2%
TOTAL PORTFOLIO						5,986,999		6,014,709	100.0%

Martin, Lucas & Seagram Ltd.
DATE TO DATE GAINS AND LOSSES
CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)
From 12-31-18 to 12-31-19

Security	12-31-18 Market Value	Additions Withdrawals	12-31-19 Market Value	12-31-19 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
CASH								
Cash Account	0	0	0	0				
GOVERNMENT BONDS								
Canada Housing Trust 1.95% due June 15, 2019	250,190	-252,438	0	0	-238	-190	0	0
Canada Housing Trust Ser 71 1.25% due June 15, 2021	245,248	-3,125	248,103	242,075	0	0	6,028	2,855
Canada Housing Trust 2.4% Series 48 due December 15, 2022	201,298	-4,800	203,034	200,740	0	0	2,294	1,736
Canada Housing Trust 2.35% due September 15, 2023	200,510	-4,700	202,944	211,240	0	0	-8,296	2,434
Canada Housing Trust 2.9% due June 15, 2024	256,938	-7,250	259,850	256,600	0	0	3,250	2,913
Canada Housing Trust Ser. 70 2.25% due December 15, 2025	296,637	-6,750	303,759	302,940	0	0	819	7,122
Canada Housing Trust No.1 2.350% due March 15, 2028	0	258,524	254,748	259,900	0	0	-5,153	-5,153
GOVERNMENT BONDS Total	<u>1,450,820</u>		<u>1,472,437</u>	<u>1,473,495</u>	<u>-238</u>	<u>-190</u>	<u>-1,058</u>	<u>11,907</u>
PROVINCIAL BONDS								
British Columbia 3.25% due December 18, 2021	257,385	-8,125	256,728	255,750	0	0	978	-658
Ontario 3.15% due June 2, 2022	410,508	-12,600	411,900	400,000	0	0	11,900	1,392
Ontario 2.85% due June 2, 2023	508,035	-14,250	514,875	511,430	0	0	3,445	6,840
Ontario 2.60% due June 2, 2025	398,984	-10,400	410,172	404,305	0	0	5,867	11,188
British Columbia 2.3% due June 18, 2026	341,919	-8,050	353,966	365,400	0	0	-11,435	12,047
Ontario 2.60% due June 2, 2027	344,908	-9,100	358,449	341,460	0	0	16,989	13,542
PROVINCIAL BONDS Total	<u>2,261,738</u>		<u>2,306,089</u>	<u>2,278,345</u>	<u>0</u>	<u>0</u>	<u>27,744</u>	<u>44,351</u>
CORPORATE BONDS								
Wells Fargo Canada 2.944% due July 25, 2019	200,648	-205,888	0	0	-40	-648	0	0
Bank of Montreal 2.84% due June 4, 2020	301,278	-8,520	301,134	305,307	0	0	-4,173	-144
Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	250,005	-6,408	250,723	261,425	0	0	-10,703	718
Bank of Montreal 3.4% due April 23, 2021	203,094	-6,800	203,506	201,300	0	0	2,206	412
Royal Bank 1.968% due March 2, 2022	146,163	-2,952	149,480	150,075	0	0	-596	3,317
National Bank of Canada 2.105% due March 18, 2022	243,963	-5,263	249,850	255,100	0	0	-5,250	5,888
Wells Fargo 3.46% due January 24, 2023	152,265	-5,190	155,406	153,542	0	0	1,865	3,141
Toronto Dominion Bank Dep. Note 3.226% due July 24, 2024	253,388	-8,065	260,268	255,050	0	0	5,218	6,880
CIBC Deposit Note 3.3% due May 26, 2025	253,368	-8,250	261,963	250,600	0	0	11,363	8,595

Martin, Lucas & Seagram Ltd.
DATE TO DATE GAINS AND LOSSES
CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)
From 12-31-18 to 12-31-19

					Realized Gain or Loss		Unrealized Gain or Loss	
Security	12-31-18 Market Value	Additions Withdrawals	12-31-19 Market Value	12-31-19 Cost Basis	Cost	Market	Cost	Market
Wells Fargo & Company 2.975% due May 19, 2026	0	202,515	201,022	204,300	0	0	-3,278	-3,278
Bank of Nova Scotia Dep. Notes 2.62% due December 2, 2026	193,196	-5,240	202,832	198,460	0	0	4,372	9,636
CORPORATE BONDS Total	2,197,367		2,236,183	2,235,159	-40	-648	1,024	35,164
TOTAL PORTFOLIO	5,909,925		6,014,709	5,986,999	-278	-838	27,710	91,422
TOTAL DATE TO DATE GAIN OR LOSS								90,584
% CHANGE DURING PERIOD								1.53

Martin, Lucas & Seagram Ltd.
INVESTMENT PERFORMANCE
Net of Fees
CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)
December 31, 2019

Investment account RBCD-107611-001

CLLAS - LONG TERM INVESTMENT FUND

c/o Axxima

36 Toronto Street, Suite 510

Toronto, Ontario M5C 2C5

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

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

Total Value Summary

Your investments have changed by 459,523 since the inception date. Note: In this report, the inception date is July 15, 2015 or the portfolio's start date if the account was opened after July 15, 2015.

Your investments have changed by 247,536 during the past year.

Amount invested since 07-15-15	730,089
Market value of portfolio on 12-31-19	6,035,240

Change In Portfolio Value

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

	Latest 1 Year	Inception To Date
From Date	12-31-18	07-15-15
Opening Market Value	5,930,828	4,845,628
Contributions	16,951	1,651,256
Withdrawals	-160,075	-921,166
Realized Gains	-838	-70,922
Unrealized Gains	91,422	-54,953
Interest	157,324	589,631
Dividends	0	0
Change in Accrued Interest	-372	-4,233
Closing Market Value	6,035,240	6,035,240
Portfolio Fees Paid By Client	-17,076	-67,156
Total Fees	-17,076	-67,156

Martin, Lucas & Seagram Ltd.
INVESTMENT PERFORMANCE
Net of Fees
CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)
December 31, 2019

Personal Rates of Return

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

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

	Annualized Latest 1 Year	Annualized Latest 3 Years	Annualized Latest 5 Years	Annualized Latest 10 Years	Annualized Inception To Date
This Portfolio	3.92%	2.10%	-	-	1.66%

What is a total percentage return?

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

Calculation method

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

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

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

Please note that performance returns shown in the quarterly investment reports were calculated on a time weighted basis and will accordingly differ from the above returns. Time weighted returns are the average returns of a portfolio independent of the amount that was invested during each period of the performance period. Time weighted performance is a better measure for evaluating an asset manager as such performance is not influenced by the amount invested during the period.

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

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



MEMORANDUM

DATE: February 7, 2020
TO: CLLAS Advisory Board
FROM: Patrick Mahoney
RE: Colchester Reinsurance Security Agreement – Investment Provisions

Colchester's Board met on December 10, 2019. One of the items discussed was how Colchester might prudently enhance its investment return. The recommendation from its investment manager was that Colchester's investment policy be amended to allow investment of a portion of the portfolio in BBB corporate bonds. The assets supporting Colchester's liabilities to CLLAS are subject to the terms of a Reinsurance Security Agreement (RSA) that gives CLLAS some control over the assets. As a result, Colchester asked me to seek some input from CLLAS before it takes any further steps.

As background, Colchester's investment policy is quite similar to that of CLLAS, but its financial profile is quite different. Both policies permit investment in Canadian federal and provincial bonds, as well as corporate bonds rated single-A or higher. Neither permit investment in equities.

At June 30, 2019, Colchester had invested assets of about \$36 million and claims liabilities of \$19 million. At the same date, CLLAS had invested assets of about \$13 million net claims liabilities of \$7 million. CLLAS' extensive use of reinsurance means that it must sometime liquidate a portion of its bond portfolio to pay a claim, before being reimbursed by reinsurers. Colchester is considering the change only with respect to a portion of assets that are surplus to the requirements of the RSA, i.e. assets which are unlikely to be accessed to pay claims.

At the February meeting, I would like to get some high-level feedback, i.e.:

- Is there a sense that Colchester should not diverge from CLLAS' investment policy to permit investment in BBB corporates? If so, I will communicate that to Colchester.
- If CLLAS not opposed, do we want further information (i.e. details of any proposed change, once determined, together with support from the investment manager re benefits/risks) or is CLLAS comfortable with leaving the matter to Colchester?

I look forward to discussing this matter at the up-coming meeting.

Sincerely,

Patrick Mahoney, General Manager