



## ADVISORY BOARD MEETING

### Board Member

David Morritt  
Barry Bresner  
Mike Swartz  
Julia Holland  
William Scott

### Alternate

Lyndon Barnes  
Robert Love  
TBA  
James C. Tory  
Malcolm Mercer

### Board Member

Donald Milner  
Gordon Goodman  
Ken Crofoot  
Nicholas Leblovic  
Daniel MacDonald

### Alternate

S. Bruce Blain  
John Birch  
Eugene Cipparone  
Melanie Koszegi  
Carol Lyons

Thursday, February 22, 2018 at 8:30 a.m.  
Davies Ward Phillips & Vineberg LLP  
40<sup>th</sup> Floor, RBC Centre  
155 Wellington Street West  
Toronto, Ontario

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#### DIAL-IN INFORMATION for those participating by phone:

Toronto: 416-933-8665  
Canada/US: 1-888-402-9166  
Conference ID #: 2675844#

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## AGENDA

	<u>Responsibility</u>	<u>Est. Time</u>	<u>Tab</u>
1. Constitution of Meeting	Nicholas Leblovic		
2. Appointment of Secretary	Nicholas Leblovic		
3. Approval of the Minutes of December 6, 2017 Meeting <i>Proposed Resolution: To approve the minutes.</i>	Nicholas Leblovic	5 mins	A
4. Business Arising Out of the Minutes	Nicholas Leblovic		
5. Comments of Chair	Nicholas Leblovic	10 mins	



	<u>Responsibility</u>	<u>Est. Time</u>	<u>Tab</u>
6. Report of the General Manager's Office			
(a) Cyber Initiative – Update	Ryan Durrell	10 mins	
(b) Associate Firm Initiative – Update	Ryan Durrell	5 mins	
(c) December 31, 2017 Financial Management Report	Patrick Mahoney	5 mins	B
(d) Presentation of the Actuary to the Audit Committee	Patrick Mahoney	5 mins	C
(e) 2018 Budget	Patrick Mahoney	10 mins	D
<b><i>Proposed Resolution: To approve the 2018 Budget</i></b>			
(f) Summary of CLLAS Governance Policies	Patrick Mahoney	5 mins	E
<b><i>Proposed Resolution: To refer the Reinsurance Policy to the Audit Committee for review</i></b>			
(g) Interim ORSA Update	Patrick Mahoney	5 mins	F
<b><i>Proposed Resolution: To confirm the Interim ORSA Update</i></b>			
7. Committee Reports		30 mins	
(a) Audit Committee	Gord Goodman		
• Audit Findings report			G
• Audited Financial Statements			H
<b><i>Proposed Resolution: To adopt the Audited Financial Statements</i></b>			
• Signing off on P&C1 for February 28, 2018			
(b) Claims Committee	Barry Bresner		I
(c) Risk Management Committee	Julia Holland		
(d) Policy Committee	Donald Milner		
8. Other Business			
(a) Quarterly Report of the Investment Manager	Patrick Mahoney	5 mins	J
(b) Transition of Chair	Nicholas Leblovic	10 mins	
(c) 2018/19 Committee Membership		5 mins	K
<b><i>Proposed Resolution: To approve the 2018/19 Committees</i></b>			
9. Next Meeting – June 19, 2018			

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.

Davies Ward Phillips & Vineberg LLP  
40<sup>th</sup> Floor, RBC Centre  
155 Wellington Street West  
Toronto, Ontario

**Wednesday, December 6, 2017**

**Present:**

Nicholas Leblovic (Chair)	Davies Ward Phillips & Vineberg LLP
Melanie M. Koszegi	Davies Ward Phillips & Vineberg
Barry Bresner	Borden Ladner Gervais LLP
Gordon Goodman	Cassel Brock & Blackwell LLP
Donald Milner (by phone)	Fasken Martineau DuMoulin LLP
Ken Crofoot	Goodmans LLP
Bill Scott	McCarthy Tétrault LLP
Dan McDonald (by phone)	McMillan LLP
Julia Holland	Torys LLP

**Absent:**

David Morritt	Osler Hoskins & Harcourt LLP
Mike Swartz	WeirFoulds LLP
Patrick Mahoney	Office of the General Manager, CLLAS
Norma Ibbetson	Office of the General Manager, CLLAS
Joe Tontini	Axxima Group
Ryan Durrell	Axxima Group

**1. Constitution of Meeting**

The Chairman brought the meeting to order.

**2. Appointment of Secretary**

Norma Ibbetson acted as Secretary.

3. Approval of Minutes of the September 6, 2017 Meeting of the Advisory Board

It was moved by Ken Crofoot and seconded by Barry Bresner that the minutes of the September 6, 2017 meeting of the Advisory Board be approved. 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 reported that the past quarter had been quiet. Current initiatives are on the agenda and will be addressed during the meeting.

6. Report of the General Manager's Office

*Cyber Initiative Update*

Joe Tontini reviewed his November 29, 2017 memorandum with the Board. At this point, seven applications have been received, and five firms have been bound. The current Associate Firms have also expressed an interest and have indicated they intend to complete the application. All bound firms with one exception has purchased the \$10,000,000 limit. One firm bought a \$20,000,000 limit. One of the firms has also purchased some additional crime coverage.

Mr. Tontini advised that the intention, once all policies have been bound to move all policies to a common renewal date, to maximize the negotiation power that CLLAS has in the marketplace.

The insurer has been very responsive to wording change suggestions. Any changes made will be endorsed to the existing policies.

The crime sub-limit of \$250,000 in the cyber policy has been a point of much discussion. In one case, the limit was increased to \$500,000 but the cyber underwriters believe that this coverage belongs elsewhere, i.e. in the crime policies that most firms already have in place. Axxima proposed to do a review of the various crime policies to identify gaps/overlaps between the crime policy and other coverages, to compare the offerings from various insurers and to propose a future course of action.

As indicated, the program currently makes available up to \$20 million in limits. Axxima will continue to investigate higher cyber limits so that the firms have options in the future.

It was noted that fees for the work being done in relation to the cyber initiative by Axxima are being charged to CLLAS and the commissions on the policies will be applied to reduce Axxima's management fees. There was some discussion about crediting back the commission directly to the firms buying the policies versus CLLAS overall and this approach can be further considered once it is known how many firms will be buying the CLLAS-arranged cyber cover.

If the market continues to be competitive, then we can negotiate improved terms on behalf of CLLAS in subsequent renewals, especially if all CLLAS firms participate. If this is indeed the case, and all firms participate, then this will give us more flexibility and CLLAS can consider retaining some of the risk in future renewals.



### *Associate Firm Initiative Update*

Ryan Durrell reported to the Board that Axxima has been selectively approaching a number of law firms to explore the prospect of joining CLLAS as Associate Members. An application from one firm is currently being processed and another firm, which was approached last year, has come back this year and expressed an interest in getting a quote. In addition, some Vancouver area firms were approached on a recent trip out West by Mr. Durrell and Patrick Mahoney. BC will likely be a slower marketing process given that CLLAS is not as well-known out West.

### *Financial Statements as at September 30, 2017*

Mr. Mahoney presented CLLAS' financial management report as at September 30, 2017. Key items are summarized in the cover memo, including results for the two solvency tests monitored by management.

CLLAS experienced an underwriting loss of \$1.7 million for the first nine months of 2017. The main reasons for this are the social engineering claim (CLLAS dropped down to pick up the remainder of the sub-limited law society layer) and the strengthening of CLLAS' unallocated loss adjustment expense (ULAE) provision, which is the provision carried by CLLAS to account for running off open claims. Expenses for the first nine months are slightly over budget, attributable mainly to the Professional Services line for Axxima on the Reinsurance and Strategic services lines. At September 30, 2017, CLLAS had a surplus of \$12.7 million. Management monitors various risk metrics and the results of those metrics are included in an exhibit to the financial management report.

### *Subscribers Accounts as at June 30, 2017*

The CLLAS Subscribers Accounts as at June 30, 2017 were included with the meeting materials. These are an information item and no action is required by the Board.

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

### *Blakes Consideration*

Blakes withdrew from CLLAS June 30, 2012. While CLLAS may hold onto Blake's surplus until all claims in the period during which Blakes participated have been run off, the Subscribers Agreement sets an expectation that surplus may start to become available at the end of five years. Mr. Mahoney advised that he and the Chair had been meeting with Blakes on an annual basis to ensure that everyone's expectations with respect to surplus are similar. Dentons withdrew from CLLAS on June 30, 2017 and similar discussions will take place with that firm over the next few years.

Included in the Board material is a memo from the General Manager's office, as well as the analysis provided by CLLAS' actuary with respect to stress testing the surplus for calculating a return of premiums to Blakes.

After review, CLLAS' actuary concluded that she is comfortable with a return of in the range of \$1.0 million to \$1.5 million. Mr. Mahoney advised that his recommendation was to approve a return at the upper end of that range, but on the basis that no further payouts would be considered for five years. The impact of a payment of \$1.5 million on CLLAS' surplus (including the AMRGF requirement and the MCT) had been reviewed and no concerns were noted.

Mr. Leblovic advised that it is possible that Blakes would be interested in a final settlement of its obligations to CLLAS, and if the firm raised that possibility, the matter would be brought back to the Board for discussion, together with further analysis from CLLAS' actuary.

**It was moved by Ken Crofoot and seconded by Gordon Goodman that a return of \$1,500,000 to Blakes be adopted as presented. The motion was carried unanimously.**

*Interim ORSA Update/Enterprise Risk Management (ERM) Policy*

An interim ORSA update was included in the Board package for discussion only. It will be provided in its final form for approval at the February 2018 meeting, after which it will be provided to the Regulator. Management is of the view that the current surplus target of 210% remains appropriate but is recommending a minor change to one of CLLAS's key metrics. Specifically, the recommendation is to increase the maximum allocation to a single non-governmental security from 5% to 10% for securities issued by Canada's chartered banks. The metric would remain at 5% for other securities.

Mr. Mahoney reminded the Board that the ERM policy is intended to be a living document which documents CLLAS' risk appetite, risk target/limits and risk monitoring, and it sets out responsibilities for various elements of CLLAS' ERM. Various elements of the policy have been reviewed by the Board in the past.

**It was moved by Barry Bresner and seconded by Julia Holland that the ERM policy be confirmed subject to the revision to the risk metric just discussed. The motion was carried unanimously.**

*Related Party Transaction and Outsourcing Policies*

Mr. Mahoney reminded the Board that these two policies had been discussed at the September 2017 Board meeting and that minor changes to the policies had been recommended by the Board. The two policies, with the changes blacklined, were included in the Board package and are being presented to approval. The Board discussed the policies.

**It was moved by Bill Scott and seconded by Barry Bresner that the Related Party Transaction and Outsourcing Policies be adopted as presented. The motion was carried unanimously.**

## 7. Committee Reports

### *Report of the Audit Committee*

Gordon Goodman reported on behalf of the Audit Committee.

The Committee held an audit planning meeting on November 8, 2017 with Deloitte in attendance. No significant changes to the audit process are anticipated this year. The Committee reviewed Deloitte's audit planning report and discussed IFRS 9, which deals with the classification and measurement of financial assets, and takes effect on January 1, 2018. An entity which meets a test focused on ensuring that its predominant activity is the issuance of insurance contracts, has the option to defer the implementation of IFRS 9 until January 1, 2021, when IFRS 17 (which focuses on insurance contracts) takes effect, in order that both accounting standards be implemented at the same time. CLLAS meets the test to defer implementation and is therefore eligible to defer implementation. Management recommended deferral, and the Audit Committee agreed at its meeting to recommend deferral to the Board.

**It was moved by Gordon Goodman and seconded by Barry Bresner that the implementation of IFRS 9 be deferred to 2021. The motion was carried unanimously.**

As part of its mandate to monitor the security of CLLAS' reinsurance arrangements, the Committee reviewed the reinsurance security report and there were no significant findings identified. The Committee is continuing to monitor concentration of exposure to two Lloyd's syndicates (Argo and Pioneer), Swiss Re, Lloyd's in general, as well as continued monitoring of CLLAS' unlicensed reinsurers (AWAC and Colchester).

### *Report of the Claims Committee*

Barry Bresner reported to the Board. The Committee is keeping close watch on a small number of claims. There is a 2005 matter that has recently become active, based in Quebec. A recovery of about \$800,000 on a recent social engineering claim was made, although the claim is still expected to exceed \$1 million. A very old tax claim has finally been closed because all possible limitation periods have expired. CLLAS was recently successful on a Saskatchewan class action and even recovered some of its costs.

### *Report of the Risk Management Committee*

There was no report of the Committee.

### *Report of the Policy Committee*

There was no report of the Committee.

## 8. Other Business

### *Investment Report for Quarter Ending September 30, 2017*

The investment report was provided as an information item and the investment policy is posted on line. CLLAS' Investment Policy was confirmed as still appropriate.

*Annual Dinner*

The 2018 Annual Dinner will be held on Thursday, April 26, 2018 at the National Club.

*2018 Meetings – Proposed Dates*

- Thursday, February 22, 2018 – Davies Ward Phillips & Vineberg Office (note the date change from February 21, 2018 as originally scheduled)
- Tuesday, June 19, 2018 – Goodmans' Office going forward
- Tuesday, September 11, 2018
- Tuesday, December 11, 2018

There was no further business.

9. **Next Meeting**

The next Board meeting is scheduled for Thursday, February 22, 2018 at the offices of Davies Ward Phillips & Vineberg.

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Chairman

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Secretary



# MEMORANDUM

DATE: February 14, 2018  
TO: CLLAS Advisory Board  
FROM: Patrick Mahoney  
COPY:  
RE: December 31, 2017 Financial Management Report

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CLLAS' financial management report for the year ended December 31, 2017 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 loss of just over \$1.5 million for the year, with the total comprehensive loss (after taking into account realized and unrealized gains on the investment portfolio) of \$1.4 million. During the year, CLLAS' actuaries strengthened CLLAS' unallocated loss adjustment expense (ULAE) provision, which is the provision carried by CLLAS to account for running of open claims. This, combined with the social engineering drop-down loss reported in the first quarter, explains most of the loss for the year.

As shown on Exhibit I, CLLAS' surplus at December 31, 2017 stood at just over \$11.5 million. CLLAS' surplus position was reduced by about \$2.9 million from the end of 2016, due to the loss noted above and the \$1.5 million return of premium surplus paid out to a departed firm. The latter payment did not go through CLLAS' income statement but is shown on Exhibit III.

The Budget Variance (Exhibit IV) shows that expenses finished the year essentially on budget (\$14,000 or 0.6% under budget). While Axxima professional services fees (discussed under separate cover) were somewhat over budget, other line items, most notably premium taxes, special services fees and risk management costs, were well under budget for 2017.



## Risk Metrics

Exhibit V presents the results of various “risk metrics” monitored by CLLAS based on what have been identified through the ORSA process as its material risks. The Exhibit shows the year-end results for CLLAS for 2014, 2015, 2016 and 2017 against risk targets and risk limits. While the results for December 31, 2017 exceed CLLAS’ risk targets for a number of metrics (as discussed below), the results are all within CLLAS’ risk limits. Items of note include:

- Line 1b: Prior year development on CLLAS’ retained losses was 8%. This is the result of a single reserve on a drop-down claim and is not a cause for concern. As can be seen from Line 1a, overall losses (including reinsured losses) were favourable in the period.
- Line 4: As noted in the Reinsurance Security Report, a couple of CLLAS reinsurers have A- ratings with AM Best and/or S&P.
- Line 5: As noted in the Reinsurance Security Report, the Argo Syndicate (Lloyds) reinsures 12.8% of CLLAS’ total liabilities. Argo’s participation on the CLLAS program has reduced in recent years.
- Line 7: This metric reflects the slight dip in CLLAS’ cash position at year-end is of no concern.
- Line 10: The risk limit for this metric reflects an *Insurance Act* limit on certain investments. That limit does not apply to government and Schedule I bank investments. The Interim ORSA Report (provided separately) recommends a change to this metric.
- Line 13: The key regulatory solvency test that CLLAS is required to comply with is known as the Alberta Maintenance of Reserve and Guarantee Fund (“AMRGF”). Details of this calculation are included in Exhibit VI, with the result summarized in Line 13 of Exhibit V. CLLAS must maintain “cash and approved securities” in excess of the reserve fund plus the guarantee fund required by the Alberta regulator. Exhibit VI shows that the CLLAS held cash and approved securities well in excess of the AMRGF requirement at December 31, 2017.
- Line 14: CLLAS also monitors its Minimum Capital Test ratio. At December 31, 2017, CLLAS’ MCT ratio was 451%, well above CLLAS’ internal target of 210%.

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**

## **QUARTERLY FINANCIAL MANAGEMENT REPORT**

**December 31, 2017**

### **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, 2017**

	<b>As at December 31, 2017</b>	<b>As at December 31, 2016</b>
<b>ASSETS</b>		
Cash	3,140,371	4,731,655
Short term investments	11,745,460	11,587,109
Bonds	5,091,893	5,150,585
Interest income due and accrued	18,532	21,122
Premium receivable	1,782,634	2,520,380
Prepaid expenses	139,500	139,500
Deferred policy acquisition costs	103,310	154,221
Unearned reinsurance premium ceded	2,541,253	4,182,181
Reinsurance recoverable	617,756	837,614
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	96,568,000	94,794,000
	<u>121,748,709</u>	<u>124,118,367</u>
<b>LIABILITIES</b>		
Accounts payable & accrued charges	511,038	580,036
Premium taxes payable	2,574	63,869
Unearned premium	3,539,875	5,261,568
Due to reinsurers	1,649,031	2,514,054
Provision for unpaid claims and adjustment expenses	104,499,000	101,247,000
	<u>110,201,518</u>	<u>109,666,527</u>
<b>SUBSCRIBERS' EQUITY</b>		
Surplus	11,568,960	14,390,229
Accumulated Other Comprehensive Income (Loss)	(21,769)	61,611
	<u>11,547,191</u>	<u>14,451,840</u>
	<u>121,748,709</u>	<u>124,118,367</u>



**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**For the Period Ending December 31, 2017**

	<b>Current Year</b>		<b>Prior Year</b>	
	<b>Quarter December 31, 2017</b>	<b>Year to Date December 31, 2017</b>	<b>Quarter December 31, 2016</b>	<b>Year to Date December 31, 2016</b>
Written Premium	-	7,138,422	-	10,610,344
Gross Written Premiums	-	7,138,422	-	10,610,344
Less: Reinsurance Ceded	-	5,124,626	-	8,433,679
Net Written Premiums	-	2,013,796	-	2,176,665
Change in Unearned Premiums	507,587	80,765	548,639	121,054
Earned Premiums	507,587	2,094,561	548,639	2,297,719
Claims Paid	(46,678)	(191,213)	(57,668)	(220,234)
Change in IBNR	(157,000)	815,000	(64,000)	65,000
Change in Case Reserve	17,000	663,000	11,000	-
Premium Deficiency Expense	-	-	-	-
Incurred Claims	(186,678)	1,286,787	(110,668)	(155,234)
Management and operating expenses	329,932	1,793,921	378,734	1,686,609
Reinsurance fees	69,750	279,000	69,750	279,000
Premium taxes	51,655	257,531	76,209	327,434
Total Operating Expenses	451,337	2,330,452	524,693	2,293,043
<b>Underwriting Gain (Loss)</b>	242,928	(1,522,678)	134,613	159,910
Investment Income	58,551	201,419	44,921	170,280
Income on Claim Related Matters	-	-	-	-
Interest Income on Premium Tax	-	-	-	-
<b>NET GAIN/(LOSS)</b>	<u>301,479</u>	<u>(1,321,269)</u>	<u>179,535</u>	<u>330,190</u>
<b>Other comprehensive income (loss)</b>				
Unrealized gains (losses) on available for sale financial assets arising during the year	7,847	(83,379)	(99,012)	(65,817)
Recognition of realized (gain) loss included in income	-	-	-	-
Other comprehensive income (loss) for the year	7,847	(83,379)	(99,012)	(65,817)
<b>Total comprehensive income (loss)</b>	<u>309,326</u>	<u>(1,404,648)</u>	<u>80,523</u>	<u>264,374</u>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF CHANGES IN EQUITY**  
**December 31, 2017**

	<b>Minimum Surplus</b>	<b>Additional Surplus</b>	<b>Unrealized gains and losses on AFS financial assets</b>	<b>Total Equity</b>
<b>Balance, beginning of year</b>	<b>50,000</b>	<b>14,340,229</b>	<b>61,610</b>	<b>14,451,839</b>
Prior year adjustment		-		-
<b>Comprehensive income (loss) for the year</b>				
Net gain (loss) for the year		(1,321,269)		(1,321,269)
<b>Other comprehensive income (loss)</b>				
Change in unrealized gain on available-for-sale assets			(83,379)	(83,379)
Recognition of realized (gain) loss on available-for-sale assets			-	-
<b>Total comprehensive income (loss) for the year</b>		<b>(1,321,269)</b>	<b>(83,379)</b>	<b>(1,404,648)</b>
Refund of premium surplus		(1,500,000)		(1,500,000)
<b>Balance at December 31, 2017</b>	<b>50,000</b>	<b>11,518,960</b>	<b>(21,769)</b>	<b>11,547,191</b>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS**  
**FOR THE PERIOD ENDED December 31, 2017**

	Annual Budget	Year to Date Budget %	Year to Date Budget \$	Year to Date Actual \$	Fav/(Unfav) Variance \$
<b>MANAGEMENT SERVICES*</b> (See Note 1)	579,500	100%	579,500	591,032	(11,532)
<b>PROFESSIONAL SERVICES</b>					
Actuarial Services	80,000	100%	80,000	61,098	18,902
Reinsurance Matters	310,000	100%	310,000	309,115	885
Strategic Matters	160,000	100%	160,000	260,448	(100,448)
Sub-Total Professional Services	550,000		550,000	630,661	(80,661)
GST/HST on Consulting Fees	146,835		146,835	158,820	(11,985)
<b>Total Management &amp; Professional Services *</b> (See Note 2)	<b>1,276,335</b>		<b>1,276,335</b>	<b>1,380,513</b>	<b>(104,178)</b>
<b>OTHER EXPENSES</b>					
Audit Expenses	107,000	100%	107,000	106,487	513
Annual Dinner	7,500	100%	7,500	8,390	(890)
Premium Taxes	289,000	100%	289,000	257,531	31,469
Chairman's Expenses	3,000	100%	3,000	1,473	1,527
Chairman's Honourarium	150,000	100%	150,000	150,000	-
Reinsurance Expense	8,500	100%	8,500	4,542	3,958
D&O Insurance	20,000	100%	20,000	18,900	1,100
Office Expenses	25,000	100%	25,000	27,560	(2,560)
Office Expenses - Website management software license	3,000	100%	3,000	949	2,051
Claims: Borderaux (LawPro/LIF)	14,600	100%	14,600	14,850	(250)
Special Services	50,000	100%	50,000	24,695	25,305
Miller Insurance Fees (Reins. Comm.) (See Note 3)	279,000	100%	279,000	279,000	-
I.B.C Statistical Plan Fees	4,000	100%	4,000	2,371	1,629
Assessment Fees	3,000	100%	3,000	3,000	-
Investment counsel fees	30,000	100%	30,000	27,653	2,347
Investment - Custodial	18,000	100%	18,000	18,539	(539)
Risk Management/Loss Prevention	50,000	100%	50,000	-	50,000
License Fee	6,500	100%	6,500	4,000	2,500
Insurance: Sundry	-		-	-	-
<b>Sub-total</b>	<b>1,068,100</b>		<b>1,068,100</b>	<b>949,939</b>	<b>118,161</b>
<b>TOTAL</b>	<b>2,344,435</b>		<b>2,344,435</b>	<b>2,330,452</b>	<b>13,983</b>

**\* NOTE 1: MANAGEMENT SERVICES**

The actual budget of \$612,00 has been reduced to \$579,500 as a result of Commissions received on CLLAS associate program.

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

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

First Quarter, ending March 31st	21%
Second Quarter, ending June 30th	43%
Third Quarter, ending September 30th	16%
Fourth Quarter, ending December 31st	20%
	<u>100%</u>

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

The annual budget is based upon the annual fee estimated for the policy period 2016/2017.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY  
SUMMARY OF RISK METRICS  
December 31, 2017

Exhibit V

	Risk Category	Risk Metric	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017	Target	Limit
(1a)	<b>Insurance</b>	Prior year development - Gross of reinsurance	-6%	27%	-13%	-8%	≤ 0%	> 20%
(1b)		Prior year development - Net of reinsurance	-33%	-29%	-45%	8%	≤ 0%	> 10%
(2a)		3-year net combined ratio	84%	79%	91%	115%		
(2b)		3-year net combined ratio before surplus adjustments via premiums	81%	74%	78%	91%	≤ 100%	> 125%
(3)		Maximum allocation to a single jurisdiction	57%	56%	56%	60%	n/a	> 67%
(4)	<b>Reinsurance</b>	Reinsurer credit rating	BBB+ to A+	BBB+ to A+	A- to A+	A- to A+	≥ A	< A-
(5)		Maximum concentration with a single reinsurer excl. Colchester	13.3%	11.6%	12.2%	12.8%	≤ 10%	> 15%
(6)	<b>Interest Rate</b>	Interest rate risk per MCT formula at 1.25%	\$201,667	\$162,000	\$112,000	\$198,000	≤ \$250,000	> \$600,000
(7)	<b>Liquidity</b>	Ratio of cash and short-term investments to gross claim liabilities	21%	13%	16%	14%	≥ 15%	< 10%
(8)		Ratio of short term funds to total short & long term funds	69%	64%	69%	70%	≥ 40%	< 20%
(9a)	<b>Asset Default</b>	Credit rating of invested assets	AA to AAA	AA to AAA	AA to AAA	AA to AAA	AA to AAA	< A
(9b)		Credit rating of Bankers Acceptances and Certificates of Deposit	R1 - High	R1 - High	R1 - High	R1 - High	R1-High	< R1-High
(10)		Maximum allocation to a single non-government security	1.6%	2.4%	6.7%	6.7%	n/a	> 5%
(11)	<b>Strategic</b>	Annual Advisory Board turnover	0	0	0	0	≤ 2 members	> 4 members
(12)	<b>Operational</b>	Key management/advisor turnover	0	0	0	0	≤ 1 per 3 years	> 1 per year
(13)	<b>Regulatory Solvency Indicators</b>	AMRGF - Excess of cash and approved securities over required reserve and guarantee fund	\$8,020,000	\$6,934,000	\$9,595,000	\$7,749,500	\$3,500,000 to \$7,000,000	< \$3,500,000
(14)		MCT	346%	359%	463%	451%	≥ 210%	< 210%

**Notes**

(1) = Year-over-year change in ultimate losses / Prior year undiscounted unpaid claims (excl. ULAE); net development in 2017 is mainly due to one claim of \$650,000

(2a) = [3-year net incurred losses + 3-year operating expenses] / [3-year net earned premiums]; only experience after June 30, 2012 has been considered in the 2014 combined ratio to exclude the effect of the LPT transaction

(2b) = (2a), where 3-year net earned premiums reflect actuary's indicated premium rates before surplus distributions

(3) Based on insured lawyer counts

(4) Based on A.M. Best. information from report on reinsurance security (October 31, 2017). Note that in 2013 and 2014, there was only one reinsurer with credit rating of BBB+ (Alleghany Corporation, formerly Transatlantic Reinsurance Company).

(5) Based on claim liabilities exposure. Lloyds syndicates are assessed separately. 2014 information from report on reinsurance security (September 23, 2014); 2015 information from report on reinsurance security (October 30, 2015); 2016 information from report on reinsurance security (October 21, 2016); 2017 information from report on reinsurance security (October 31, 2017).

(10) Maximum allocation does not consider cash and cash equivalents. At December 31, 2017, the largest non-government security is a money market investment rated R1-High maturing on January 23, 2018.

(12) Includes principal attorney, general manager, accountant, auditor, actuary, reinsurance broker and excess insurance broker.

(14) The 2014 MCT ratio shown above calculated based on the old MCT guidelines.

Color Code
Meets Target
Between Target and Limit
Exceeds Limit

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**For the Period Ending December 31, 2017**

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

	Current Year to Date 12/31/2017 (in \$000's)	Prior Year End 12/31/2016 (in \$000's)
<b><u>Reserve Fund</u></b>		
Premiums collected or credited having one year or less to run	(1) 7,138	10,610
Less: Amount paid to licensed reinsurers	(2) 5,075	8,347
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) 2,063	2,263
Reserve Fund Required (50% of Line 5)	(6) 1,032	1,132
<b><u>Guarantee Fund</u></b>		
Total Liabilities	(7) 110,202	109,667
Less: Unearned Premiums	(8) 3,540	5,262
Less: Recoverable from licensed reinsurers	(9) 95,515	93,713
Plus: Statutory Margin	(10) 50	50
Guarantee Fund Required (Line 7 minus Lines 8 and 9 plus line 10)	(11) 11,197	10,742
<b>TOTAL RESERVE &amp; GUARANTEE FUND REQUIRED (Line 6+11)</b>	(12) 12,229	11,874
Cash & Approved Securities	(13) 19,978	21,469
Excess of Cash & Securities over Reserve & Guarantee Fund (line 13 minus line 12)	(14) 7,750	9,596



Actuaries & Insurance Management Advisors

# Canadian Lawyers Liability Assurance Society

Actuarial Valuation of Policy Liabilities as at December 31, 2017

Presentation to the Audit Committee  
February 15, 2018

# 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, 2017 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

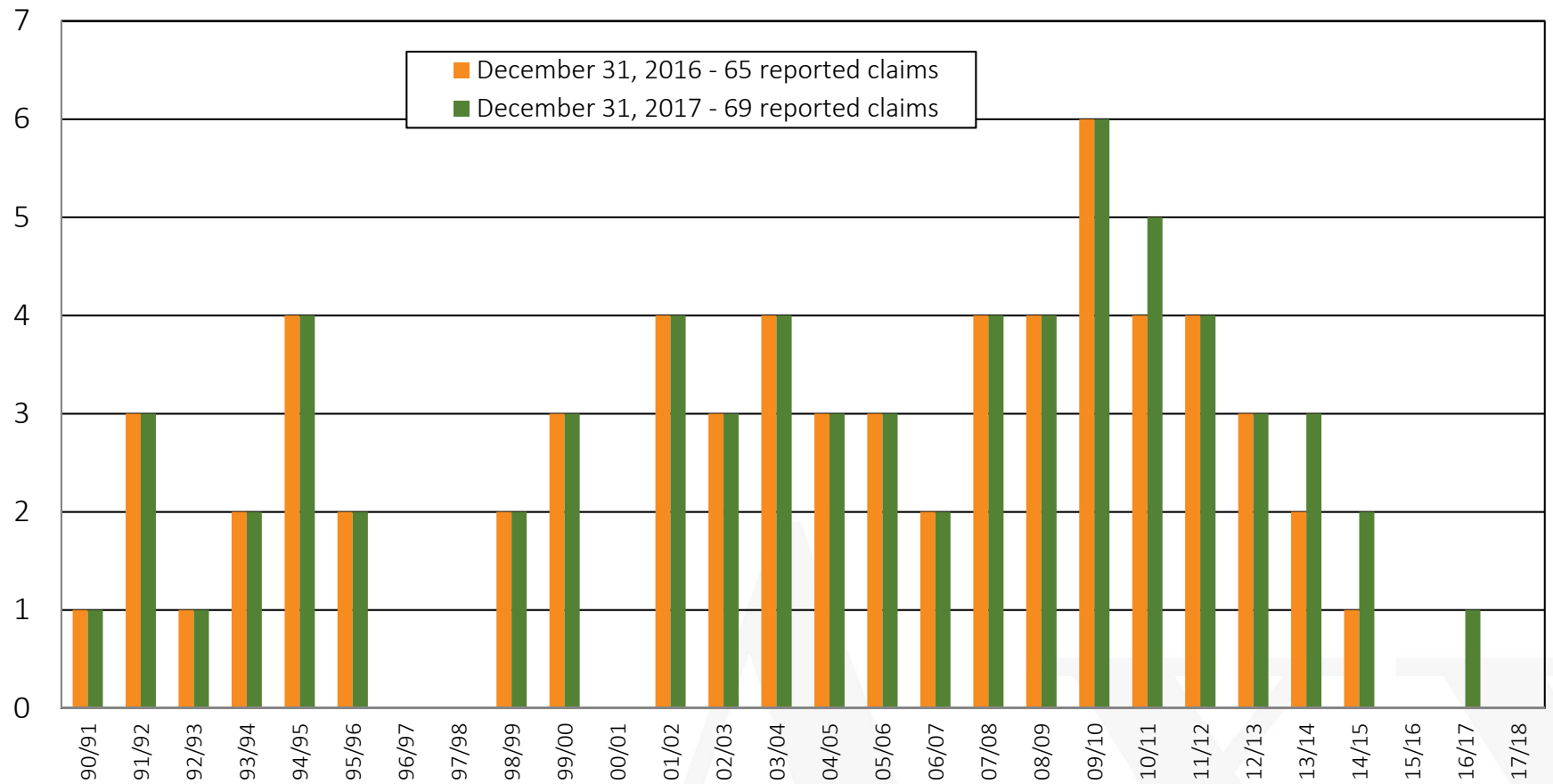
# CLLAS

## 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

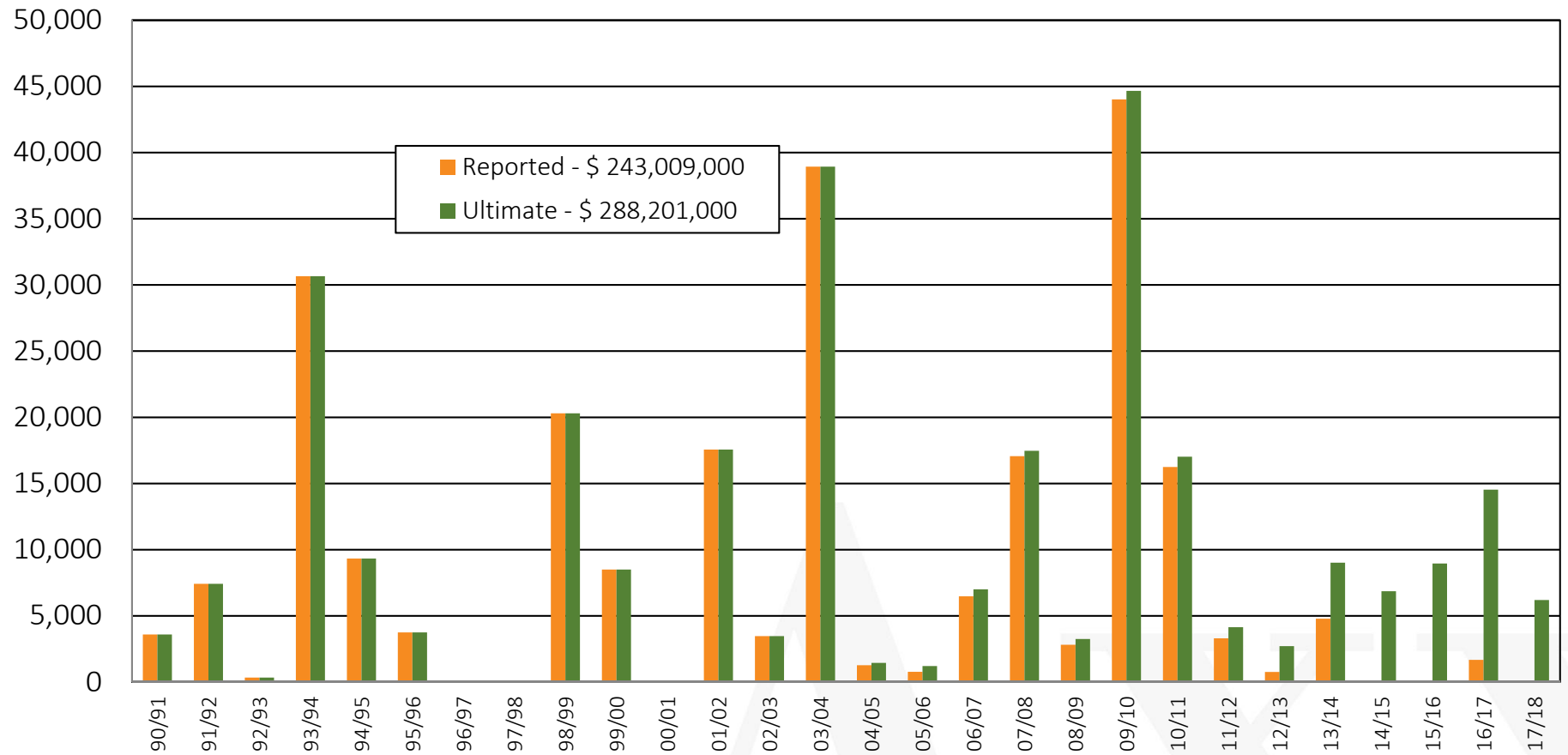
## Reported Incurred Loss Activity – Claim Counts \*



\* Includes non-zero claims only

# CLLAS

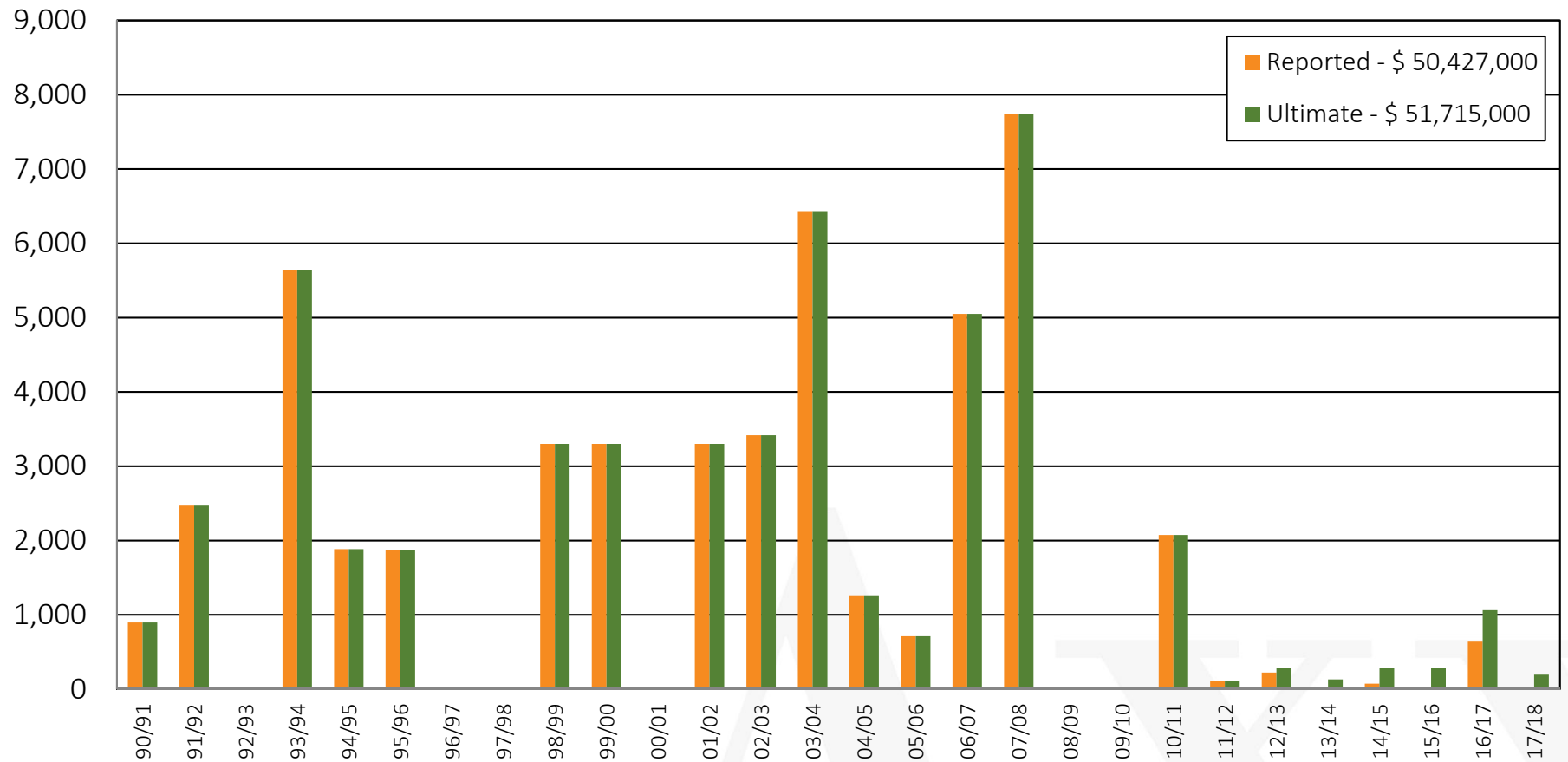
## Gross Reported vs. Ultimate Losses\* (in \$000's)



\* Excluding ULAE

# CLLAS

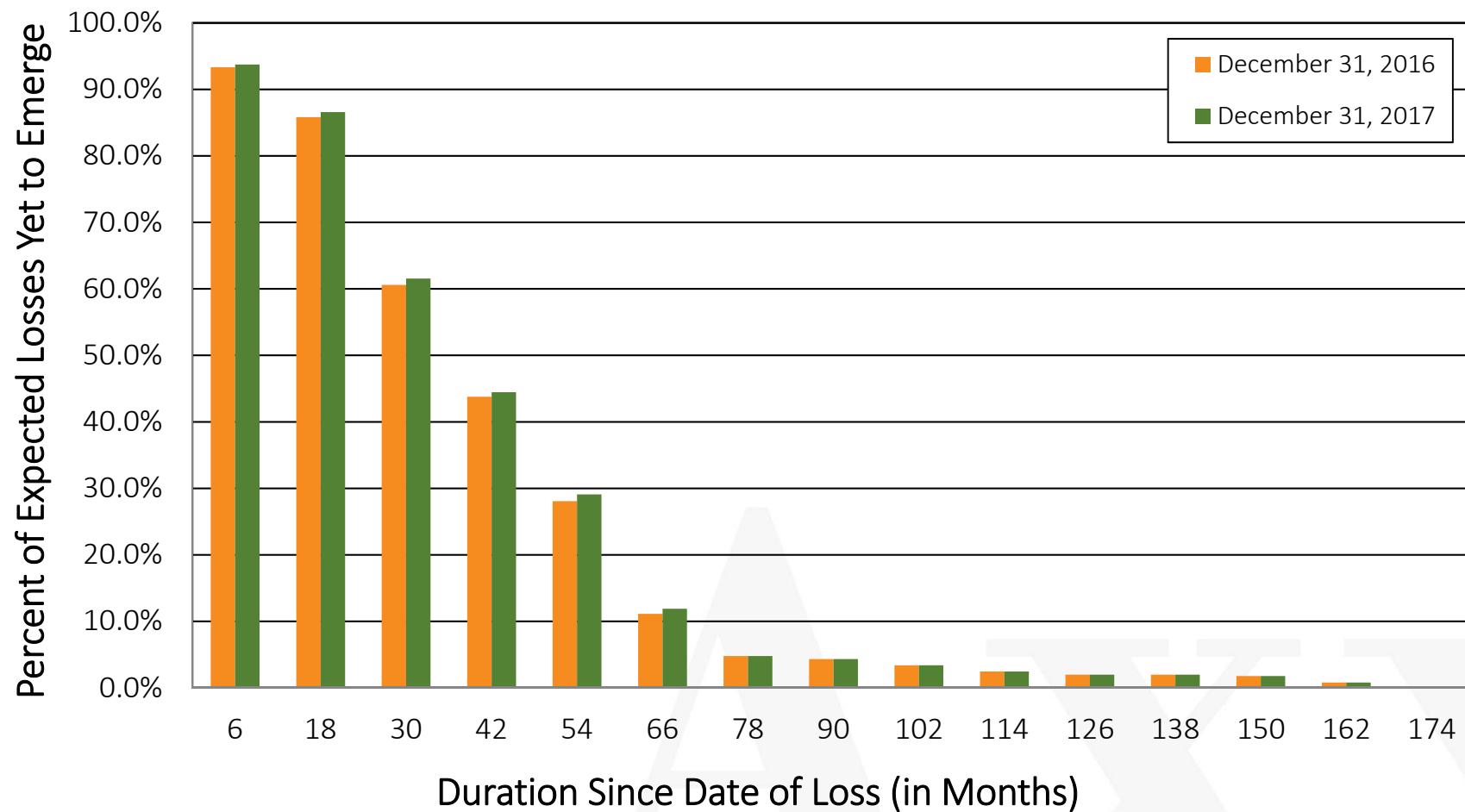
## Net Reported vs. Ultimate Losses\* (in \$000's)



\* 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

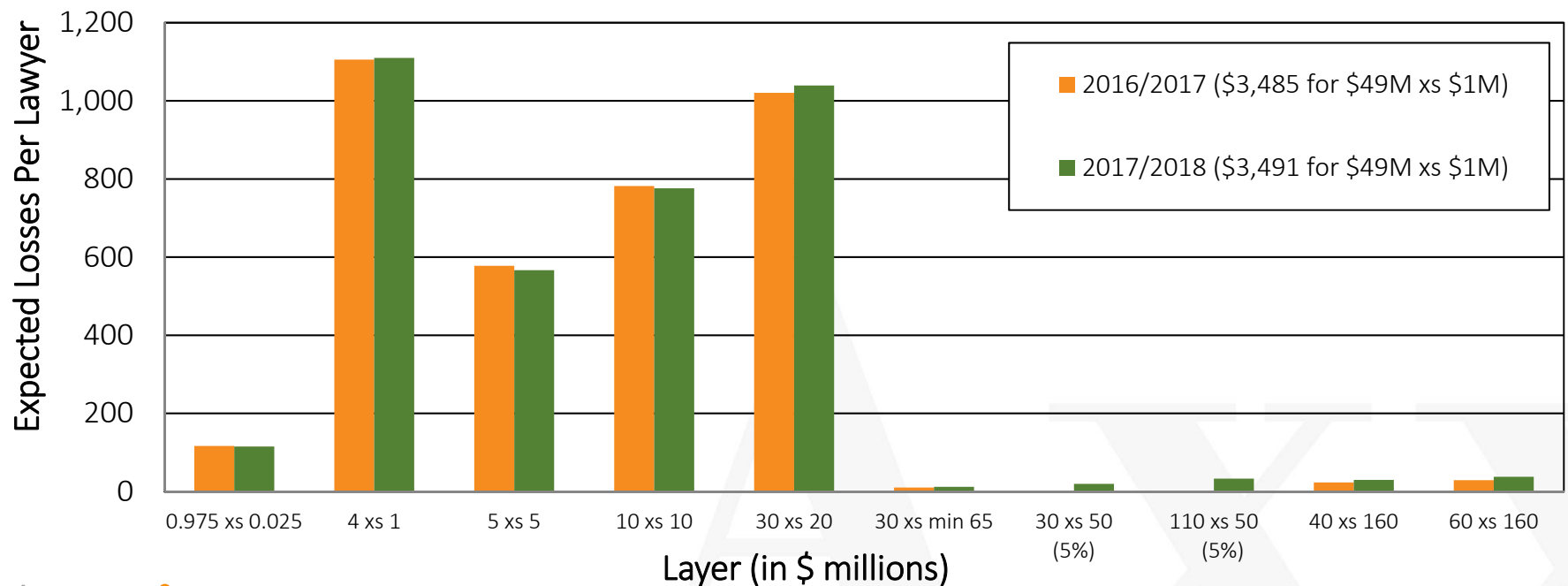
## Loss Development Factors



# CLLAS

## 2017/2018 Expected Loss Costs

- Revision of expected loss costs for 2017/2018 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 2017/2018

- Colchester retains 20% of the layer \$49,000,000 xs \$1,000,000 and 7.5% 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

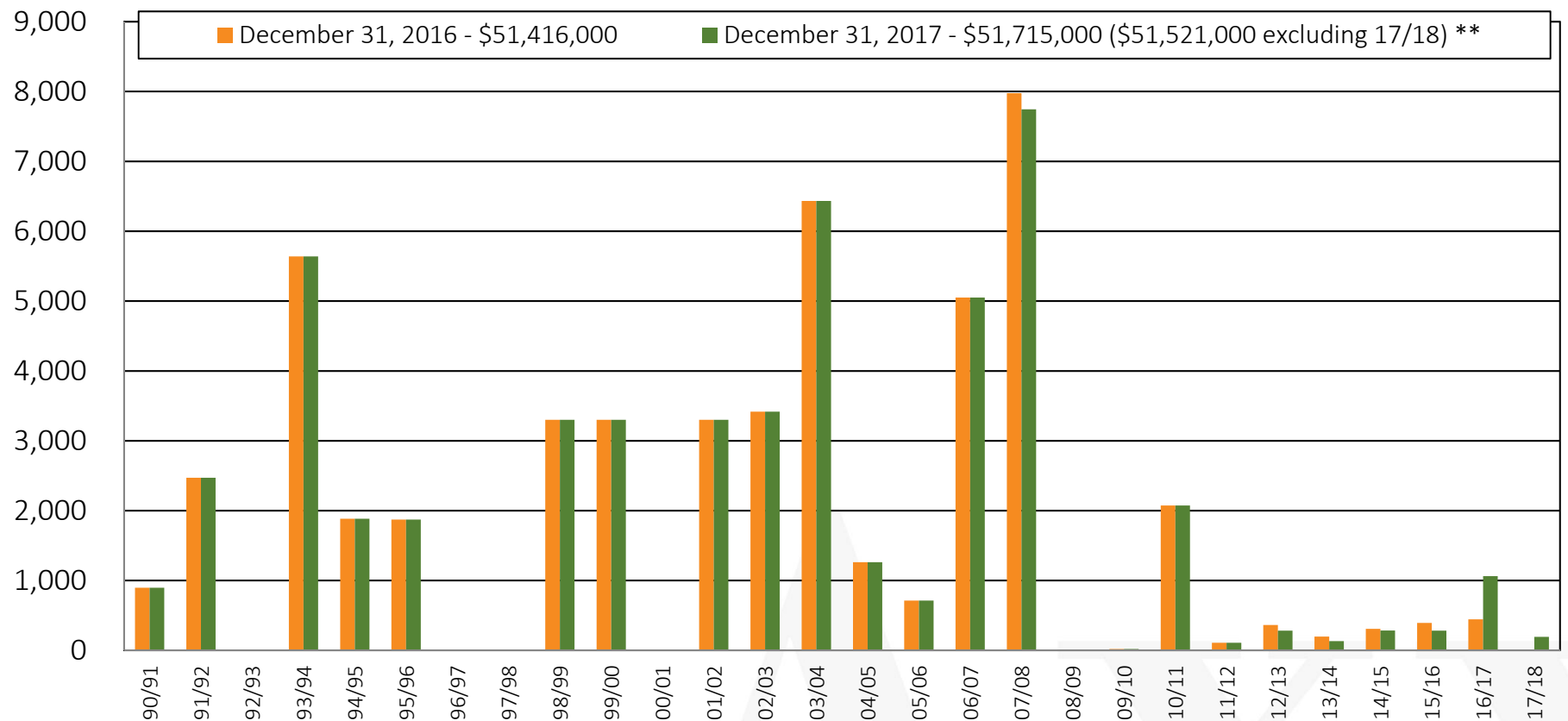
## Loss Portfolio Transfer to Colchester on June 30, 2012

- 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 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.

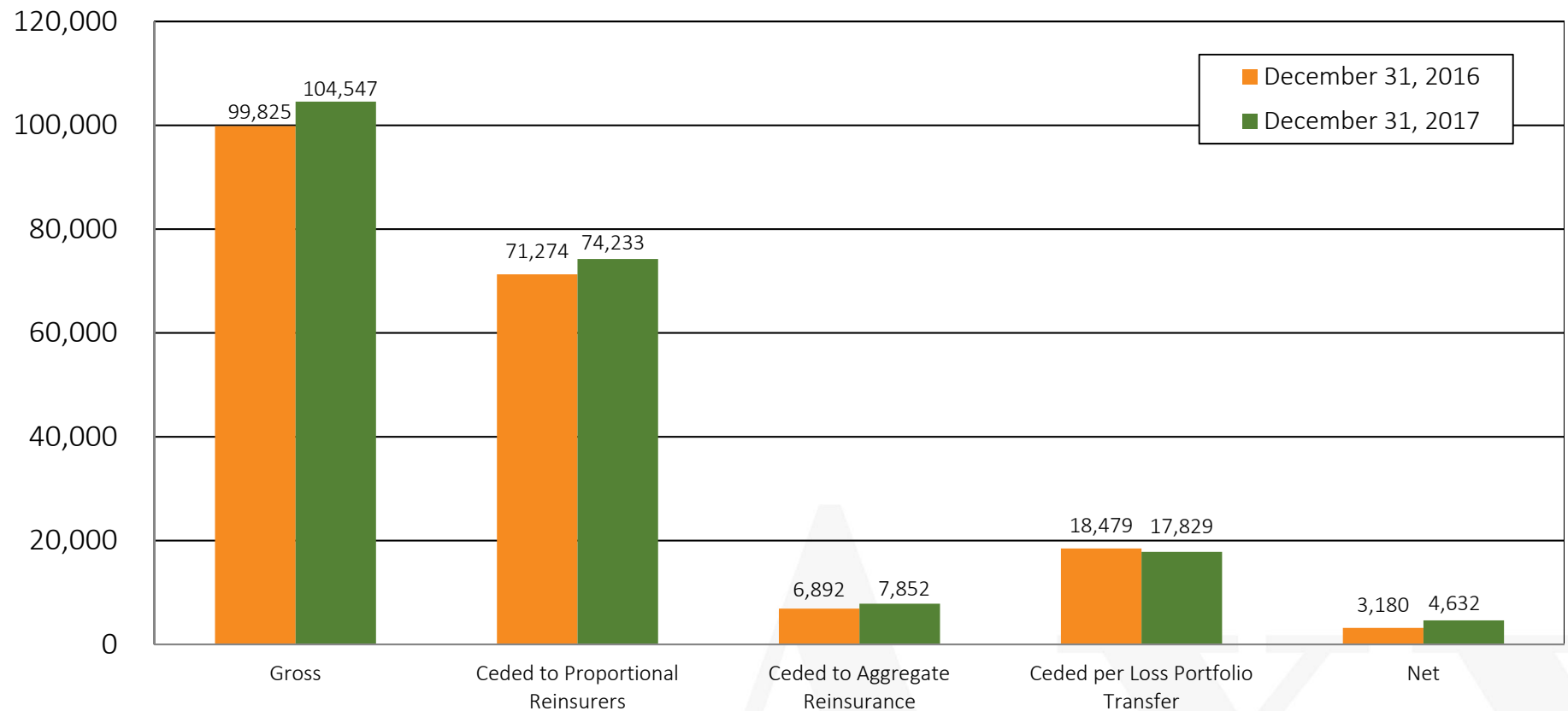
# CLLAS

## 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, 2017
- Loading of 2.60% applied to gross case reserves and gross provisions for IBNR (increase from 1.95% as of December 31, 2016 due to lengthening of ULAE period from 7 to 10 years )
- Provision for ULAE at December 31, 2017: \$2,650,000
- 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 2.15% (1.75% in 2016) was selected based on the market yield of CLLAS' fixed income portfolio at December 31, 2017 since CLLAS has classified its fixed income portfolio as available-for-sale per IFRS 9

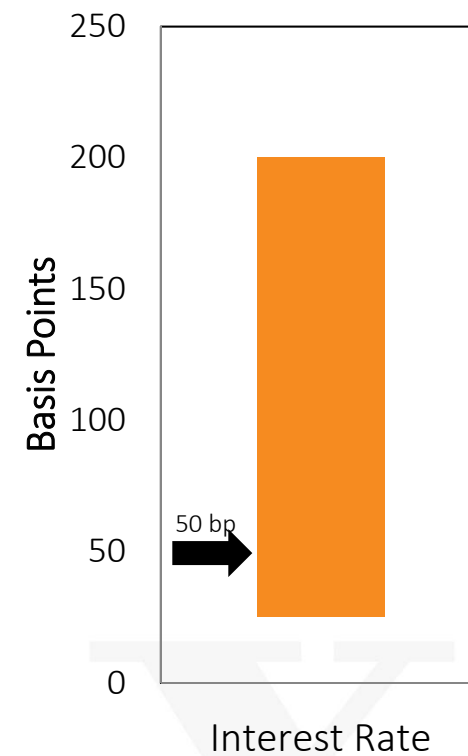
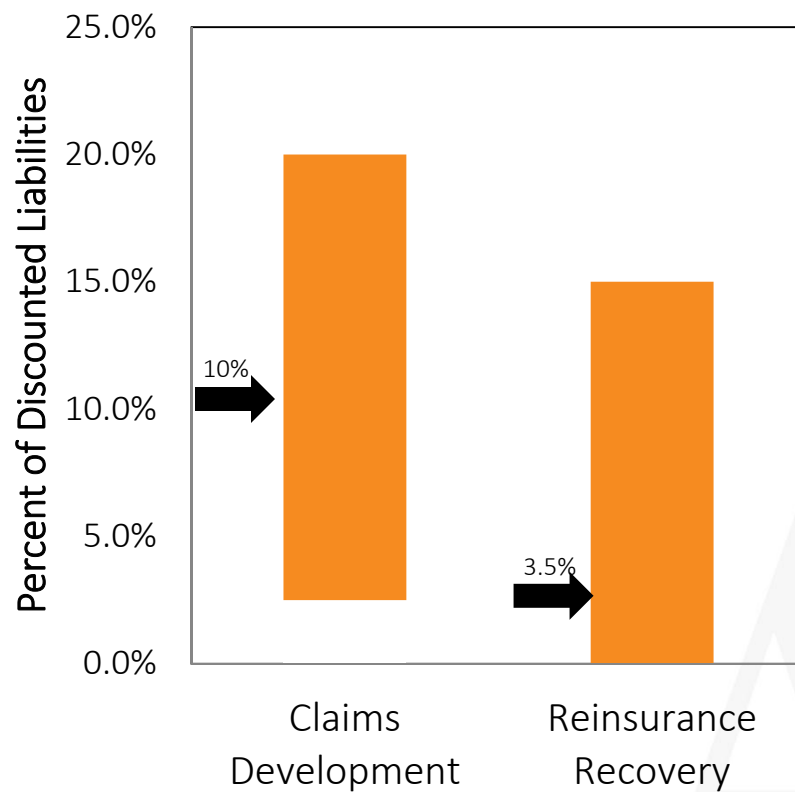
# CLLAS

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



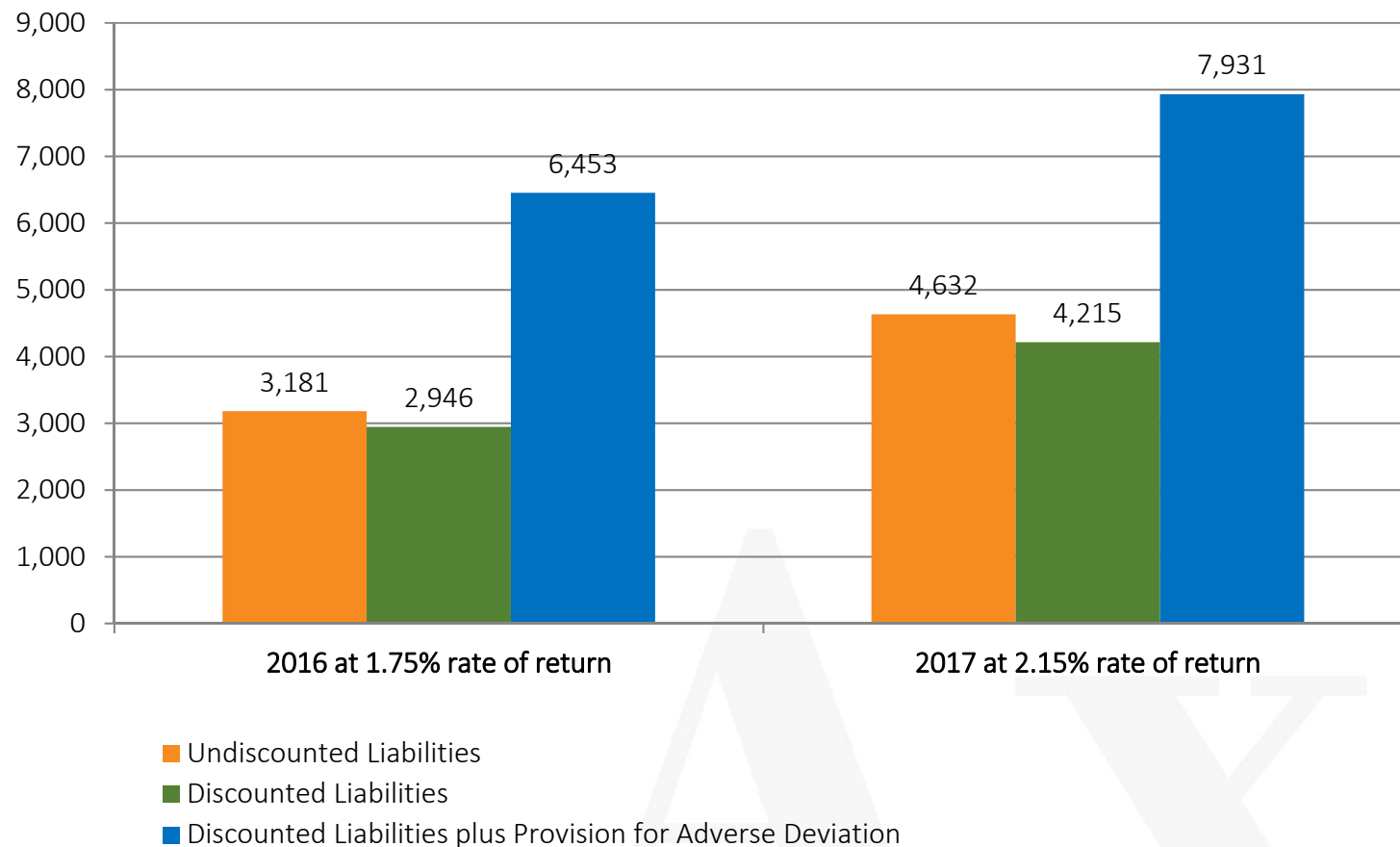
# CLLAS

## Impact of changes in methodology and assumptions

- There was no change in methodology in the valuation at December 31, 2017 other than the lengthening of the ULAE period.
- The impact of the change in loss development factors, ULAE load, discount rate and reinsurance PFAD led to an increase of \$533,000 in net discounted claim liabilities

# CLLAS

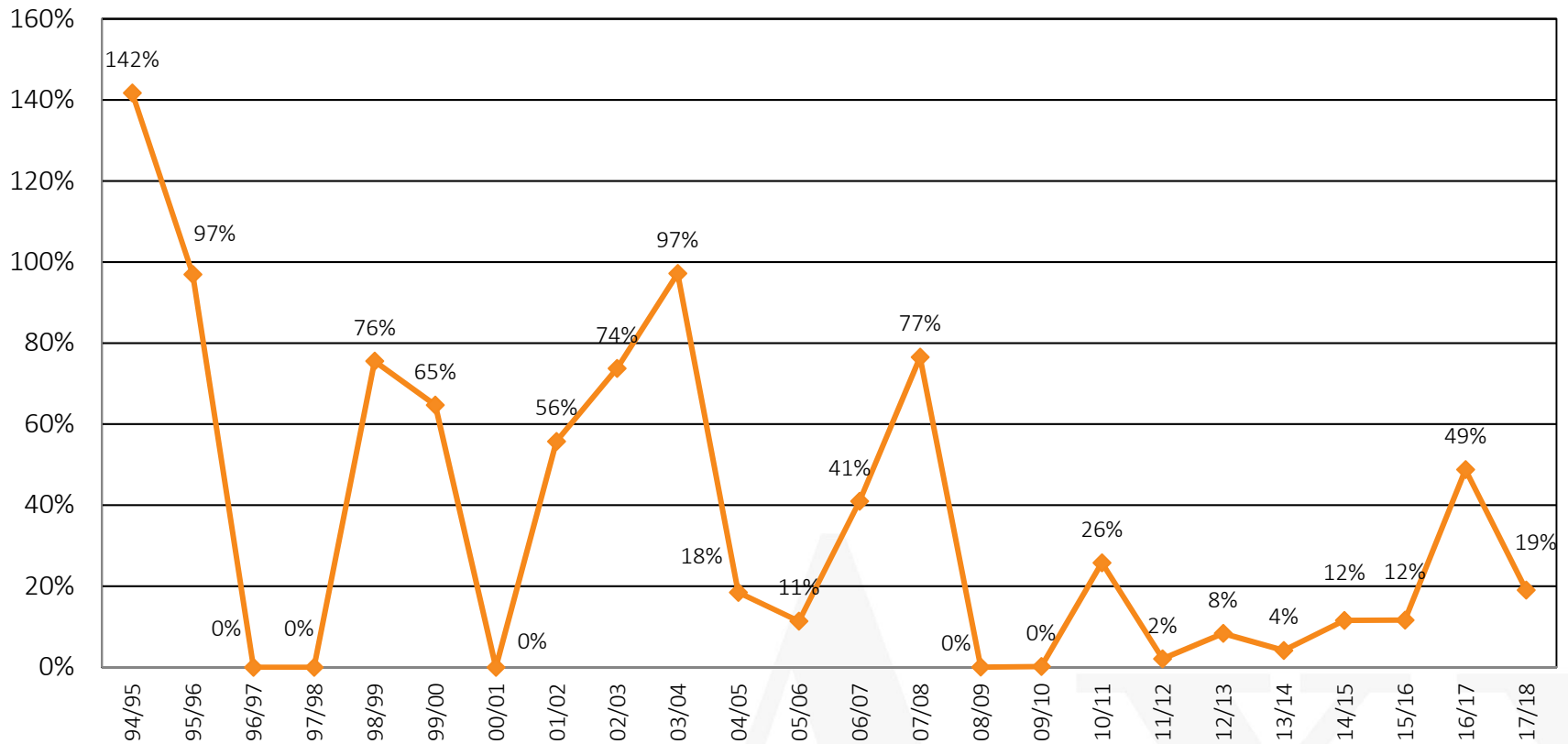
## Summary of Net Provision for Unpaid Claims (in \$'000s)





# 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 \$103,000

# CLLAS External Peer Review

The peer reviewer had the following recommendations:

- In the Expression of Opinion, line 9 shows only “Unearned Commissions” in the table of premium liabilities. According to the OSFI Memorandum for the Appointed Actuary, line 9 also includes “Ceded Deferred Premium Taxes” and “Ceded Deferred Insurance Operations Expenses”. Please change the line name and add those amounts to line 9, if any.
- adding a comment on how you derive the investment expenses in the section of Discounting and Provision for Adverse Deviation (page 16) ( the discount rate is reduced by the investment expenses of 0.17%)
- adding some comments on the explicit margin for expected credit-related events in the discount rate section.
- adding more uncertainty to MfAD for premium liability or comment on your reasoning to select the same level of margins.
- adding commentary on the differences between page 60.40 and AAR’s runoff exhibit.
- including the supplementary information supporting the Opinions.

As a result of these recommendations, additional commentary and Part 10 can be found in our report.



# discussion

February 12, 2018

***Private & Confidential***

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

Dear Nick,

The purpose of this letter is to set out the proposed operating budget for CLLAS for 2018, including the proposed budget for the provision by Axxima of Management and Professional Services.

**TOTAL OPERATING BUDGET FOR 2018**

The draft total operating budget for CLLAS for 2018 is presented in Attachment A to this letter, together with the budget and actual figures for 2017. Overall, CLLAS finished 2017 \$14,000, or 0.6% 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.

- **Premium Taxes.** Premium taxes came in under budget for 2017. Premium taxes are a percentage of premium (the rate varies slightly by province) and premiums in 2017 were considerably lower than had been anticipated when the budget was struck due to the reinsurance negotiation strategy implemented in March 2017. The 2018 budget number has been established based on a flat renewal.
- **Website Expense.** The cost of website hosting has come down to less than \$1,000 per year and we propose to roll this item into the general office expense budget for 2018.
- **Special Services.** This line is for expenses related to external legal and other professional services provided to CLLAS. In 2017, we incurred legal expenses relating to the redraft of CLLAS’ Subscribers Agreement. Based on the history of this line, we propose to reduce the 2018 budget number from \$50,000 to \$25,000.
- **Miller Fees.** Miller fees for the 2017/18 policy year were agreed at \$279,000. The budget contemplates no change to this fee for the 2018/19 policy year.

- **Risk Management/Loss Prevention.** The Risk Management/Loss Prevention line was not utilized in 2018 as John Walker finished his work on the “re-audits” in 2017. Subject to input from the Risk Management Committee, we propose to reduce this line from \$50,000 to \$25,000 for 2018.

## 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 claims activity, as discussed in more detail below, Management Services finished the year \$11,532 over its budget of \$579,500. The proposed fixed fee budget for 2018 (net of credits, as discussed below) is \$520,500, a reduction of 10.2% from 2017. This reduction is in part due to a lower fixed fee and in part due to an increase in commissions received by Axxima’s insurance brokerage, as discussed below.

Details of the Management Services budget by line are presented in the following table:

Activity	2017 Budget	2017 Actual	Fav/ (Unfav) Variance	2018 Budget (proposed)	Change (\$)	Change (%)
(a) Financial	\$190,000	\$190,000	\$ 0	\$190,000	(\$ 0)	0.0%
(b) General Admin.	\$ 90,000	\$ 90,000	\$ 0	\$ 95,000	\$ 5,000	5.6%
(c) Claims Admin.	\$260,000	\$260,000	\$ 0	\$240,000	(\$20,000)	-7.7%
(d) Claims Analysis*	\$ 72,000	\$ 83,532	(\$ 11,532)	\$ 72,000	\$ 0	0.0%
Subtotal	\$612,000	\$623,532	(\$ 11,532)	\$597,000	(\$20,000)	-2.5%
(e) Less Credit	\$ 32,500	\$ 32,500	\$ 0	\$ 76,500	\$ 44,000	135.4%
Total	\$579,500	\$591,032	(\$ 11,532)	\$520,500	(\$59,000)	-10.2%

\* Variable

- (a) **Financial Reporting.** Activity on the Financial Reporting line has stabilized over the past few years, after the adoption of CLLAS’ initial ORSA report and the implementation of new financial reporting metrics. We have been advised by the Alberta regulator that no significant regulatory changes are expected at the OSFI level. Planning for IFRS 17 (Insurance Contracts) has begun, but the standard takes

effect January 1, 2021, so implementation activity will be concentrated in 2020. We are proposing no change to this line for 2018.

- (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 somewhat above expectations in 2017 and we are proposing a small increase to this line for 2018.
- (c) **Claims Administration.** The Claims Administration line was reduced significantly for 2016 and held steady in 2017. Based on experience in the latter half of 2017, we anticipate a reduction in activity in this area due to the withdrawal from CLLAS of Dentons. Obviously CLLAS' annual claim count will be reduced as a result, but also Denton's was a "high-touch" firm from an administrative perspective in terms of claim intake, monitoring, etc. As a result, we are proposing a \$20,000 reduction in this line for 2018.
- (d) **Claims Analysis.** The Claims Analysis line, which tracks activity on the claims where CLLAS is actively involved in claims management (due to the nature or significance of the particular claims) finished 2017 over budget largely as a result of managing a relatively small number of complicated claims. The Claims Analysis line is variable, i.e. it is adjusted quarterly based on activity in the year. We are proposing to leave the budget number unchanged for 2018.
- (e) **Credit re CLLAS-Facilitated Policies.** Both the 2017 and proposed 2018 fixed fee budgets are net of a credit which represents commissions received by Axxima's insurance brokerage. Details are as follows:
  - **2017:** Lencznerners joined the CLLAS Associate program effective January 1, 2016. The final six months of Lencznerners' initial 18-month policy term) was invoiced on January 1, 2017. The commission for this installment was \$17,508.75. Stockwoods joined the CLLAS Associate program effective January 1, 2017. The firm chose an 18-month policy and the full 18 months was invoiced and paid as of January 1, 2017. The commission for this policy was \$14,962.50. CLLAS received a credit against 2017 management services of \$32,500 to account for these commissions.

- **2018:** Lenczners renewed its coverage under the CLLAS Associate Firm program for a 12-month policy term effective July 1, 2017. The commission for this policy was \$36,311.75. In addition, commissions to date on firms binding cyber coverage total \$40,092.18. In total for 2018, CLLAS will receive a credit against management services in 2018 of \$76,500 to account for these commissions. (The cyber commissions include six CLLAS firms. As additional firms bind cyber coverage for the current policy term, a credit will be applied against 2019 management fees.)

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. Fees on the Actuarial and Reinsurance lines were under budget for the year, but due to significant activity on the Strategic line (discussed below) overall Professional Services fee exceeded the budget by about \$80,000.

As set out in the table below, we are proposing a decrease in the overall budget for Professional Services of \$20,000 or 3.6%. Details by line are discussed after the table.

		2017 Budget	2017 Actual	Fav/ (Unfav) Variance	2018 Budget (proposed)	Change (\$)	Change (%)
(a)	Actuarial	\$ 80,000	\$ 61,098	(\$ 18,902)	\$ 70,000	(\$10,000)	-12.5%
(b)	Reinsurance	\$310,000	\$309,115	(\$ 885)	\$300,000	(\$10,000)	-3.2%
(c)	Strategic	\$160,000	\$259,944	\$100,448	\$160,000	\$ 0	0.0%
	Total	\$550,000	\$630,157	(\$ 80,661)	\$530,000	(\$20,000)	-3.6%

- (a) **Actuarial Services.** Activity on the Actuarial line was, for the second year in a row, relatively light after a busy 2015 focused on ORSA. We propose a further reduction in the budget for 2018, from \$80,000 to \$70,000.
- (b) **Reinsurance Services.** As the Board will be aware, 2017 was an active year in the reinsurance area. As the Underwriting Period renewal approached, it became



necessary to secure reinsurance terms earlier than usual, and so an abbreviated reinsurance submission was prepared, and discussions with reinsurers undertaken. In order to obtain the desired pricing, the commercial insurance layers were restructured, and CLLAS participated in those layers for the first time. Face-to-face meetings with the markets took place in May. At the end of the day, CLLAS was successful in negotiating and documenting the desired terms. The Reinsurance Services budget is usually established on a conservative basis and is typically not fully utilized except in unusual circumstances. Fees for 2017 in fact came in basically on budget. We proposed to proceed with the same conservative philosophy for 2018, with a slight reduction in the budget from \$310,000 to \$300,000.

(c) **Strategic Services.** 2017 was a year of heavy activity on strategic issues with the highlights being work on the Associate Firm initiative, the CLLAS cyber program and the revised Subscribers' Agreement. As a result, the \$160,000 budget being exceeded by about \$100,000. Activities included work relating to:

- Associate Firm initiative, including discussions with prospective firms, including premium comparisons, follow ups, review of applications;
- Development of a surplus contribution strategy for new entrants to CLLAS, including detailed discussions with Lencznors;
- Blakes refund of surplus work, including review of appropriate surplus levels, structuring of payment and discussions with firm;
- Redraft of CLLAS Subscribers' Agreement, including co-ordination with legal counsel and interactions with Policy Committee;
- Discussions with member firms regarding the 7<sup>th</sup> Underwriting Period;
- CLLAS cyber initiative including policy/coverage comparisons, market discussions, review of applications, issuance of quotes, discussions with individual firms, binding coverage, claims protocol;
- Finalization of governance policies, specifically Surplus Management, Related Party Transactions, Outsourcing.

Activity on the Strategic Services line is difficult to predict but given that the cyber program has been established (although work continues to bring firms on-board) and the Subscribers Agreement has been adopted, we propose that the budget for Strategic Services remain unchanged for 2018.

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.



## A Note on Profit Sharing

As you are aware, the CLLAS Associate Firm Program is insured under a Binding Authority (with Lloyd's and CNA) which is held by Axxima. The Binding Authority includes a profit sharing provision specific to the Program. Under the profit sharing arrangement, Axxima is entitled to receive 20% of the profits of the Program (according to a defined formula, basically premiums minus claims, insurer expenses and commissions). To the extent a Program year generates a profit, Axxima's share is to be paid to it after 36 months. However, adjustments are to be made until all liabilities under the applicable policies in the year have run off, meaning that funds received are exposed to repayment if losses for the year deteriorate. If the Program overall is in a loss position, losses are carried forward to ensuing years, until previous losses have been recouped.

We propose to treat any profit sharing amounts in a manner similar to the commissions discussed above. We will apply profit sharing amounts actually received from underwriters against the next Management Services fee budget, subject to CLLAS' acknowledgement of the obligation to potentially repay the funds based on future loss experience. We will provide CLLAS with an annual profit sharing statement for the Program. The proposed approach can be revisited if circumstances warrant.

For your information, the profit sharing which has emerged to date under the Program is \$21,011. This amount remains exposed to losses, although it is not currently expected that any open claims will develop into the Program's layer. Payment has not yet been received by Axxima.

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 read "P. Mahoney".

Patrick Mahoney

Copy: Ken Crofoot  
CLLAS Advisory Board

**Canadian Lawyers Liability Assurance Society  
2018 Operating Budget**

	<u>2017 Budget</u>	<u>2017 Actual</u>	<u>Fav/ (Unfav) Variance</u>	<u>Proposed 2018 Budget</u>
<b>MANAGEMENT SERVICES</b>	<b>579,500</b>	<b>591,032</b>	<b>(11,532)</b>	<b>520,500</b>
<b>PROFESSIONAL SERVICES</b>				
Actuarial Services	80,000	61,098	18,902	70,000
Reinsurance Matters	310,000	309,115	885	300,000
Strategic Matters	160,000	260,448	(100,448)	160,000
<b>Sub-Total Professional Services</b>	<b>550,000</b>	<b>630,661</b>	<b>(80,661)</b>	<b>530,000</b>
<b>Total Consulting Fees</b>	<b>1,129,500</b>	<b>1,221,693</b>	<b>(92,193)</b>	<b>1,050,500</b>
HST on Consulting Fees	146,835	158,820	(11,985)	136,565
<b>Total Consulting Services</b>	<b>1,276,335</b>	<b>1,380,513</b>	<b>(104,178)</b>	<b>1,187,065</b>
<b>OTHER EXPENSES</b>				
Audit Expenses	107,000	106,487	513	113,000
Annual Dinner	7,500	8,390	(890)	8,500
Premium Taxes	289,000	257,531	31,469	207,000
Chairman's Expenses	3,000	1,473	1,527	3,000
Chairman's Honorarium	150,000	150,000	-	150,000
Reinsurance Expense	8,500	4,542	3,958	8,500
D&O Insurance	20,000	18,900	1,100	20,000
Office Expenses - General	25,000	27,560	(2,560)	25,000
Office Expenses - Website	3,000	949	2,051	-
Claims Bordereaux (LawPRO/LIF)	14,600	14,850	(250)	15,400
Special Services	50,000	24,695	25,305	25,000
Miller Insurance Fees (Reins. Comm.)	279,000	279,000	-	279,000
IBC Statistical Plan Fees	4,000	2,371	1,629	4,000
Regulator Assessment Fees	3,000	3,000	-	3,000
Investment Counsel Fees	30,000	27,653	2,347	30,000
Investment - Custodial Fees	18,000	18,539	(539)	18,000
Risk Management/Loss Prevention	50,000	-	50,000	25,000
Licensing Fees	6,500	4,000	2,500	5,000
Insurance Sundry	-	-	-	-
<b>Sub-total</b>	<b>1,068,100</b>	<b>949,940</b>	<b>118,160</b>	<b>939,400</b>
<b>TOTAL</b>	<b>2,344,435</b>	<b>2,330,453</b>	<b>13,982</b>	<b>2,126,465</b>

**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.



## M E M O R A N D U M

**TO:** CLLAS Board  
**FROM:** Patrick Mahoney  
**RE:** Summary of CLLAS Governance Policies  
**DATE:** February 12, 2018

CLLAS has adopted a number of governance policies over the past few years. The table below summarizes the status of these policies together with the anticipated dates for on-going review and approval.

Policy	Status	Regulatory requirement for approval	Last Reviewed/ Approved	Next Review/ Approval
Reinsurance Risk Management	Adopted	Annual /1	June 2016	June 2018
Surplus	Adopted	Annual	June 2017	June 2018
Investment	Adopted	Annual	Dec 2017	Dec 2018
Enterprise Risk Management	Adopted	Annual	Dec 2017	Dec 2018
Rate Setting	Adopted		June 2014	June 2019
Outsourcing	Adopted		Dec 2017	Dec 2022
Related Party Transactions	Adopted	Annual /2	Dec 2017	Dec 2022

/1 According to OSFI Guidelines, the Reinsurance Risk Management Policy is to be reviewed/confirmed annually. The annual reinsurance security evaluation which is documented in the Policy has not been reviewed in a few years. **We recommend that the Board refer the Policy to the Audit Committee for review at its Fall 2018 audit planning meeting.**

/2 The Superintendent has agreed to a review every five years for CLLAS' related party transaction policy.



## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

### Own Risk and Solvency Assessment Interim Update

Final Report  
February 22, 2017



This report constitutes the fiscal year 2017 interim update to the Own Risk and Solvency Assessment (“ORSA”) for the Canadian Lawyers Liability Assurance Society (“CLLAS”). The full ORSA report was adopted by CLLAS on February 24, 2016.

### **Management Analysis and Recommendations**

1. Since the last ORSA analysis was performed, there was no material change to CLLAS’ risk profile and therefore management recommends that the current surplus target based on an MCT ratio of 210% be maintained.
2. Management reviewed and recommends the following change to the targets and limits for risk metrics:

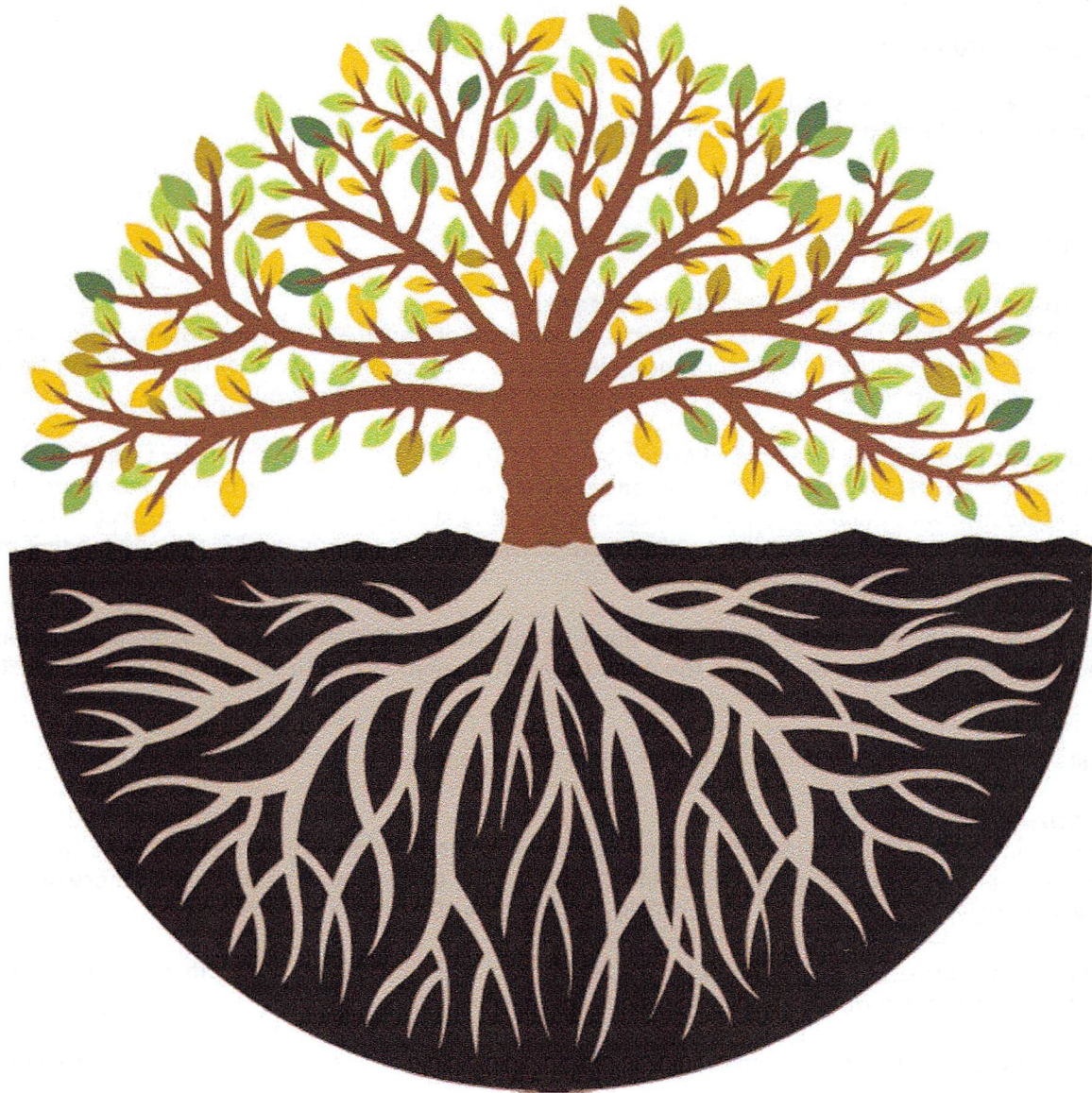
The maximum allocation to a single non-government security metric currently has a limit of 5% based on the concentration limits imposed in the *Alberta Insurance Act*. Because the *Act* allows for investments in excess of 5% in banks and that CLLAS’ investment policy allows for fixed-income instruments issued by Canadian banks rated R-1 or higher, management recommends that the limit be changed to 10% for individual investments associated with Canadian banks and remain at 5% for all other investments. The targets for maximum concentration should be set at 75% of the limit, or 7.5% and 3.75% for Canadian banks and other investments respectively.

3. Risk metrics for individual risk categories should continue to be monitored quarterly and the overall internal target of 210% and the targets and limits for individual risk metrics should be reviewed in 12 months.
4. The Enterprise Risk Management Policy should be revised to reflect Recommendation #2 above.

### **Recommendations Adopted by the Advisory Board**

The Advisory Board is satisfied that there was no material change in CLLAS’ risk profile. There was no change in risk appetite since the last ORSA and all management recommendations were adopted.





## **Audit results**

### **Canadian Lawyers Liability Assurance Society**

For the year ended December 31, 2017  
Presented to the Audit Committee  
February 15, 2018

February 9, 2018

**Private and confidential**

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

Dear Audit Committee Members:

**Report on audited annual financial statements**

We are pleased to submit this report on the status of our audit of Canadian Lawyers Liability Assurance Society ("the Society") for the 2017 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 November 8, 2017, we have performed an audit of the financial statements of Canadian Lawyers Liability Assurance Society as of and for the year ended December 31, 2017, in accordance with Canadian generally accepted auditing standards ("GAAS") and expect to issue our audit report thereon upon their approval by the Board of Directors and completion of the outstanding matters noted on page 1 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 November 8, 2017.

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

**Use of our report**

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

We would like to express our appreciation for the cooperation we received from the 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

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# At a glance

This report summarizes the main findings arising from our audit to date.

	Comments
<b>Status and outstanding matters</b> <i>We expect to issue an unmodified auditor's report.</i>	<p>The following matters need to be completed satisfactorily prior to the issuance of our auditor's report:</p> <ul style="list-style-type: none"> <li>• Receipt of the final Appointed Actuary Report</li> <li>• Receipt of signed management representation letter</li> <li>• Performance of subsequent event procedures up to February 22, 2018</li> <li>• Completion of the Engagement Quality Control review</li> </ul> <p>We plan to issue our audit opinions dated February 22, 2018, following completion of the above procedures and approval of the financial statements by the Advisory Board.</p>
<b>Significant audit risks</b> We have not identified additional significant risks during our audit.	<p>Our audit plan identified certain areas that we refer to as significant risks. The results of our audit work on these risks are set out on pages 3 and 4.</p>
<b>Uncorrected and corrected misstatements</b> We have not identified an uncorrected misstatements as yet. We will update you at the Audit Committee meeting.	<p>In accordance with Canadian GAAS, we request that all misstatements be corrected. We have not identified any corrected misstatements as of the date of this report.</p>
<b>Uncorrected and corrected disclosure misstatements</b>	<p>In accordance with Canadian GAAS, we request that all disclosure misstatements be corrected.</p> <p>We have read a draft of the financial statements and provided comments and disclosure recommendations to management, which they have accepted.</p>
<b>Fraud and illegal acts</b> <i>We found no instances of fraudulent and/or illegal activities.</i>	<p>A summary of the results of our audit procedures designed to address the risk of material misstatement in the financial statements relating to fraud is provided on page 3 of this report.</p>
<b>Significant accounting, policies, judgments and estimates</b> <i>The significant accounting policies are acceptable under IFRS and are appropriate.</i>	<p>The significant accounting policies, judgments and estimates are consistent with those identified in the audit plan. We have summarized the results of our procedures related to these items on pages 4 &amp; 6.</p>

		Comments
<b>Independence</b> <i>We are independent of the Society.</i>		We have developed appropriate safeguards and procedures to eliminate threats to our independence or to reduce them to an acceptable level. As required under Canadian GAAS, we have reported all relationships and other relevant matters that, in our professional judgment, may reasonably be thought to bear on our independence and confirmed our independence to the Audit Committee for the year ended December 31, 2017 in Appendix 3.

# Audit results

The following summarizes the status and findings of key aspects of our audit. In the appendices to this report, we have provided additional information related to certain matters we committed to report to the Audit Committee as part of the audit plan.

## Significant audit risks

### Risk of management override of controls

<b>Audit risk</b>	<p>Assurance standards include the presumption of a significant risk of management override of controls.</p> <p>Management is in a unique position to perpetrate fraud because of management's ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>
<b>Our audit response</b>	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>Assessed the effectiveness of controls over the financial close process including the preparation and posting of journal entries and other adjustments.</li> <li>Tested the appropriateness of large or unusual journal entries recorded in the general ledger and other adjustments in the preparation of the financial statements, using data analytical tools to identify journal entries of audit interest.</li> <li>Examined accounting estimates for bias and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.</li> </ul>
<b>Our conclusion</b>	The results of our audit procedures were satisfactory

### Revenue recognition

<b>Audit risk</b>	<p>Assurance standards include the presumption of a fraud risk involving improper revenue recognition.</p> <p>Revenue streams are contractually driven, although the level of manual intervention increases the risks.</p>
<b>Our audit response</b>	<p>We performed the following audit procedures</p> <ul style="list-style-type: none"> <li>Tested management's controls over significant revenue streams</li> <li>Performed a combination of analytical procedures and tests of details</li> <li>Agreed, on a sample basis, the insurance premiums recorded in the administration system to supporting documentation</li> <li>Obtained confirmation from insureds and tested reconciling items, if any.</li> </ul>
<b>Our conclusion</b>	The results of our audit procedures were satisfactory

## Provision for unpaid claims and adjustment expenses, gross and net of amount recoverable from reinsurers (valuation)

<b>Audit risk</b>	<p>Risk of measurement uncertainty due to a significant amount of judgment required by the Appointed Actuary and management with respect to the assumptions and methodologies underlying the reserves.</p> <p>We assessed whether the reserves were appropriately established, carried and released.</p>
<b>Our audit response</b>	<p>We addressed these risks as follows:</p> <ul style="list-style-type: none"> <li>• Utilized actuarial experts in the planning and execution of our audit procedures</li> <li>• Assessed internal controls over the actuarial and claims processes</li> <li>• Reviewed and assessed claims handling and monitoring procedures</li> <li>• Selected and tested a representative sample of claims to ensure reserved amounts are properly supported and payments are properly authorized and accurately recorded</li> <li>• Tested underlying data used in the valuation including claims reserves, claims paid and premium data</li> <li>• Tested the reconciliation of the reserves, focusing on the reconciliation between the administrative and valuation systems</li> <li>• Reviewed the opinion of the Appointed Actuary</li> <li>• Updated our understanding of the methods, models and key assumptions used in the valuation including any changes thereon</li> <li>• Assessed the reasonableness of key assumptions and methodologies</li> <li>• Independent recomputations of the actuarial reserves</li> <li>• Reviewed the discount factor used and the application of discounting</li> <li>• Tested the consistency of reserve margins over time</li> <li>• Performed analytical procedures on reserve movements</li> <li>• Reviewed trends in the development of prior years' ultimate and perform a retrospective assessment (a look back test) to determine whether Management judgments and assumptions relating to the estimates indicate a possible bias on the part of Management.</li> </ul>
<b>Our conclusion</b>	An update of our results will be provided at the Audit Committee meeting.

## Disclosure of subscriber withdrawals

<b>Audit risk</b>	Subscriber withdrawals occur periodically and judgment is involved in determining the appropriate timing of recognition and valuation of amounts and appropriate note disclosures
<b>Our audit response</b>	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>• Assessed Management's judgment as to the timing and value to be recognized in respect of the liability arising on the withdrawal of a subscriber</li> <li>• Utilized actuarial experts to test Management's valuation of the recognized liability to the subscriber as applicable</li> <li>• Assessed the appropriateness and completeness of disclosures included in the financial statements</li> </ul>
<b>Our conclusion</b>	The results of our audit procedures were satisfactory



### Significant accounting policies, judgments and estimates

The Society's significant accounting policies are set forth in Note 3 to the Society's financial statements. We are not aware of any significant changes in previously adopted accounting policies or their application during the year ended December 31, 2017.

### The Society's plan to adopt new accounting standards

The Society intends to adopt IFRS 17, *Insurance Contracts* and IFRS 9, *Financial Instruments*, on January 1, 2021.

Included below is a brief summary of the new accounting standards. We are happy to discuss any of these new requirements in more detail should you have any specific questions.

#### IFRS 9 Financial Instruments:

On July 24, 2014, the IASB issued the final version of IFRS 9, which replaces IAS 39 Financial Instruments: Recognition and Measurement. This final version of IFRS 9 represents the completion of this project and it includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. IFRS 9 does not address the specific accounting for open portfolios or macro hedging as these items are part of a separate IASB project that is currently ongoing. This final Standard introduces a single, principles-based approach that amends both the categories and associated criteria for the classification and measurement of financial assets, which is driven by the entity's business model for the portfolio in which the assets are held and the contractual cash flows of these financial assets. Certain amendments have been made to the financial asset classification and measurement principles in prior versions of IFRS 9. This Standard introduces an amended hedging model which aligns hedge accounting more closely with an entity's risk management activities and also includes a new financial asset impairment model which has an expanded scope, is based on expected credit losses rather than incurred credit losses and generally will result in earlier recognition of losses. This new Standard supersedes all prior versions of IFRS 9.

**IFRS 17 Insurance Contracts:** On May 18, 2017, the IASB has issued its global insurance standard that focuses on a single principle-based approach to account for all types of insurance contracts, to enhance comparability of financial reporting between entities, jurisdictions and capital markets. The standard is effective for annual reporting periods beginning on or after January 1, 2021.

The accounting model of the new Standard focuses on the following steps:

1. Identify and recognize the contract
2. Organize contracts into portfolios of similar risks
3. Within portfolios establish a minimum of three profitability groups
4. Measure the groups/contracts at initial recognition
5. Remeasure in subsequent periods
6. Present results in the financial statements
7. Provide disclosures.

### Significant accounting policies and practices

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.

### Significant accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. These judgments are normally based on knowledge and experience about past and current events, assumptions about future events and interpretations of IFRS.



During the year ended December 31, 2017, management advised us that there were no significant changes in accounting estimates or in judgments relating to the application of the accounting policies.

In our judgment, the significant accounting estimates made by management are, in all material respects, free of possible management bias and of material misstatement. The disclosure in the financial statements around estimation uncertainty is in accordance with IFRS and is appropriate to the particular circumstances of the Society.

Area of significant judgment or estimate	2017 (in 000)	2016 (in 000)	Comments
<b>Provision for unpaid claims and adjustment expenses - Gross</b>	\$104,499	\$101,247	Management's estimate of actuarial liabilities is the most significant area of measurement uncertainty which utilizes complex models and significant management judgement for assumptions.
<b>Provision for unpaid claims and adjustment expenses recoverable from reinsurer</b>	\$95,568	\$94,794	We did not identify any significant reinsurance disputes. Our tests also did not identify any concerns related to the reinsurer credit defaults.

# Other reportable matters

Canadian GAAS require that we also communicate to the Audit Committee on the following matters:

<b>Materiality</b>	Materiality level was determined on the basis of the provision for unpaid claims and adjustment expenses. We used the following materiality level for the year ended December 31, 2017:
<b>Use of the work of experts and/or specialists</b>	As planned, Deloitte experts and/or specialists assisted in the audit to the extent we considered necessary. The use of experts and/or specialists was already communicated in our audit plan. There have been no changes.
<b>Involvement of Deloitte's resources outside Canada</b>	Personnel in India assisted us with the performance of audit procedures during the current-period audit. Those personnel are considered members of the engagement team and were subject to our supervision, and their work is subjected to our review.
<b>Management representation letter</b>	A draft version of the management representation letter to be signed by management is included in Appendix 4.
<b>Reporting responsibilities</b>	As a part of our audit plan, we committed to communicate certain matters to the Audit Committee on a regular basis or as specified events occur. A summary of our communications is provided in Appendix 1.

# Key regulatory and standards developments

## Newly effective accounting standards

Post January 1, 2018, activities around the adoption of IFRS 9, Financial Instruments, and IFRS 17 Insurance Contracts, (the “new standards”) should continue to be a key priority for preparers and those charged with governance. These standards, especially the revenue standard, are expected to have some impact on all insurers.

Audit committees play an important role in overseeing an entity’s efforts as it implements new accounting standards. In discharging their responsibilities, audit committee members need to understand the entity’s implementation process – not only from a financial reporting perspective but also more broadly. For example, updating and maintaining internal controls will be particularly important as your organization goes live under the new accounting standards. Audit committees and the auditors need to understand how management’s Internal Control over Financial Reporting has changed as a result of the implementation, including what controls management has put in place, what judgments are involved in those controls, and what changes, if any, were made to IT systems.

By asking the right questions at the right time, audit committee members can help contribute to a successful implementation. Consider the following non-exhaustive list of question to ask of management post-adoption date and leading up to the first reporting period under the new standards:

- Has the entity completed its evaluation of all the impacts of the new accounting standards? What is the overall impact expected to be on the entity’s financial reporting?
- Has management fully documented any new policies and accounting judgments? Have the auditors reviewed the documentation?
- To what extent have the auditors been involved in implementation decisions and to what extent will they be involved in the periods leading up to the first year end reporting under the new standards?
- What were the areas of risk? Were new risks identified? How has management mitigated these risks?
- If important aspects of the implementation are still outstanding, how is management planning to address these in time for the first interim reporting period?
- What is the entity’s plan for making the required disclosures on the effect of new accounting standards in its first financial statements issued post-adoption? Has the entity considered the guidance from securities regulators?
- Have pro-forma financial statements and disclosures for the first time reporting under the new standards at the interim and annual reporting periods been prepared, including disclosures of new judgements and estimate uncertainties?
- Has management considered broader business impacts such as impacts on tax, sales and legal (commercial business practices), human resources (employee compensation and training), key operating and performance indicators, capital and costs in respect of the increased actuarial and financial reporting work that will be required under the standards.
- Have the financial and operation gaps been addressed? What new processes, internal controls, IT systems were required?
- Were there any ‘lessons learned’ regarding the implementation process?

In addition to the transition disclosures around IFRS 9 and IFRS 17, regulators continue to reiterate their focus on disclosures of issued but yet effective accounting standards leading up to their adoption date.

Visit [the Centre for Financial Reporting](#) to stay current on new GAAP standards.



# Appendix 1 – Communication requirements

In our audit plan, we committed to communicate certain items to the Audit Committee on a regular basis or as specified events occur. These items are summarized below. To the extent these matters have not been addressed elsewhere in this report, we have commented below based on our findings to date.

Reportable matter	Refer to this report or document described below
1. Our responsibilities under Canadian GAAS	Audit plan communicated on November 8, 2017 / Engagement letter dated November 8, 2017
2. Significant changes to the planned audit strategy or the significant risks initially identified, and the reasons for such changes	None
3. Uncorrected and corrected misstatements	In accordance with Canadian GAAS, we request that all misstatements be corrected. No uncorrected misstatements to report.
4. Uncorrected and corrected disclosure misstatements	In accordance with Canadian GAAS, we request that all disclosure misstatements be corrected. We have read a draft of the financial statements and provided comments and disclosure recommendations to management, which they have accepted. No disclosure misstatements to report.
5. Significant qualitative aspects of the Society's accounting practices, including accounting policies, accounting estimates and financial statement disclosures	Significant accounting policies, judgments and estimates
6. Management judgment and accounting estimates, including indications of possible bias	Significant accounting policies, judgments and estimates
7. Alternative treatments for accounting policies and practices that have been discussed with management during the current period, including: a) Ramifications of the use of such alternative disclosures and treatments b) Our preferred treatment	Significant accounting policies, judgments and estimates
8. Our responsibility for other information in documents containing audited financial statements, any procedures performed, and the results, as well as any material inconsistencies or material misstatements of fact identified in other information and for which management does not make the appropriate revisions	Other information in the annual report to subscribers
9. Disagreements with management	No disagreements to report.

Reportable matter	Refer to this report or document described below
10. Our views about significant auditing and accounting matters for which management consulted with other accountants	None
11. Significant matters discussed with management in connection with our appointment or retention, including the application of accounting principles and auditing standards	None
12. Significant difficulties, if any, encountered during the audit, including any scope limitations	No significant difficulties encountered
13. All significant deficiencies in internal control identified during the audit	No deficiencies to report
14. Significant matters arising from the audit that were discussed with management and material written communications between management and us, including management representation letters	Engagement letter dated November 8, 2017 Management representation letter – Appendix 4
15. 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, or any identified breaches to our independence	Independence letter - Appendix 3
16. A statement that, in our judgment, our engagement team and others in our firm as appropriate, our firm itself and, when applicable, network firms have complied with relevant ethical requirements regarding independence	Independence letter - Appendix 3
17. Fraud or possible fraud identified through the audit process	Fraud and illegal acts
18. Significant matters arising during the audit in connection with the entity's related parties and our evaluation of the company's identification of, accounting for, and disclosure of its relationships and transactions with related parties	The Society has properly identified, accounted for, and disclosed its relationships and transactions with related parties in the financial statements
19. Non-compliance with laws and regulations that come to the auditor's attention	No areas of non-compliance to report
20. Our evaluation of whether the presentation of the financial statements and the related disclosures are in conformity with applicable financial accounting framework, including consideration of the form, arrangement, and content of the financial statements	To be discussed at our meeting on February 15, 2018

# Appendix 2 – Draft version of our auditor's report

Our report on the financial statements is expected to be in the following form. However, the final form may need to be adjusted to reflect the final results of our audit.

## **1. Draft audit report on the IFRS financial statements**

### **Independent Auditor's Report**

To the Advisory Board of  
Canadian Lawyers Liability Assurance Society

We have audited the accompanying financial statements of Canadian Lawyers Liability Assurance Society, which comprise the statement of financial position as at December 31, 2017, and the statements of comprehensive income (loss), changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

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

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

## **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canadian Lawyers Liability Assurance Society as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[To be signed Deloitte LLP]  
Chartered Professional Accountants  
Licensed Public Accountants  
February 22, 2018

## **2. Draft audit report on the MCT Annual Return**

### **Independent Auditor’s Report**

To the Provincial Superintendents of Financial Institutions/Insurance

We have audited the accompanying Minimum Capital Test Return (MCT Return) on page 30.61 of the P&C Annual Return of Canadian Lawyers Liability Assurance Society as at December 31, 2017. The MCT Return has been prepared by management based on the provisions of the Office of the Superintendent of Financial Institutions Canada’s (OSFI) Guideline – Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies (the Guideline).

#### **Management’s Responsibility for the MCT Return**

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

#### **Auditor’s Responsibility**

Our responsibility is to express an opinion on the MCT Return based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the MCT Return is free from material misstatement.

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

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



## **Opinion**

In our opinion, the MCT Return of Canadian Lawyers Liability Assurance Society as at December 31, 2017 is prepared, in all material respects, in accordance with the provisions of the Guideline.

## **Basis of Accounting and Restriction on Use**

Without modifying our opinion, we draw attention to the fact that the MCT Return has been prepared in accordance with the basis of accounting set out in the Guideline. The MCT Return is prepared to assist Canadian Lawyers Liability Assurance Society to meet the requirements of the Provincial Superintendents of Financial Institutions/Insurance. As a result, the MCT Return may not be suitable for another purpose. Our report is intended solely for the use of Canadian Lawyers Liability Assurance Society and the Provincial Superintendents of Financial Institutions/Insurance and should not be used by parties other than Canadian Lawyers Liability Assurance Society and the Provincial Superintendents of Financial Institutions/Insurance.

(To be signed Deloitte LLP)

Chartered Professional Accountants  
Licensed Public Accountants  
February 22, 2018

### **3. Draft audit report on the P&C Return**

## **Independent Auditor’s Report**

To the Provincial Superintendents of Financial Institutions/Insurance

We have audited the accompanying financial statements of Canadian Lawyers Liability Assurance Society (the “Society”), which comprise the statements of assets and liabilities and equity as at December 31, 2017 and the statements of income, retained earnings, reserves, comprehensive income (loss) and accumulated other comprehensive income (loss), cash flows and changes in equity for the year then ended on pages 20.10 through 20.60 of the Society’s P&C Annual Return, which include a summary of significant accounting policies and other explanatory information.

### **Management’s Responsibility for the Financial Statements**

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

### **Auditor’s Responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canadian Lawyers Liability Assurance Society as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Unaudited Information**

We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the schedules or exhibits referenced on pages 20.10 through 20.60 of the Society’s P&C Annual Return.

(To be signed Deloitte LLP)

Chartered Professional Accountants  
Licensed Public Accountants  
February 22, 2018

# Appendix 3 – Independence



Deloitte LLP  
Bay Adelaide East  
8 Adelaide Street West  
Suite 200  
Toronto ON M5H 0A9  
Canada

Tel: 416-601-6150  
Fax: 416-601-6151  
[www.deloitte.ca](http://www.deloitte.ca)

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, 2017 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 16, 2017 to February 15, 2018.

The total fees charged to the Society for audit services were \$88,903 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 15, 2018.

This letter is intended solely for the 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 15, 2018.

Yours truly,

A handwritten signature in black ink that reads "Deloitte LLP".

Chartered Professional Accountants  
Licensed Public Accountants

# Appendix 4 – Draft management representation letter

Deloitte LLP  
Bay Adelaide Centre, East Tower  
8 Adelaide Street West, Suite 200  
Toronto, ON M5H 0A9

Dear Sirs:

**Subject: Financial statements of Canadian Lawyers Liability Assurance Society for the year ended December 31, 2017**

This representation letter is provided in connection with the audits by Deloitte LLP ("Deloitte" or "you") of the financial statements of Canadian Lawyers Liability Assurance Society (the "Society" or "we" or "us"), and a summary of significant accounting policies and other explanatory information (the "Financial Statements").

In addition, this representation letter is provided for the audit of

- The Society's financial statements contained on pages 20.10 to 20.60 for the P&C Annual Return to the Provincial Superintendents of Financial Institutions/Insurance; and
- The Minimum Capital Test ("MCT") of the Society contained on page 30.61 of the P&C Annual Return to the Provincial Superintendents of Financial Institutions/Insurance for the year ended December 31, 2017.

Unless otherwise indicated below, the annual financial statements, pages 20.10 to 20.60 of the P&C Annual Return and the MCT Return are together referred to as the "Financial Statements".

This representation letter is provided for the purpose of expressing an opinion as to whether the Financial Statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Society in accordance with International Financial Reporting Standards ("IFRS") and whether the MCT return has been prepared in accordance with the provisions of the Office of the Superintendent of Financial Institutions ("OSFI") Guideline – Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies (the "Guideline").

We confirm that, to the best of our knowledge and belief, having made such inquiries, as we considered necessary for the purpose of appropriately informing ourselves:

## **Financial statements**

1. We have fulfilled our responsibilities as set out in the terms of the engagement letter between the Society and Deloitte dated November 8, 2017 for the preparation of the Financial Statements in accordance with IFRS and the MCT Return in accordance with the Guideline. In particular, the Financial Statements are fairly presented, in all material respects, and present the financial position of the Society as at December 31, 2017 and the financial performance and cash flows for the year then ended in accordance with IFRS.
2. Significant assumptions used in making estimates, including those measured at fair value, are reasonable.

In preparing the Financial Statements in accordance with IFRS, management makes judgments and assumptions about the future and uses estimates. The completeness and appropriateness of the disclosures related to estimates are in accordance with IFRS. The Society has appropriately disclosed in the Financial Statements the nature of measurement uncertainties that are material, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the Financial Statements.

The measurement methods, including the related assumptions and models, used in determining the estimates, including fair value, were appropriate, reasonable and consistently applied in accordance with IFRS and appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity. No events have occurred subsequent to December 31, 2017 that require adjustment to the estimates and disclosures included in the Financial Statements.

There are no changes in management's method of determining significant estimates in the current year.

3. All related party relationships and transactions have been appropriately accounted for and disclosed in the Financial Statements in accordance with the requirements of IFRS.
4. We have determined that the Financial Statements are complete as of **[the date of this letter or insert actual date of completion if an earlier date is appropriate]** as this is the date when there are no changes to the Financial Statements (including disclosures) planned or expected. The Financial Statements have been approved in accordance with our process to finalize financial statements.
5. We have completed our review of events after December 31, 2017 and up to the date of this letter. All events subsequent to the date of the Financial Statements and for which IFRS requires adjustment or disclosure have been adjusted or disclosed. Accounting estimates and disclosures included in the Financial Statements that are impacted by subsequent events have been appropriately adjusted.
6. The Financial Statements are free of material errors and omissions.
7. The Society has satisfactory title to and control over all assets, and there are no liens or encumbrances on such assets. We have disclosed to you and in the Financial Statements all assets that have been pledged as collateral.

#### **Internal controls**

8. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
9. We have disclosed to you all known deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that we believe to be significant deficiencies in internal control over financial reporting.

#### **Information provided**

10. We have provided you with:
  - a. Access to all information of which we are aware that is relevant to the preparation of the Financial Statements, such as records, documentation and other matters. Minutes of Board meetings have been provided to you and reflect the Board's decision to set premiums for the 2017/2018 year having considered the level of surplus available to fund premiums. All financial statements and other financial information provided to you accurately reflect the activities and expenses of the Society and do not reflect any activities or expenses of any other person or entity;
  - b. All relevant information as well as additional information that you have requested from us for the purpose of the audit; and,
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
11. All transactions have been properly recorded in the accounting records and are reflected in the Financial Statements.

12. We have disclosed to you the identity of the Society's related parties and all the related party relationships and transactions of which we are aware.
13. We have disclosed to you the results of our assessment of the risk that the Financial Statements may be materially misstated as a result of fraud.
14. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
  - a. Management;
  - b. Employees who have significant roles in internal control; or
  - c. Others where the fraud could have a material effect on the Financial Statements.
15. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's Financial Statements and all knowledge of concerns or allegations of potential errors in the selection of accounting policies or the recording of transactions affecting the Society that have been communicated by employees, former employees, analysts, regulators, or others, whether written or oral.
16. We have disclosed to you all communications from regulatory agencies concerning non-compliance with or deficiencies in financial reporting practices and all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the Financial Statements.
17. We have disclosed to you all known, actual or possible litigation and claims, whether or not they have been discussed with our lawyers, whose effects should be considered when preparing the Financial Statements. As appropriate, these items have been disclosed and accounted for in the Financial Statements in accordance with IFRS.
18. We have disclosed to you all liabilities, provisions, contingent liabilities and contingent assets, including those associated with guarantees, whether written or oral, and they are appropriately reflected in the Financial Statements.
19. We have disclosed to you, and the Society has complied with all aspects of contractual agreements that could have a material effect on the Financial Statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
20. We have disclosed to you all the documents that we expect to issue that may comprise other information, in the context of CAS 720, The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements.

### **Independence matters**

For purposes of the following paragraph[s], "Deloitte" shall mean Deloitte LLP and Deloitte Touche Tohmatsu Limited, including related member firms and affiliates.

21. The Society has not caused Deloitte's independence to be impaired by hiring or promoting a former or current Deloitte partner or professional employee in an accounting role or financial reporting oversight role that would cause a violation of the Canadian independence rules or other applicable independence rules. Prior to the Society having any substantive employment conversations with a former or current Deloitte engagement team member the Society has held discussions with Deloitte and obtained approval from [the Audit Committee **or** management].
22. We have ensured that all non-audit services provided to the Society have been approved by the Audit Committee. Further, we have adhered to all regulatory requirements regarding the provision of non-audit services by Deloitte to the Society in accordance with applicable laws, regulations and rules that apply to the Society, including the Audit Committee approval requirements.
23. We have ensured that all services performed by Deloitte with respect to this engagement have been pre-approved by the Audit Committee in accordance with its established approval policies and procedures.

### **Work of management's experts**

24. We agree with the work of management's experts in evaluating the actuarial liabilities and have adequately considered the competence and capabilities of the experts in determining amounts and disclosures used in the Financial Statements and underlying accounting records. We did not give any, nor cause any, instructions to be given to management's experts with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have impacted the independence or objectivity of the experts.

**Plans or intentions affecting carrying value/classification of assets and liabilities**

25. We have disclosed to you all plans, intentions or other conditions that may materially affect the carrying value or classification of assets and liabilities reflected in the Financial Statements.

**Investments**

26. With respect to the Society's investment in fixed income securities at the end of the reporting period, no events have occurred and no facts have been discovered with respect to such investment that would indicate any impairment loss in accordance with the applicable provisions of IAS 39, *Financial Instruments: Recognition and Measurement*.

**IFRS 13, Fair Value Measurements**

27. The Society has appropriately applied the framework for measuring and disclosing fair value, set forth in IFRS 13, *Fair Value Measurements* ("IFRS 13"), to all fair value measurements and disclosures within the scope of IFRS 13.
28. In applying the definition of fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date", the Society considered the following items:
- a. unit of account;
  - b. principal market and where the principal market does not exist, the Society considered the most advantageous market;
  - c. pricing assumptions and considerations market participants would take into account; and
  - d. inputs that are available and the appropriate valuation technique(s).
29. In determining the fair value of the Society's non-financial assets, we have taken into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
30. The Society has not made any adjustment to a Level 1 input except when it has met the circumstances in paragraph 79 of IFRS 13.
31. In applying the fair value hierarchy, the Society has applied consistent judgment in determining and prioritizing the appropriate level of inputs to the valuation techniques.

**Financial Instruments**

32. The impairment of financial assets classified as held-to-maturity investments, available-for-sale financial assets and loans and receivables have been properly recorded and, when appropriate, adequately disclosed and presented in the Financial Statements.
33. Financial instruments with characteristics of both liabilities and equity have been properly recorded and, when appropriate, adequately disclosed and presented in the Financial Statements.
34. The Society has properly disclosed, in accordance with IFRS 7, *Financial instruments: Disclosures*,
35. The Society has properly classified all financial instruments in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). Specifically, all financial assets are classified as either "financial assets at fair value through profit or loss", "held-to-maturity investments", "loans and receivables", or "available-for-sale financial assets". In addition,



- a. there have been no reclassifications of instruments into or out of the financial assets at fair value through profit or loss classification after the adoption of IAS 39 or, if later, after the instrument was first recognized [except as disclosed to you].
- b. the Society has the positive intent and ability to hold to maturity all financial assets classified as held-to-maturity investments and there have been no changes in our intentions related to financial assets classified as held-to-maturity investments nor any sales of such assets.

### **Other matters**

36. The following have been properly recorded and, when appropriate, adequately disclosed and presented in the Financial Statements:
- a. economic dependence on another party;
  - b. financial instruments with significant individual or group concentration of credit risk, and related maximum credit risk exposure;
  - c. sales with recourse provisions;
  - d. arrangements with financial institutions involving compensating balances or other arrangements involving restriction on cash balances and line-of-credit or similar arrangements; and
  - e. all impaired loans receivable and investments.
37. The Society is in compliance with Minimum Capital Test requirements as contained in the Guideline.

Yours truly,

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

---

Gordon Goodman  
Chair of the Audit Committee

---

Patrick Mahoney  
General Manager

# Appendix 5 – New and Revised Auditor Reporting Standards

## The New CAS Auditor's Report

- On April 11, 2017, the Canadian Auditing and Assurance Standards Board (AASB) approved new and revised Canadian Auditing Standards (CASs) on auditor reporting which will be effective for audits of financial statements for periods ending on or after **December 15, 2018** with earlier application permitted.
- There are two significant differences between the new and revised CASs and the new and revised International Standards on Auditing (ISAs) that were effective for periods ending on or after December 15, 2016:
  - a. The effective date, and
  - b. The scope of reporting Key Audit Matters (KAMs) which are communicated in the auditor's report only when required by law or regulation or the auditor decides to do so (i.e., not required for listed entities).

<b>What are KAMs?</b>	KAMs are those matters that, in the auditor's professional judgment, were of most significance in the audit of the entity's financial statements of the current period.
<b>Are there any laws and regulations that mandate KAMs?</b>	We are not currently aware of any laws or regulations that require KAM reporting but law-makers and regulators could mandate it in the future should they see fit. We are monitoring any changes on this front.
<b>When will the auditor "decide to do so"?</b>	This decision would normally involve discussions with management and those charged with governance (TCWG) on whether that would be the appropriate course of action, this isn't a decision auditors would make in isolation.

*"The new auditor's report, adopted by more than 110 countries, represents a step change in the information content of the report. It better describes what an audit is and what an auditor does, including an ability to provide further transparency in the reporting of key audit matters."*

**Darrell Jensen, AASB Chair**






### Key changes to the CAS auditor's report




<b>Opinion first</b>	<ul style="list-style-type: none"> <li>Opinion section required to be presented first, followed by the Basis for Opinion section</li> </ul>
<b>Going concern (if applicable)</b>	<ul style="list-style-type: none"> <li>Separate section under the heading "Material Uncertainty Relating to Going Concern" when a disclosed material uncertainty exists</li> <li>Description of the responsibilities of management and auditor for going concern</li> <li>Need to challenge adequacy of disclosures for "close calls"</li> </ul>
<b>Independence</b>	<ul style="list-style-type: none"> <li>An explicit statement of the auditor's independence in accordance with relevant ethical responsibilities and the auditor's fulfillment of other ethical responsibilities</li> </ul>
<b>Roles and responsibilities</b>	<ul style="list-style-type: none"> <li>Enhanced description of the responsibilities of the auditor and key features of an audit</li> <li>Identification of management/TCWG and their responsibility for the oversight of the financial reporting process</li> </ul>
<b>Other information</b>	<ul style="list-style-type: none"> <li>Explains management's responsibility for the other information</li> <li>Identifies the other information obtained (all entities) or expected to be obtained (listed entities only)</li> <li>Explains the auditor's responsibilities and work effort in relation to other information</li> <li>Either that there is nothing to report or a statement describing any uncorrected material misstatements</li> </ul>
<b>Key Audit Matters (if applicable)</b>	<ul style="list-style-type: none"> <li>New section to communicate key audit matters</li> </ul>
<b>Name of partner (listed entities only)</b>	<ul style="list-style-type: none"> <li>Disclosure of the name of the engagement partner</li> </ul>

### Questions the Audit Committee should be thinking about







#### Going concern

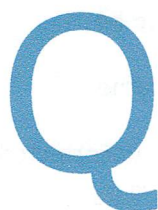
-  What is management's process for evaluating going concern?
-  Does management have supporting documentation in place to support their going concern assessment?
-  Do the disclosures include all information relevant to users, particularly for "close call" situations?

#### Other information

-  Have you considered what would constitute "other information"?
-  When will the "other information" be available to the auditor?
-  Is the "other information" consistent with the financial statements?

## Key audit matters

-  What matters could potentially be KAMs?
-  Are you having robust discussions with your auditors about areas in the audit where there are identified significant risks or areas where the auditor allocates significant time and effort?
-  Do the disclosures include all information relevant to users and will the disclosures support the auditor's description of the KAMs?
-  Is the Audit Committee satisfied with how management is currently addressing and disclosing these matters?
-  How will management and the Audit Committee engage with the auditor as KAMs are identified and the auditor's description of the KAMs are developed and finalized?
-  How will the timing of auditor communications with management and the Audit Committee accommodate the discussion of KAMs?



What are the Audit Committee processes for these considerations and additional timing that may be required?



Is additional training required for the Audit Committee in order to ensure meaningful discussions with the auditors and to ensure effective implementation by management?

## What are the Next Steps for the Audit Committee?



Have upfront discussions between the Audit Committee, management (including outside of finance) and audit team

Review consistency of information that will be disclosed in the new auditor's report and related disclosures made elsewhere (i.e., MD&A, annual report)



Review an early draft of the new auditor's report as part of your planning meeting with the audit team



Expect more questions from shareholders and investors

### What can the Audit Committee do to help implement the new standards?

The new auditor's report support efforts in continually advancing audit quality. Conversations are most beneficial if the entity has also independently summarized the risks inherent in its financial reporting process, especially in areas where KAMs could make the dialogue between auditors and the Audit Committee even more robust.

## Summary

The new and revised auditor reporting standards will significantly change auditor reporting for all entities and involve significant, upfront communications between the auditor, management and the Audit Committee.

We will work to provide Canadian Lawyers Liability Assurance Society and the Audit Committee with guidance on the implications of the new and revised auditor reporting standards.

## Resources

The AASB is currently working with CPA Canada and other groups to drive the effective implementation of the new standards through a broad range of communications, tools and guidance materials for stakeholders. CPA Canada has issued a number of [Audit and Assurance alerts](#) in June and July 2017 discussing key features of the changes and will be releasing a web portal devoted exclusively to the topic of implementing auditor reporting. Webinars and other publications will be issued throughout the remainder of the year, including an update expected in December incorporating the changes to the new auditor's report into a revised reporting guide, "Reporting Implications of New Auditing and Accounting Standards."

- Keep abreast of the Canadian project at [Deloitte's Centre for Financial Reporting](#).
- Information relating to the new and revised CASs and conforming amendments to other CASs can be found on the [AASB website](#).

We encourage you to engage your engagement partner or any other member of the Deloitte Team with any questions or enquiries related to the new and revised auditor reporting standards.



# Appendix 6 – Deloitte resources a click away

At Deloitte, we are devoted to excellence in the provision of professional services and advice, always focused on client service. We have developed a series of resources, which contain relevant and timely information for boards of directors and c-suite executives. Below you will find an overview of resources, as well as a registration form to allow you to subscribe to resources that may be of interest to you.

The list of resources is not exhaustive and you may be aware of others not listed here that may be of value to your clients.

Audit resources	Targeted audience	Description
<b>Canadian resources</b>		
<b>Websites</b>		
<input type="checkbox"/> <b>Centre for Corporate Governance</b> ( <a href="http://www.corpgov.deloitte.ca">www.corpgov.deloitte.ca</a> )	<ul style="list-style-type: none"> <li>• Audit Committee members</li> <li>• Board members</li> <li>• CEO/CFO</li> <li>• Internal auditor</li> <li>• Legal counsel</li> </ul>	<p>Web site specifically designed to help board members with their responsibilities.</p> <p>It provides the latest information on regulatory and legislative developments, accounting and financial reporting, board roles and responsibilities, and best practices.</p>
<input type="checkbox"/> <b>Deloitte Learning Academy</b> ( <a href="http://www.deloittelearningacademy.ca/welcomecanada">http://www.deloittelearningacademy.ca/welcomecanada</a> )	<ul style="list-style-type: none"> <li>• CFO</li> <li>• VP Finance</li> <li>• Internal auditor</li> <li>• Controller</li> <li>• Financial reporting team</li> </ul>	<p>The Deloitte Learning Academy offers a range of courses targeted to accounting professionals which can be selected a la carte, bundled into a specific learning program, or delivered as a full start-to-finish suite. Our current offerings include International Financial Reporting Standards (IFRS); Accounting Standards for Private Enterprises (ASPE); and Public Sector Standards (PSAS).</p>
<input type="checkbox"/> <b>Centre for financial reporting</b> ( <a href="http://www.cfr.deloitte.ca">www.cfr.deloitte.ca</a> )	<ul style="list-style-type: none"> <li>• Board members</li> <li>• Audit Committee members</li> <li>• CEO/CFO</li> <li>• Controller</li> <li>• Financial reporting team</li> <li>• Other accounting professionals</li> </ul>	<p>Web site designed by Deloitte to provide the most comprehensive information on the web about financial reporting frameworks used in Canada.</p>
<input type="checkbox"/> <b>Deloitte Accounting Research Tool (DART)</b> Note: Audit Committee must pre-approve DART subscriptions	<ul style="list-style-type: none"> <li>• CFO</li> <li>• VP Finance</li> <li>• Controller</li> <li>• Financial reporting team</li> </ul>	<p>A comprehensive online library of accounting and financial disclosure literature.</p> <p>Subscription-based service.</p>

Audit resources	Targeted audience	Description
<input type="checkbox"/> <b>U.S. GAAP Plus web site</b> <a href="http://www.iasplus.com">www.iasplus.com</a>	<ul style="list-style-type: none"> <li>• Board members</li> <li>• Audit Committee members</li> <li>• CEO/CFO</li> <li>• Controller</li> <li>• Financial reporting team</li> <li>• Other accounting professionals</li> </ul>	<p>U.S. GAAP Plus is a comprehensive source for news, publications, and project updates about U.S. accounting standard setting. It covers the activities of the FASB, the PCAOB, the AICPA, the SEC, and other U.S. accounting and auditing standard setters.</p>
<b>Insights newsletters</b>		
<input type="checkbox"/> <b>Financial Reporting</b>	<ul style="list-style-type: none"> <li>• CFO</li> <li>• VP Finance</li> <li>• Controller</li> <li>• Financial reporting team</li> </ul>	<p>Bi-monthly electronic communications that helps you to stay on top of standard-setting initiatives impacting financial reporting in Canada.</p> <p>For a copy, contact <a href="mailto:FinancialReporting@deloitte.ca">FinancialReporting@deloitte.ca</a>.</p>
<input type="checkbox"/> <b>Corporate governance</b>	<ul style="list-style-type: none"> <li>• Audit Committee members</li> <li>• Board Members</li> <li>• CEO/CFO</li> </ul>	<p>Monthly electronic communications featuring Deloitte's latest point of view on timely industry and business topics of interest to board directors.</p> <p>For a copy, contact <a href="mailto:governance@deloitte.ca">governance@deloitte.ca</a>.</p>
<b>Webcasts and other events</b>		
<input type="checkbox"/> <b>Deloitte Financial Reporting Update</b> <a href="http://www.deloitte.com/ca/update">www.deloitte.com/ca/update</a>	<ul style="list-style-type: none"> <li>• CFO</li> <li>• VP Finance</li> <li>• Controller</li> <li>• Financial reporting team</li> </ul>	<p>Learning webcasts offered throughout the year featuring our professionals discussing critical issues that affect your business.</p>
<input type="checkbox"/> <b>Directors' Series</b> <a href="http://www.deloitte.com/ca/directorsseries">http://www.deloitte.com/ca/directorsseries</a>	<ul style="list-style-type: none"> <li>• Audit Committee members</li> <li>• CEO/CFO</li> <li>• Internal auditor</li> <li>• Legal counsel</li> </ul>	<p>Live broadcasts offered throughout the year.</p>



**[www.deloitte.ca](http://www.deloitte.ca)**

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Financial statements of

# Canadian Lawyers Liability Assurance Society

December 31, 2017

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## Independent Auditor's Report

To the Advisory Board of  
Canadian Lawyers Liability Assurance Society

We have audited the accompanying financial statements of Canadian Lawyers Liability Assurance Society, which comprise the statement of financial position as at December 31, 2017, and the statements of comprehensive income (loss), changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canadian Lawyers Liability Assurance Society as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[To be signed Deloitte LLP]

Chartered Accountants  
Licensed Public Accountants  
\_\_\_\_\_, 2018

**Canadian Lawyers Liability Assurance Society****Statement of financial position**

As at December 31

	<b>2017</b>	2016
	\$	\$
<b>Assets</b>		
Cash at bank	<b>3,140,371</b>	4,731,655
Short term investments (Note 4)	<b>11,745,460</b>	11,587,109
Bonds (Note 4)	<b>5,091,893</b>	5,150,585
Interest income due and accrued	<b>18,532</b>	21,121
Premiums receivable (Note 6)	<b>1,782,634</b>	2,520,380
Prepaid expenses	<b>139,500</b>	139,500
Deferred policy acquisition costs	<b>103,310</b>	154,221
Reinsurers' share of unearned premiums	<b>2,541,253</b>	4,182,181
Reinsurance receivable	<b>617,756</b>	837,614
Provision for unpaid claims and adjustment expenses recoverable from reinsurers (Note 5)	<b>96,568,000</b>	94,794,000
<b>Total assets</b>	<b>121,748,709</b>	124,118,366
<b>Liabilities</b>		
Accounts payable and accrued charges	<b>513,612</b>	643,905
Unearned premiums	<b>3,539,875</b>	5,261,568
Due to reinsurers	<b>1,649,031</b>	2,514,054
Provision for unpaid claims and adjustment expenses (Note 5)	<b>104,499,000</b>	101,247,000
<b>Total liabilities</b>	<b>110,201,518</b>	109,666,527
<b>Equity</b>		
Minimum surplus (Note 12)	<b>50,000</b>	50,000
Additional surplus (Note 12)	<b>11,518,960</b>	14,340,229
Accumulated other comprehensive (loss) income	<b>(21,769)</b>	61,610
<b>Total equity</b>	<b>11,547,191</b>	14,451,839
<b>Total liabilities and equity</b>	<b>121,748,709</b>	124,118,366

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)**

Years ended December 31

	2017	2016
	\$	\$
<b>Premiums</b>		
Written premiums	<b>7,138,422</b>	10,610,344
Reinsurance ceded	<b>5,124,626</b>	8,433,679
Net written premiums	<b>2,013,796</b>	2,176,665
Change in unearned premiums	<b>80,765</b>	121,054
Earned premiums	<b>2,094,561</b>	2,297,719
Expenses		
Claims (Note 5)	<b>1,286,787</b>	(155,233)
Premium deficiency adjustment	-	-
Operating expenses (Note 7)	<b>2,072,921</b>	1,965,608
Premium taxes	<b>257,531</b>	327,434
	<b>3,617,239</b>	2,137,809
Underwriting (loss) income for the year	<b>(1,522,678)</b>	159,910
Investment income (Note 4)	<b>201,409</b>	170,280
Net (loss) income for the year	<b>(1,321,269)</b>	330,190
Change in unrealized losses on available-for-sale financial assets arising during the year	<b>(83,379)</b>	(65,817)
Other comprehensive loss	<b>(83,379)</b>	(65,817)
<b>Comprehensive (loss) income</b>	<b>(1,404,648)</b>	264,373

Accompanying notes are an integral part of the financial statements.

**Canadian Lawyers Liability Assurance Society****Statement of changes in equity**Years ended December 31

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	<b>Minimum surplus</b>	<b>Additional surplus</b>	<b>Accumulated other comprehensive income</b>	<b>Total equity</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance December 31, 2015	50,000	14,010,039	127,427	14,187,466
Net income (loss)	-	330,190	-	330,190
Other comprehensive income (loss)	-	-	(65,817)	(65,817)
<b>Balance December 31, 2016</b>	<b>50,000</b>	<b>14,340,229</b>	<b>61,610</b>	<b>14,451,839</b>
Net income (loss)	-	(1,321,269)	(83,379)	(1,404,648)
Other comprehensive income (loss)	-	(1,321,269)	(83,379)	(1,404,648)
Distribution of premium surplus	-	(1,500,000)	-	(1,500,000)
<b>Balance December 31, 2017</b>	<b>50,000</b>	<b>11,518,960</b>	<b>(21,769)</b>	<b>11,547,191</b>

Accompanying notes are an integral part of the financial statements.

**Canadian Lawyers Liability Assurance Society****Statement of cash flows**

Years ended December 31

	2017	2016
	\$	\$
<b>Operating activities</b>		
Net (loss) income for the year	<b>(1,321,269)</b>	330,190
Changes in non-cash items:		
Interest income due and accrued	<b>2,589</b>	(1,185)
Premiums receivable	<b>737,746</b>	1,539,211
Reinsurers' share of unearned premiums	<b>1,640,928</b>	802,666
Deferred policy acquisition costs	<b>50,911</b>	18,992
Reinsurance receivable	<b>219,858</b>	759,678
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	<b>(1,774,000)</b>	1,326,000
Provision for unpaid claims and adjustment expenses	<b>3,252,000</b>	(1,261,000)
Premium deficiency liability		
Unearned premiums	<b>(865,023)</b>	(923,721)
Due to reinsurers	<b>(1,721,693)</b>	1,004,716
Accounts payable and accrued charges	<b>(130,292)</b>	(266,784)
Amortization of bond premium	<b>(40,908)</b>	(26,740)
Amortization of bond discount	<b>8,885</b>	8,408
Cash (used in) provided by operating activities	<b>59,732</b>	3,310,431
<b>Financing activities</b>		
Refund of premium surplus	<b>(1,500,000)</b>	0
<b>Investing activities</b>		
Purchase of bonds	<b>(559,485)</b>	(1,227,445)
Disposal of bonds	<b>530,000</b>	800,000
Purchase of short term investments	<b>(70,356,401)</b>	(60,702,487)
Disposal of short term investments	<b>70,234,870</b>	57,542,744
Cash provided by (used in) investing activities	<b>(151,016)</b>	(3,587,188)
Net (decrease) increase in cash	<b>(1,591,284)</b>	(276,757)
Cash balance, beginning of year	<b>4,731,655</b>	5,008,412
<b>Cash balance, end of year</b>	<b>3,140,371</b>	<b>4,731,655</b>
<b>Cash balance comprises</b>		
Cash at bank	<b>3,140,371</b>	4,731,655
Interest received	<b>171,976</b>	150,763

Accompanying notes are an integral part of the financial statements.

# Canadian Lawyers Liability Assurance Society

## Notes to the financial statements

For the year ended December 31, 2017

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### 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 RBC Centre, 155 Wellington Street West, 40th Floor, Toronto, Ontario, M5V 3J7.

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 (2016 - \$150,000) 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 revaluation 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 8: Reinsurance Program

Notes 5: Provision for unpaid claims and adjustment expenses

#### *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.

### **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.

#### *Future 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:

- 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, 2021.

The Society intends to adopt the temporary exemption, and adopt amendments to IFRS 4 in its financial statements for the annual period beginning on January 1, 2018. The Society does not expect the amendments to have a material impact on the financial statements.

#### *Future accounting changes (continued)*

(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 intends to adopt the temporary exemption described previously, and will adopt the amendments to IFRS 9 in its financial statements for the annual period beginning on January 1, 2021. 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. 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 January 1, 2021. The extent of the impact of adoption of the standard has not yet been determined.

## Canadian Lawyers Liability Assurance Society

### Notes to the financial statements

For the year ended December 31, 2017

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#### 4. Investments

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

	December 31, 2017		December 31, 2016	
	Fair value and carrying value	Amortized cost	Fair value and carrying value	Amortized cost
	\$	\$	\$	\$
Short term investments	<b>11,745,460</b>	<b>11,757,685</b>	11,587,109	11,595,247
Bonds	<b>5,091,893</b>	<b>5,101,437</b>	5,150,585	5,080,837
	<b>16,837,353</b>	<b>16,859,122</b>	16,737,694	16,676,084

The difference between amortized cost and market value of the AFS investments consists of gross unrealized gains of \$ 61,665 (2016: \$98,851) and gross unrealized losses of \$ 39,896 (2016: \$37,241).

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.

# Canadian Lawyers Liability Assurance Society

## Notes to the financial statements

For the year ended December 31, 2017

### 4. Investments (continued)

b) Maturity profile of investments as at December 31:

2017	Term to maturity			Total
	Within 1	1 - 5	Over	
	year	years	5 years	
	\$	\$	\$	\$
Short-term investments	11,745,460			11,745,460
Government of Canada bonds	250,531	453,264	499,246	1,203,041
Canadian public authorities bonds	351,463	521,034	1,106,356	1,978,853
Canadian corporate bonds	200,316	1,357,907	351,776	1,909,999
Total fair value	12,547,770	2,332,205	1,957,378	16,837,353

2016	Term to maturity			Total
	Within 1	1 - 5	Over	
	year	years	5 years	
	\$	\$	\$	\$
Short-term investments	11,587,109			11,587,109
Government of Canada bonds	-	509,035	716,642	1,225,677
Canadian public authorities bonds	332,638	625,574	1,020,583	1,978,795
Canadian corporate bonds	201,684	1,188,386	556,043	1,946,113
Total fair value	12,121,431	2,322,995	2,293,268	16,737,694

c) Net investment income has the following components:

	2017	2016
	\$	\$
Interest income		
Bonds	84,177	114,354
Cash, cash equivalents and short term investments	85,209	37,594
	169,386	151,948
Amortization of discount (premium) on investments	32,023	18,332
Realised gain (loss) on disposal	-	-
Total net investment income	201,409	170,280

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.

## Canadian Lawyers Liability Assurance Society

### Notes to the financial statements

For the year ended December 31, 2017

#### 4. Investments (continued)

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

<b>December 31, 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	\$	\$	\$	\$
Cash at bank	<b>3,140,371</b>	-	-	<b>3,140,371</b>
Investments - available-for-sale				
Short term investments		<b>11,745,460</b>		<b>11,745,460</b>
Bonds		<b>5,091,893</b>		<b>5,091,893</b>
	<b>3,140,371</b>	<b>16,837,353</b>	-	<b>19,977,724</b>

<b>December 31, 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	\$	\$	\$	\$
Cash at bank	4,731,655	-	-	4,731,655
Investments - available-for-sale				
Short term investments	-	11,587,109	-	11,587,109
Bonds	-	5,150,585	-	5,150,585
	4,731,655	16,737,694	-	21,469,349

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.

# Canadian Lawyers Liability Assurance Society

## Notes to the financial statements

For the year ended December 31, 2017

### 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, 2015	102,508,000	96,120,000	6,388,000
Incurring claims and claim adjustment expenses			
Provision for current year claims	7,315,000	6,730,000	585,000
Increase (decrease) in provision for claims of prior years	(6,037,231)	(5,363,998)	(673,233)
Increase (decrease) in provision due to discount rate change	(1,036,000)	(969,000)	(67,000)
Total incurred	241,769	397,002	(155,233)
Payments and recoveries attributable to			
Current year claims	-	-	-
Prior years claims	(1,502,769)	(1,723,002)	220,233
Provision for unpaid claims and adjustment expenses, December 31, 2016	101,247,000	94,794,000	6,453,000
Incurring claims and claim adjustment expenses			
Provision for current year claims	6,483,000	5,931,000	552,000
Increase (decrease) in provision for claims of prior years	(390,707)	(1,259,494)	868,787
Increase (decrease) in provision due to discount rate change	(1,702,000)	(1,568,000)	(134,000)
Total incurred	4,390,293	3,103,506	1,286,787
Payments and recoveries attributable to			
Current year claims	-	-	-
Prior years claims	(1,138,293)	(1,329,506)	191,213
Provision for unpaid claims and adjustment expenses, December 31, 2017	104,499,000	96,568,000	7,931,000

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").

#### December 31, 2017

	Undiscounted \$	Discounted at 2.15% \$	Provisions for adverse deviation \$	Value per accepted actuarial practice \$
<b>Provision for unpaid claims and adjustment expenses</b>				
Gross	104,547,000	95,756,000	8,743,000	104,499,000
Recoverable from reinsurers	99,915,000	91,541,000	5,027,000	96,568,000
<b>Net</b>	<b>4,632,000</b>	<b>4,215,000</b>	<b>3,716,000</b>	<b>7,931,000</b>

#### December 31, 2016

	Undiscounted \$	Discounted at 1.75% \$	Provisions for adverse deviation \$	Value per accepted actuarial practice \$
<b>Provision for unpaid claims and adjustment expenses</b>				
Gross	99,825,000	92,907,000	8,340,000	101,247,000
Recoverable from reinsurers	96,644,000	89,961,000	4,833,000	94,794,000
<b>Net</b>	<b>3,181,000</b>	<b>2,946,000</b>	<b>3,507,000</b>	<b>6,453,000</b>

## Canadian Lawyers Liability Assurance Society

### Notes to the financial statements

For the year ended December 31, 2017

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#### 5. Unpaid claims and adjustment expenses (continued)

##### 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 2.15% (2016: 1.75%) 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.

Changes in the assumptions used in the December 31, 2016 actuarial valuation resulted in a total decrease in net liabilities of \$745,000 (2016: decrease of \$70,000), which is due to the change in loss development factors used in the Bornhuetter-Ferguson method and unallocated loss adjustment expense load increased from 1.95% to 2.60% (2016: Remained at 1.95%). The change in the discount rate and provisions for adverse deviation assumptions led to a further increase in the net liabilities of \$134,000 (2016: increase of \$67,000).

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, 2018.

#### 7. Expenses by nature

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

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Management services	<b>997,006</b>	992,220
Legal and professional	<b>843,829</b>	686,964
Other expenses	<b>232,086</b>	286,424
Total	<b>2,072,921</b>	1,965,608



## **Canadian Lawyers Liability Assurance Society**

### **Notes to the financial statements**

For the year ended December 31, 2017

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#### **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, 2017 (July 1, 2016: \$975,000) 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, 2017, Colchester received from the Society premiums of \$209,798 (July 1, 2016: \$1,594,237).

Colchester provides aggregate stop-loss reinsurance protection for a portion of the Society's retained risk. On July 1, 2017 this reinsurance had an attachment point of \$5,000,000 (July 1, 2016: \$5,000,000), and an annual aggregate limit of \$10,000,000 (July 1, 2016: \$10,000,000). 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.

- 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, 2017, the total reserves held and recoverable on the Society's financial statements relating to LPT was \$17,961,185 (2016 - \$18,872,183). 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, 2017 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.

## **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.

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:

# Canadian Lawyers Liability Assurance Society

## Notes to the financial statements

For the year ended December 31, 2017

### 11. Risk management (continued)

#### Analysis of claims development - net and gross

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Estimate of ultimate (by underwriting year):</b>											
End of year	8,150,000	8,797,000	8,322,000	4,665,000	463,000	411,000	440,000	424,000	444,000	192,000	
One year later	7,626,000	9,329,000	9,795,000	107,000	423,000	380,000	413,000	392,000	1,062,000		
Two years later	5,524,000	8,299,000	2,073,000	107,000	334,000	269,000	308,000	281,000			
Three years later	4,419,000	20,000	2,073,000	107,000	435,000	197,000	284,000				
Four years later	5,000	20,000	2,073,000	107,000	362,000	131,000					
Five years later	5,000	20,000	2,073,000	107,000	281,000						
Six years later	5,000	20,000	2,073,000	107,000							
Seven years later	5,000	20,000	2,073,000								
Eight years later	5,000	20,000									
Nine years later	5,000										
Current estimate of ultimate	5,000	20,000	2,073,000	107,000	281,000	131,000	284,000	281,000	1,062,000	192,000	4,436,000
Cumulative payments	(5,000)	(20,000)	(2,073,000)	(107,000)	(203,000)	-	(17,000)	-	(29,000)	-	(2,454,000)
<b>Net liability</b>	-	-	-	-	78,000	131,000	267,000	281,000	1,033,000	192,000	1,982,000

#### Provision for unpaid claims and adjusting expenses recoverable from insurers

Nine year net liability	1,982,000
Effect of discounting and PFAD	3,299,000
Unallocated loss adjustment expense	2,650,000
Provision for unpaid claims and adjusting expenses recoverable	96,568,000

#### Gross liability in statement of financial position

104,499,000

## **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, 2017.

	Net income for the year	Equity	Net income for the year	Equity
	\$	\$	\$	\$
5% increase in expected losses	<b>141,000</b>	<b>141,000</b>	130,000	130,000
5% decrease in expected losses	<b>(92,000)</b>	<b>(92,000)</b>	(133,000)	(133,000)
0.5% increase in discount rate	<b>(161,000)</b>	<b>(161,000)</b>	(131,000)	(131,000)
0.5% decrease in discount rate	<b>168,000</b>	<b>168,000</b>	136,000	136,000

### *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, 2017 is \$62,034,333 (2016 - \$66,799,000).

# Canadian Lawyers Liability Assurance Society

## Notes to the financial statements

For the year ended December 31, 2017

### 11. 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.

	<b>2017</b>	2016
	\$	\$
Cash	<b>3,140,371</b>	4,731,655
Short term investments	<b>11,745,460</b>	11,587,109
Bonds	<b>5,091,893</b>	5,150,585
Interest income due and accrued	<b>18,532</b>	21,121
Premiums receivable	<b>1,782,634</b>	2,520,380
Reinsurance recoverable	<b>617,756</b>	837,614
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	<b>96,568,000</b>	94,794,000
Total credit exposure	<b>118,964,646</b>	119,642,464

##### 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:

	<b>2017</b>	2016
R-1 (high)	<b>70%</b>	70%
AAA	<b>7%</b>	7%
AA	<b>23%</b>	23%
	<b>100%</b>	100%

#### 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:

# Canadian Lawyers Liability Assurance Society

## Notes to the financial statements

For the year ended December 31, 2017

### 11. Risk management (continued)

#### b) Liquidity risk (continued)

	December 31, 2017			
	Due within 1 year	1 to 5 years	Over 5 years	Total
	\$	\$	\$	\$
Provision for unpaid claims and adjustment expenses (net)	1,159,000	3,918,000	2,854,000	7,931,000
Due to reinsurers	1,649,031			1,649,031
Accounts payable and accrued charges	513,612			513,612
<b>Total</b>	<b>3,321,643</b>	<b>3,918,000</b>	<b>2,854,000</b>	<b>10,093,643</b>

	December 31, 2016			
	Due within 1 year	1 to 5 years	Over 5 years	Total
	\$	\$	\$	\$
Provision for unpaid claims and adjustment expenses (net)	1,097,000	3,014,000	2,342,000	6,453,000
Due to reinsurers	2,514,054	-	-	2,514,054
Accounts payable and accrued charges	643,905	-	-	643,905
<b>Total</b>	<b>4,254,959</b>	<b>3,014,000</b>	<b>2,342,000</b>	<b>9,610,959</b>

#### 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.

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 \$301,584 (2016: \$291,878) which would be recorded in OCI. This impact would be more than offset on an economic basis by a decrease in the estimated unpaid claims and adjustment expense of \$317,000 (2016: \$258,000) 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 \$232,419 (2016: \$250,135) 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 \$342,000 (2016: \$278,000) recorded through net income.

## **11. Risk management (continued)**

### *c) Market risk (continued)*

#### 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, 2017, the equity was \$11,547,191 (2016: \$14,451,839). 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, 2017, the Society's MCT was 451.27% (2016: 464.23%). 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.

## Canadian Lawyers Liability Assurance Society

### Notes to the financial statements

For the year ended December 31, 2017

## 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, 2017 the total reserve and guarantee funds required are as follows:

	\$	\$
Reserve fund		
Net premiums written during the period	<b>7,138,000</b>	10,610,000
Less: Amounts paid to licensed reinsurers	<b>5,075,000</b>	8,347,000
	<b>2,063,000</b>	2,263,000
Requirement	<b>50%</b>	50%
	<b>1,031,500</b>	1,131,500
Guarantee fund		
Total liabilities	<b>110,202,000</b>	109,667,000
Less: Unearned premiums	<b>3,540,000</b>	5,262,000
Recoverable from licensed reinsurers	<b>95,515,000</b>	93,713,000
Add: Statutory margin	<b>50,000</b>	50,000
	<b>11,197,000</b>	10,742,000
Total of reserve and guarantee fund	<b>12,228,500</b>	11,873,500
Cash and approved securities	<b>19,978,000</b>	21,469,000
Excess of cash and securities over reserve and guarantee fund	<b>7,749,500</b>	9,595,500

## 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 recoverable
- 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. In 2017, the Society paid the Departing Subscriber \$1,500,000 by means of refund of premium surplus. 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



## **Canadian Lawyers Liability Assurance Society**

### **Notes to the financial statements**

For the year ended December 31, 2017

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#### **14. Contingent Liability (continued)**

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 22, 2018.



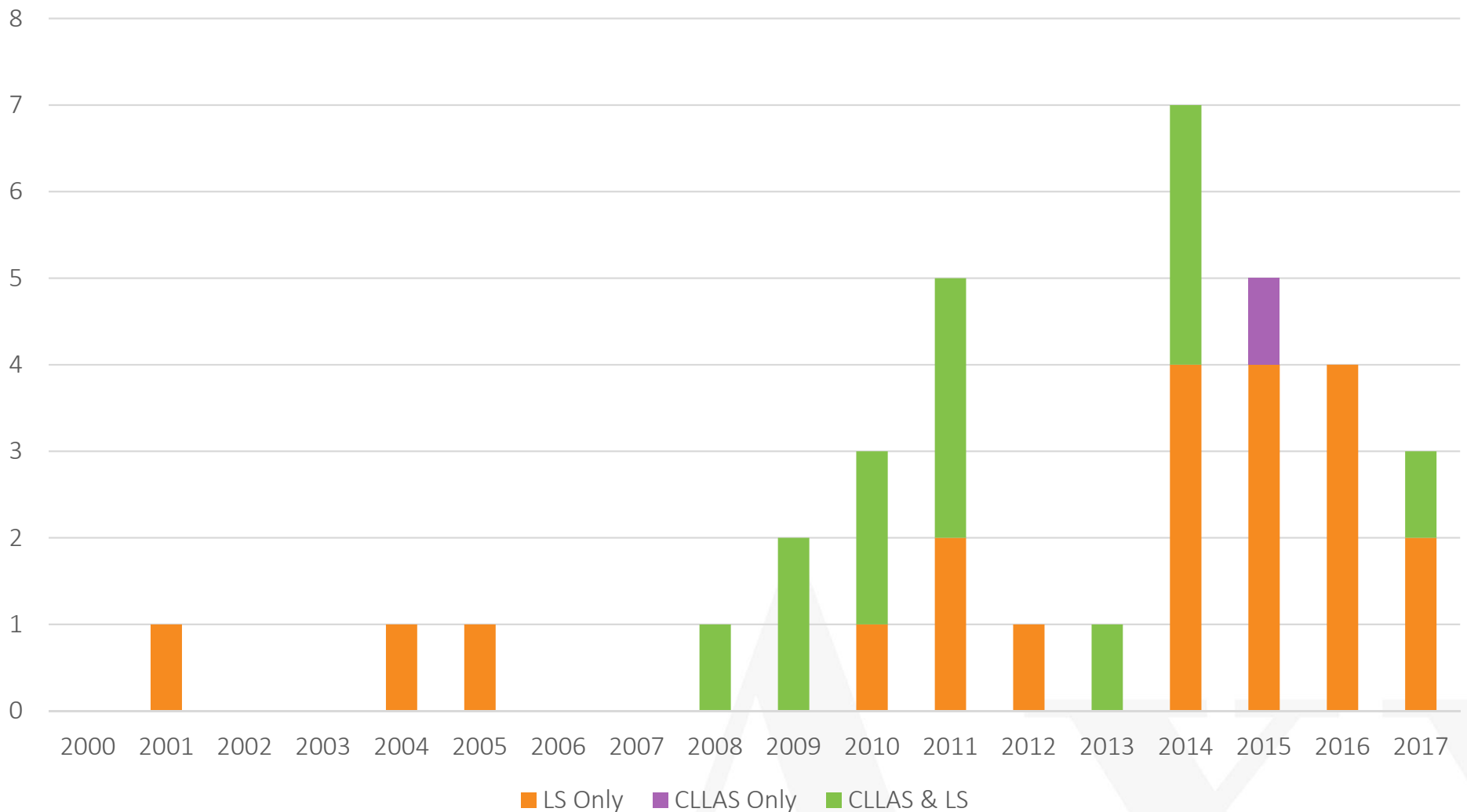
Actuaries & Insurance Management Advisors

CLLAS

Open Large Loss Claims Summary  
As at December 31, 2017

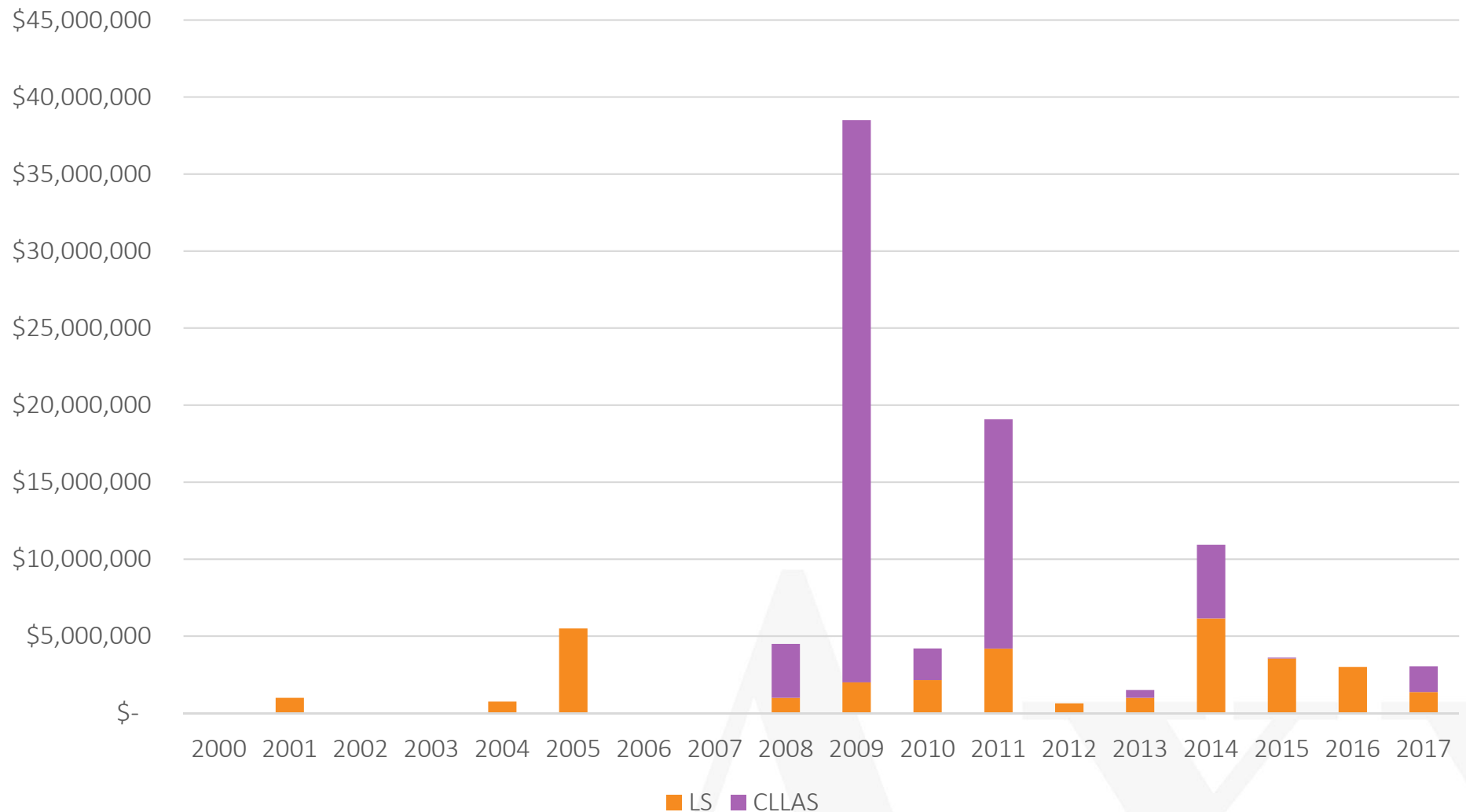
# Open Large Loss Claims

## Number of Claims by Insurer



# Open Large Loss Claims

## Incurred Amounts by Insurer



# Open Large Loss Claims

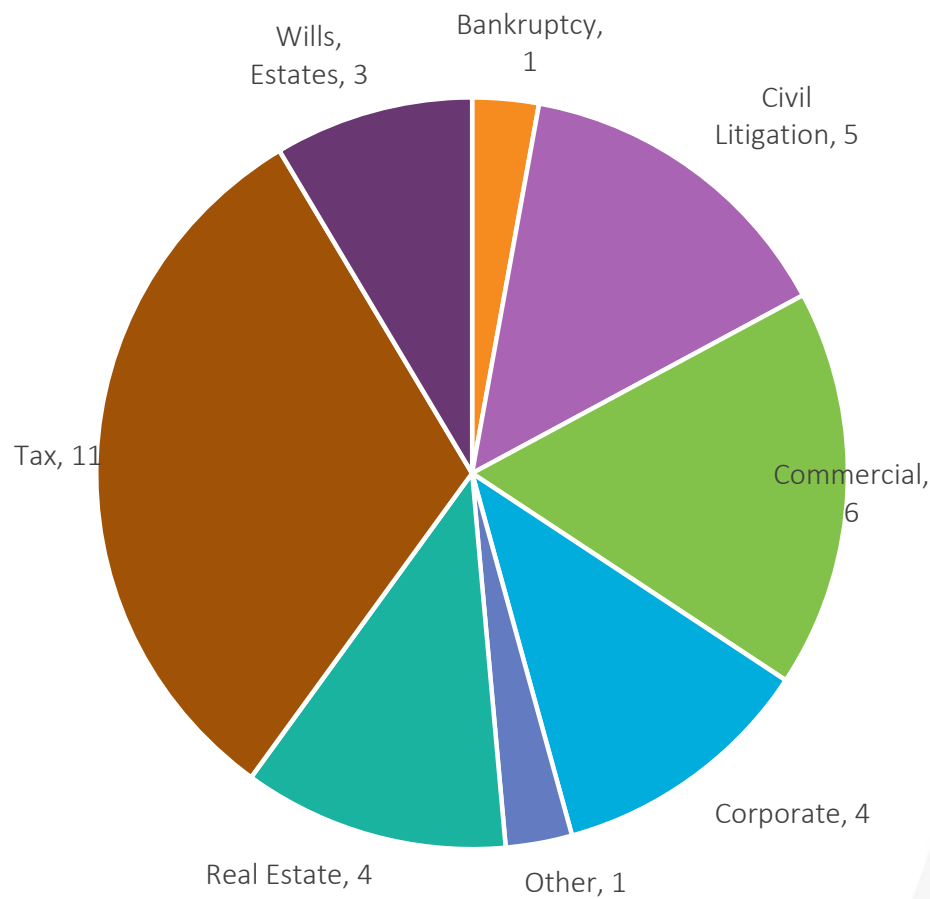
## Change in Incurred Amounts (CLLAS)



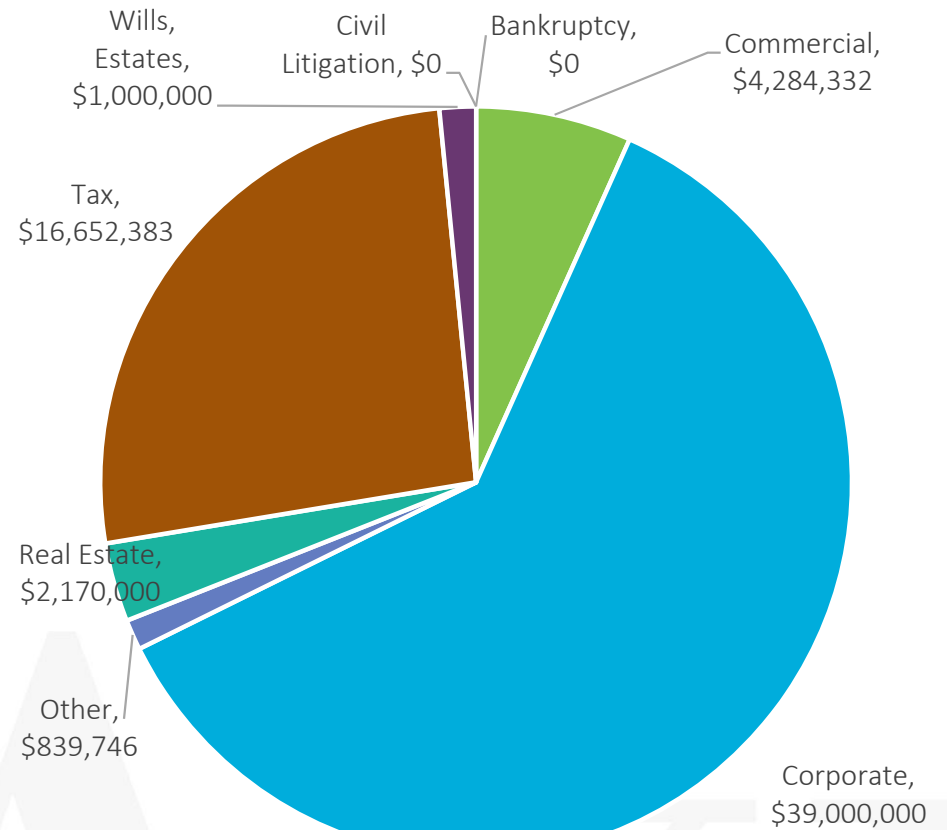
# Open Large Loss Claims

## By Area of Law

Number of Claims (CLLAS & LS)

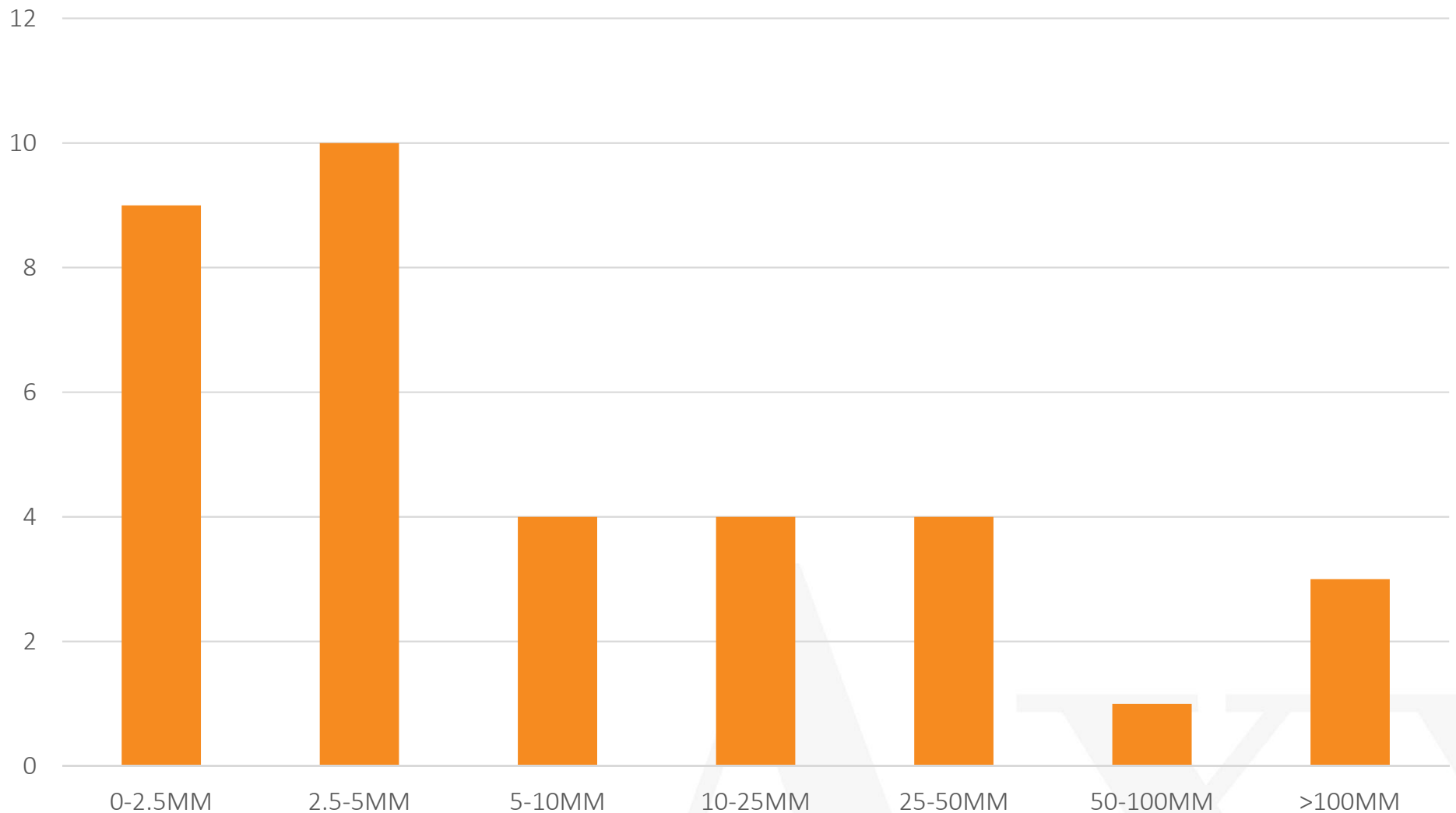


CLLAS Incurred



# 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	-1
2010	0	0	0
2011	0	0	0
2012	0	0	0
2013	0	0	0
2014	0	0	0
2015	1	0	0
2016	3	0	0
2017	2	0	0



# 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

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INDEPENDENT INVESTMENT COUNSEL  
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M5E 1G9

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

January 19<sup>th</sup>, 2018



Mr. Patrick Mahoney,  
Axxima,  
36 Toronto Street, Suite 510  
Toronto ON M5C 2C5

Dear Patrick:

**Re: Canadian Lawyers Liability Assurance Society**

Please find enclosed our quarterly investment report for the period ending December 31 last on the Short and Long Term Fund last for CLLAS, together with a copy of our accounts, the originals of which have been sent to RBC Dexia Investor Services for payment.

After making progress during most of the quarter, bond prices turned lower in December and the bond indices ended the period mixed. The short bond price index edged lower by 0.3% while the mid-term price index gained 0.4%. The valuation of the Long Term Fund moved slightly higher as price gains by the longer-term issues just offset declines among the shorter-term bonds.

Activity during the quarter involved the roll-over of money market securities in the Short Term Investment Fund.

Please let us know if you have questions or comments on the report.

Yours sincerely,

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

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E-MAIL: INFO@MLSINVEST.COM

January 19, 2018

COPY

In account with

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

---

Valuation of Short Term Investment Fund  
at December 31, 2017

\$11,758,176

Investment Counsel Fee for the period  
October 1 to December 31, 2017  
at .025% (1/4 of .10% per annum)

\$2,939.54

Harmonized Sales Tax (HST) at 13%

382.14

\$3,321.68

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

HST Registration No. R103546115

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January 19, 2018

COPY

In account with

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

---

Valuation of Long Term Investment Fund at December 31, 2017	\$5,091,917
--	-------------

Investment Counsel Fee for the period October 1 to December 31, 2017 at .0625% (1/4 of .25% per annum)	\$3,182.45
--	------------

Harmonized Sales Tax (HST) at 13%	<u>413.72</u>
	<u><u>\$3,596.16</u></u>

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

HST Registration No. R103546115

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

**INVESTMENT REPORT**  
**DECEMBER 31, 2017**

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

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

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

**COMMENTARY FOR THE QUARTER ENDING DECEMBER 31, 2017**

**Review of Market Yields**

After drifting lower during much of the fourth quarter, Canadian bond yields reversed course in mid-December and moved sharply higher for the balance of the month. This upward shift more than retraced the decline experienced earlier in the period and all maturities out to 7 years ended the fourth quarter with moderately higher yields. Meanwhile the yield on the 10-year Canada closed the quarter 6 basis points below its level at the end of September.

As a result of these changes, the yield curve flattened slightly over the fourth quarter. At the end of December, the yield advantage of the 10-year issue over the Treasury bill had decreased to 98 basis points, compared to 110 basis points three months earlier.

	<b>Jan. 01/95</b>	<b>Jun. 30/17</b>	<b>Sep. 30/17</b>	<b>Dec. /31/17</b>
3-month Treasury Bills	6.80%	0.71%	1.00%	1.05%
5-year Canadas	8.99%	1.38%	1.75%	1.82%
10-year Canadas	9.09%	1.75%	2.10%	1.98%

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

During the fourth quarter, the market value of the Long Term Investment Fund holdings increased by \$9,019, which represents a capital increase of 0.8%.

At December 31, 2017, the average term to maturity of the Long Term Investment Fund stood at 4.3 years.

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

<b><i>Distribution at December 31, 2017</i></b>	<b><i>Valuation</i></b>	<b><i>%</i></b>
Short Term Investment Fund	\$11,751,259	69.8%
Long Term Investment Fund	\$5,091,917	30.2%
<b>TOTAL COMBINED VALUATION</b>	<b>\$16,843,176</b>	<b>100.0%</b>

## ***CLLAS***

### **CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

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

- Total Returns vs. Benchmarks - Gross and Net of Fees
- Distribution of Securities in the Long Term Investment Fund  
by Credit Risk and by Maturity
- Compliance Statement
- Quarterly Performance Report - Gross of Fees: Long Term Investment Fund
- Bond Market Commentary and Future Policy
- Security Holdings in the Short and Long Term Investment Funds  
Listed and Valued Separately as at December 31, 2017
- Security Purchases and Sales
- Cash Reconciliations
- External Individual Credit Rating Report



## **CLLAS**

### **LONG TERM INVESTMENT FUND**

#### **TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIODS ENDING DECEMBER 31, 2017**

	3 Years*	2 Years*	1 Year	Last 3 months
<b><i>Long Term Investment Fund – Gross of Fees</i></b>	<b><i>1.72%</i></b>	<b><i>0.83%</i></b>	<b><i>0.71%</i></b>	<b><i>0.80%</i></b>
<b><i>Long Term Investment Fund – Net of Fees</i></b>	<b><i>1.43%</i></b>	<b><i>0.55%</i></b>	<b><i>0.43%</i></b>	<b><i>0.73%</i></b>
<b>Benchmark Portfolio **</b>	<b>1.73%</b>	<b>0.85%</b>	<b>0.44%</b>	<b>0.62%</b>

\* 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, 2017**

	Since Inception Oct. 01/08 *	3 Years*	2 Years *	1 Year	Last 3 Months
<b><i>Short Term Investment Fund – Gross of Fees</i></b>	<b><i>0.72%</i></b>	<b><i>0.62%</i></b>	<b><i>0.65%</i></b>	<b><i>0.72%</i></b>	<b><i>0.24%</i></b>
<b><i>Short Term Investment Fund – Net of Fees</i></b>	<b><i>0.60%</i></b>	<b><i>0.50%</i></b>	<b><i>0.52%</i></b>	<b><i>0.58%</i></b>	<b><i>0.19%</i></b>
<b>Benchmark Portfolio **</b>	<b>0.68%</b>	<b>0.56%</b>	<b>0.55%</b>	<b>0.63%</b>	<b>0.21%</b>

\* Annualized

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

**CLLAS**  
**LONG TERM INVESTMENT FUND**

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

	Dec. 17/13	Mar. 31/17	Jun. 30/17	Sep. 30/17	Dec. 31/17
<b>Bonds, Treasury Bills &amp; Cash</b> Less than 1 year term	100.0%	14.2%	19.2%	15.8%	15.8%
<b>Canadas</b> Greater than 1 year term		23.8%	18.8%	18.7%	18.7%
<b>Provincials</b> Greater than 1 year term		32.0%	32.0%	31.8%	31.9%
<b>Corporates</b> Greater than 1 year term		30.0%	30.0%	33.7%	33.6%
<b>TOTAL PORTFOLIO</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**LONG TERM INVESTMENT FUND**

**DISTRIBUTION OF SECURITIES BY MATURITY**  
(Based on Market Values)

	Mar. 31/17	Jun. 30/17	Sep. 30/17	Dec. 31/17
Under 1 year	14.2%	19.2%	15.8%	15.7%
1 - 3 years	20.7%	26.8%	19.9%	19.8%
3 - 5 years	28.2%	22.2%	22.1%	26.0%
5 - 7 years	16.3%	11.1%	18.1%	14.1%
7 - 10 years	20.6%	20.7%	24.1%	24.4%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Average Maturity (yrs)</b>	<b>4.31</b>	<b>4.06</b>	<b>4.53</b>	<b>4.30</b>
<b>Average Duration (yrs)</b>	<b>3.97</b>	<b>3.75</b>	<b>4.15</b>	<b>3.95</b>

**SHORT TERM INVESTMENT FUND**

	Mar. 31/17	Jun. 30/17	Sep. 30/17	Dec. 31/17
<b>Short Term</b> <b>Average Duration (yrs)</b>	<b>0.10</b>	<b>0.08</b>	<b>0.07</b>	<b>0.10</b>

# CLLAS

## COMPLIANCE WITH INVESTMENT POLICY STATEMENT

AT DECEMBER 31, 2017

	Investment Limits	Investment Funds	Compliance
<b>Short Term Investment Fund</b>			
Maximum Term of Any Issue	1 year	0.2 years	Yes
Minimum Percentage of Total Fund (Short & Long)	40% of Total	69.8%	Yes
Minimum Canada & Provincial Percentage	50%	51.7%	Yes
Minimum Provincial Quality	A	N/A	Yes
Minimum Bank CD & BA Quality	R1 (high)	R1 (high)	Yes
<b>Long Term Investment Fund</b>			
Maximum Term of Any Issue	10 years	8.9 years	Yes
Maximum Percentage of Total Fund (Short & Long)	60% of Total	30.2%	Yes
Minimum Canada Percentage	20%	23.6%	Yes
Maximum Provincial Percentage	40%	38.9%	Yes
Minimum Canada & Provincial Percentage	60%	62.5%	Yes
Minimum Provincial Quality *	A	AA (low)	Yes
Maximum Corporate Percentage	40%	37.5%	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.

## ***CLLAS***

**Martin, Lucas & Seagram Ltd.**  
**PERFORMANCE REPORT**  
**GROSS OF FEES**  
***CLLAS – LONG TERM INVESTMENT FUND***  
***(RBC Investor Services)***  
***From 09-30-17 to 12-31-17***

Portfolio Value on 06-30-17	5,082,898
Accrued Interest	32,479
Contributions	0
Withdrawals	-46,096
Realized Gains	0
Unrealized Gains	9,019
Interest	46,096
Dividends	0
Change in Accrued Interest	-13,946
Portfolio Value on 09-30-17	5,091,917
Accrued Interest	18,533
Average Capital	5,103,035
Total Gains before Fees	41,170
<b>IRR for 0.25 Years</b>	<b>0.81%</b>

## **CLLAS**

### **BOND MARKET COMMENTARY AND FUTURE POLICY**

Global equity markets experienced a banner year in 2017, with many markets reaching record highs. Bond prices, on the other hand, closed the year moderately lower although, when coupon returns are included, most Canadian and U.S. maturities posted small positive returns. Both the equity and fixed income markets experienced unusually low levels of volatility and the few pullbacks that did occur were limited in both size and duration. The equity markets responded favourably to a variety of positive developments, led by a synchronized pickup in global growth, strong corporate profitability and expansionary central bank policies, which provided ample liquidity. Late in the year, equity markets were given an additional boost with the adoption of pro-growth fiscal policies in the U.S. Meanwhile, a number of potentially disruptive developments failed to gain much traction. Inflationary pressures remained subdued, and wage pressures remained muted despite sharp declines in employment, which provided a supportive backdrop for bonds. In the U.S. and Canada, the authorities were also able to begin the normalization of monetary policy without pushing longer-term yields noticeably higher or derailing the expansion.

On the domestic front, following a rapid acceleration in the first half of last year, the Canadian economy slowed somewhat in the second half. Nevertheless, overall growth in 2017 is expected to be around 3%, which would represent the best gain in six years and the strongest advance among the Group of Seven economies. Helping to drive growth was a rebound in business investment and ongoing strength in domestic demand, which was fuelled by consumer and government expenditures. In recent months, employment growth has surprised on the upside and the unemployment rate has dropped to a four-decade low of 5.7%. Over the near term, fundamentals for consumer spending remain supportive, due to strong gains in employment, some improvement in wages and a rise in confidence, which started the new year near record levels.

Citing the recent strength in consumption and residential investment, along with inflation that is close to the 2% target and diminishing slack in the economy, the Bank of Canada implemented another quarter percent rate increase earlier this week. This follows two consecutive hikes during the third quarter of last year. In its latest statement, the Bank reiterated that, while the outlook is expected to warrant higher rates over time, continued monetary accommodation will likely be needed and the “Governing Council will remain cautious in considering future policy adjustments, guided by incoming data in assessing the economy’s sensitivity to interest rates, the evolution of economic capacity, and the dynamics of both wage growth and inflation.” Going forward, a cautious approach seems warranted given the number of risks overhanging the Canadian economy. These include the vulnerability of overextended household finances to higher rates, the negative impact of new mortgage rules on real estate activity and the deteriorating trade balance in the wake of a stronger Canadian dollar. As a result of these headwinds, overall growth is expected to slow to just over 2% this year. However, the growing possibility that NAFTA negotiations may collapse and the negative consequences for trade and capital spending increase the downside risks.

## ***CLLAS***

South of the border, the U.S. economy has continued to perform well, with consumer and business spending closing the year on a high note. As a result, aggregate growth in the fourth quarter is expected to exceed 3% for the third consecutive quarter. Prospects for the economy to maintain its upward momentum in 2018 were given a boost when U.S. legislators passed a sweeping overhaul of the tax code just before Christmas. The most significant element of the new law was a permanent reduction in the corporate tax rate from 35% to 21% and a temporary reduction in personal tax rates through to 2025. For businesses, the new law also provides an important investment incentive as it allows for the immediate deduction of investment spending and the opportunity to repatriate offshore profits at much lower tax rates. These changes are expected to have a near-term stimulative effect on consumer spending, investment, job creation and overall growth.

However, it is unclear what the secondary effects will be of adding a large dose of deficit-financed fiscal stimulus at a time when the economy is near full employment and spare capacity is limited. The impact on monetary policy will be of particular importance. At the most recent meeting, policy makers' mean forecast was for three rate hikes this year, although this was before passage of the tax bill. The stimulative impact of the bill along with easy financial conditions may warrant a quicker pace of tightening, particularly if inflation moves back to the 2% target range. Pending changes in leadership at the Federal Reserve add to the uncertainty surrounding future monetary policy and may increase the risk of a policy mistake, particularly as the Fed has begun to taper its unprecedented \$4.5 trillion balance sheet.

Looking offshore, the economic news out of Europe has also remained positive and the rate of expansion in the third quarter suggests 2017 will mark the region's strongest annual performance since 2007. Courtesy of buoyant global trade, business and consumer sentiment has continued to strengthen and the unemployment rate is now at a 9-year low of 8.9%. This has facilitated an improvement in domestic demand and led to a healthy expansion of business and household loans. While the European Central Bank (ECB) announced in October that they would extend their asset purchase program until September of this year, the Bank also opted to reduce the monthly asset purchases by half in response to rapid economic growth. At their December meeting, officials noted that favourable economic conditions could warrant a gradual phase out of quantitative easing even before inflation reaches the bank's target of just below 2%. Nevertheless, with core inflation still below 1%, this points to the persistence of economic slack and the euro's recent appreciation adds to the disinflationary pressures. Political uncertainties also cloud the outlook following inconclusive election results in Germany, the possibility of anti-euro factions gaining power in Italy's upcoming election and the ongoing Brexit negotiations.

Turning to Asia, China's economic growth in 2017 surprised to the upside at 6.9%. While the country benefitted from higher trade volumes thanks to the synchronised global upturn, especially in Europe, some of the outperformance came from government investment designed to ensure growth and inspire confidence going into the Party Congress in October. Now that the Congress has passed, the main issue facing China has shifted from growth to credit

## **CLLAS**

quality. While credit growth appears to be slowing amid the government's intensified efforts to rein in corporate leverage, China's high-risk non-financial corporate debt now represents 30% of the world's total. This exceeds Europe and America's combined total of 20% and elevates the region's economic and financial risks. Meanwhile, Japan also experienced higher aggregate growth last year and reported the longest streak of positive quarterly gains since 2001. With Shinzo Abe handily securing his power in October's elections and inflation still below 1%, the Bank of Japan's unprecedented program of monetary stimulus is expected to continue this year and remain the most expansionary among the global central banks.

Robust global growth, along with the adoption of sweeping tax cuts in the U.S., some easing in geopolitical tensions with North Korea and upbeat analysts' forecasts for corporate profitability has buoyed investor confidence and global equity markets have continued to build on the impressive gains recorded last year. Beyond the age of the current expansion, which is approaching the longest on record, there are few signs indicating that the economic up-cycle is nearing the end. The consensus forecast sees global growth improving to around 4% this year.

In the wake of ongoing improvements in the global outlook, bond yields reversed to the upside in December and have continued to climb higher thus far in the new year. Debt markets have been weighed down further by growing expectations that Canadian and U.S. monetary authorities may have to quicken the forecasted pace of rate increases in order to address inflationary pressures that appear to be building beneath the surface. There is also growing concern that offshore central banks will begin moving away from their stimulus plans, which will exacerbate the upside pressure on market yields. Looking ahead, we believe the macro-backdrop and cyclical factors support the case for yields to remain in a gradual upward trend. However, it should be kept in mind that, given the economies' sensitivity to higher rates due to the elevated debt levels, if yields rise too quickly, this could derail the cycle's upward momentum and cause the monetary authorities to slow the pace of future rate hikes. This sensitivity, along with underlying disinflationary forces, such as demographics, technology and global competition, suggests that the upside potential for yields is more muted than in previous expansionary cycles. At this juncture, we think it is prudent to maintain a defensive posture and believe the Long Term Fund's laddered maturity structure and duration of just under 4 years is appropriate in light of the outlook. In the period ahead, we will be looking for favourable opportunities to improve future returns through the expansion of the Long Term Fund and a corresponding reduction in the Short Term Fund.

RWB/de

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*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, 2017**

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
<b>CASH</b>					
	Cash Account			12,264	0
<b>MONEY MARKET ISSUES</b>					
1,075,000	Toronto Dominion Bank BA 1.182% due January 3, 2018	99.89	99.98	1,074,803	12,693
895,000	CIBC BA 1.156% due January 12, 2018	99.78	99.95	894,544	10,324
460,000	FirstBank BA 1.217% due January 18, 2018	99.90	99.93	459,665	5,593
1,135,000	Bank of Nova Scotia BA 1.289% due January 23, 2018	99.63	99.91	1,133,966	14,576
1,800,000	Canada Treasury Bill .80% due January 25, 2018	99.88	99.93	1,798,742	14,382
860,000	CIBC BA 1.179% due January 29, 2018	99.73	99.89	859,045	10,112
1,485,000	Canada Treasury Bill 0.82% due February 8, 2018	99.81	99.89	1,483,350	12,154
350,000	Royal Bank BA 1.288% due February 21, 2018	99.77	99.80	349,294	4,498
1,780,000	Canada Treasury Bill .82% due February 22, 2018	99.84	99.85	1,777,321	14,573
610,000	CIBC BA 1.25% due February 28, 2018	99.70	99.77	608,600	7,602
1,010,000	Canada Treasury Bill .99% due March 22, 2018	99.77	99.77	1,007,640	9,976
300,000	Royal Bank BA 1.36% due March 29, 2018	99.63	99.65	298,943	4,065
				11,745,913	120,547
<b>TOTAL PORTFOLIO</b>				<b>11,758,176</b>	<b>120,547</b>

**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 10-01-17 To 12-31-17*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
<b>PURCHASES</b>					
10-01-17	10-02-17	645,000	FirstBank BA 1.250% due December 18, 2017	99.74	643,303.65
10-03-17	10-04-17	895,000	Royal Bank BA 1.15% due November 3, 2017	99.91	894,158.70
10-04-17	10-05-17	1,755,000	Canada Treasury Bill 0.870% due December 14, 2017	99.83	1,752,076.17
10-04-17	10-05-17	1,075,000	FirstBank BA 1.150% due October 31, 2017	99.92	1,074,120.10
10-06-17	10-10-17	1,135,000	Bank of Nova Scotia BA 1.289% due January 23, 2018	99.63	1,130,803.91
10-13-17	10-16-17	610,000	CIBC BA 1.180% due December 1, 2017	99.85	609,094.15
10-18-17	10-19-17	445,000	Toronto Dominion Bank BA 1.150% due November 21, 2017	99.90	444,537.65
10-30-17	10-30-17	1,075,000	FirstBank BA 1.146% due November 29, 2017	99.91	1,074,021.75
11-01-17	11-01-17	1,005,000	Canada Treasury Bill .744% due December 28, 2017	99.89	1,003,854.30
11-02-17	11-03-17	895,000	CIBC BA 1.156% due January 12, 2018	99.78	893,019.37
11-03-17	11-06-17	860,000	CIBC BA 1.179% due January 29, 2018	99.73	857,671.12
11-15-17	11-16-17	1,485,000	Canada Treasury Bill 0.82% due February 8, 2018	99.81	1,482,202.26
11-20-17	11-21-17	445,000	Bank of Nova Scotia BA 1.187% due December 19, 2017	99.91	444,595.05
11-29-17	11-30-17	1,800,000	Canada Treasury Bill .80% due January 25, 2018	99.88	1,797,793.20
11-29-17	11-30-17	1,075,000	Toronto Dominion Bank BA 1.182% due January 3, 2018	99.89	1,073,817.50
11-30-17	12-01-17	610,000	CIBC BA 1.25% due February 28, 2018	99.70	608,146.21
12-13-17	12-13-17	1,780,000	Canada Treasury Bill .82% due February 22, 2018	99.84	1,777,205.40
12-15-17	12-18-17	350,000	Royal Bank BA 1.288% due February 21, 2018	99.77	349,198.50
12-15-17	12-18-17	300,000	Royal Bank BA 1.36% due March 29, 2018	99.63	298,875.00
12-18-17	12-19-17	460,000	FirstBank BA 1.217% due January 18, 2018	99.90	459,540.00
12-27-17	12-28-17	1,010,000	Canada Treasury Bill .99% due March 22, 2018	99.77	1,007,704.27
					<b>19,675,738.26</b>

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
*(RBC Investor Services)*  
*From 10-01-17 To 12-31-17*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
<b>SALES</b>					
10-02-17	10-02-17	640,000	FirstBank BA 1.082% due October 2, 2017	100.00	640,000.00
10-04-17	10-04-17	895,000	CIBC BA 1.100% due October 4, 2017	100.00	895,000.00
10-05-17	10-05-17	1,075,000	CIBC BA 1.10% due October 5, 2017	100.00	1,075,000.00
10-05-17	10-05-17	1,755,000	Canada Treasury Bill 0.701% due October 5, 2017	100.00	1,755,000.00
10-10-17	10-10-17	1,135,000	Toronto Dominion Bank BA 1.18% due October 10, 2017	100.00	1,135,000.00
10-16-17	10-16-17	610,000	CIBC BA 1.069% due October 16, 2017	100.00	610,000.00
10-19-17	10-19-17	435,000	Toronto Dominion Bank BA 1.146% due October 19, 2017	100.00	435,000.00
10-31-17	10-31-17	1,075,000	FirstBank BA 1.150% due October 31, 2017	100.00	1,075,000.00
11-02-17	11-02-17	1,005,000	Canada Treasury Bill .68% due November 2, 2017	100.00	1,005,000.00
11-03-17	11-03-17	895,000	Royal Bank BA 1.15% due November 3, 2017	100.00	895,000.00
11-06-17	11-06-17	860,000	CIBC BA 1.23% due November 6, 2017	100.00	860,000.00
11-16-17	11-16-17	1,485,000	Canada Treasury Bill .68% due November 16, 2017	100.00	1,485,000.00
11-21-17	11-21-17	445,000	Toronto Dominion Bank BA 1.150% due November 21, 2017	100.00	445,000.00
11-29-17	11-29-17	1,075,000	FirstBank BA 1.146% due November 29, 2017	100.00	1,075,000.00
11-30-17	11-30-17	1,795,000	Canada Treasury Bill .68% due November 30, 2017	100.00	1,795,000.00
12-01-17	12-01-17	610,000	CIBC BA 1.180% due December 1, 2017	100.00	610,000.00
12-14-17	12-14-17	1,755,000	Canada Treasury Bill 0.870% due December 14, 2017	100.00	1,755,000.00
12-18-17	12-18-17	645,000	FirstBank BA 1.250% due December 18, 2017	100.00	645,000.00
12-19-17	12-19-17	445,000	Bank of Nova Scotia BA 1.187% due December 19, 2017	100.00	445,000.00
12-28-17	12-28-17	1,005,000	Canada Treasury Bill .744% due December 28, 2017	100.00	1,005,000.00
					<b>19,640,000.00</b>

Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - SHORT TERM INVESTMENT FUND***  
***(RBC Investor Services)***  
*From 10-01-17 to 12-31-17*

Cash Balance at September 30, 2017			13,430.27
ADD:	Proceeds from Sales	19,640,000.00	
	Bond Interest Credited (from Long Term Investment Fund)	46,100.72	
	Transfer to Long Term Investment Fund	<u>0.00</u>	<u>19,686,100.72</u>
			19,699,530.99
LESS:	Cost of Purchases	19,675,738.26	
	Investment Counsel Fees - Short Term Investment Fund	3,303.87	
	Investment Counsel Fees - Long Term Investment Fund	3,589.80	
	Trust Company Charges	<u>4,635.54</u>	<u>19,687,267.47</u>
<b>Cash Balance at December 31, 2017</b>			<b>12,263.52</b>

Martin, Lucas & Seagram Ltd.  
**INVESTMENT PERFORMANCE**  
 Net of Fees  
**CLLAS - SHORT TERM INVESTMENT FUND**  
**(RBC Investor Services)**  
 December 31, 2017

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.

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**Total Value Summary**

Your investments have changed by 142,927 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 71,229 during the past year.

Amount invested since 07-15-15	-240,606
Market value of portfolio on 12-31-17	11,758,176

**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.

From Date	Latest 1 Year	Inception To Date
	12-31-16	07-15-15
<b>Opening Market Value</b>	<b>11,621,795</b>	<b>11,855,855</b>
Contributions	661,584	4,636,101
Withdrawals	-596,431	-4,876,707
Realized Gains	0	0
Unrealized Gains	9,936	9,936
Interest	74,474	165,387
Dividends	0	0
Portfolio Fees	-13,182	-32,395
<b>Closing Market Value</b>	<b>11,758,176</b>	<b>11,758,176</b>
<b>Total Fees</b>	<b>-13,182</b>	<b>-32,395</b>

Martin, Lucas & Seagram Ltd.  
**INVESTMENT PERFORMANCE**  
**Net of Fees**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
**(RBC Investor Services)**  
*December 31, 2017*

**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	0.61%	-	-	-	0.51%

**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.

EXTERNAL INDIVIDUAL CREDIT RATING REPORT - DECEMBER 31, 2017

CLLAS - SHORT TERM INVESTMENT FUND

				Unit	Total		Market	%
Quantity	Security		Rating	Cost	Cost	Price	Value	Assets
1,075,000	Toronto Dominion Bank BA 1.182%	due January 3, 2018	R-1 (high)	99.89	1,073,818	99.98	1,074,803	9.2%
895,000	CIBC BA 1.156%	due January 12, 2018	R-1 (high)	99.78	893,019	99.95	894,544	7.6%
460,000	FirstBank BA 1.217%	due January 18, 2018	R-1 (high)	99.90	459,540	99.93	459,665	3.9%
1,135,000	Bank of Nova Scotia BA 1.289%	due January 23, 2018	R-1 (high)	99.63	1,130,804	99.91	1,133,966	9.7%
1,800,000	Canada Treasury Bill .80%	due January 25, 2018	R-1 (high)	99.88	1,797,793	99.93	1,798,742	15.3%
860,000	CIBC BA 1.179%	due January 29, 2018	R-1 (high)	99.73	857,671	99.89	859,045	7.3%
1,485,000	Canada Treasury Bill 0.82%	due February 8, 2018	R-1 (high)	99.81	1,482,202	99.89	1,483,350	12.6%
350,000	Royal Bank BA 1.288%	due February 21, 2018	R-1 (high)	99.77	349,199	99.80	349,294	3.0%
1,780,000	Canada Treasury Bill .82%	due February 22, 2018	R-1 (high)	99.84	1,777,205	99.85	1,777,321	15.1%
610,000	CIBC BA 1.25%	due February 28, 2018	R-1 (high)	99.70	608,146	99.77	608,600	5.2%
1,010,000	Canada Treasury Bill .99%	due March 22, 2018	R-1 (high)	99.77	1,007,704	99.77	1,007,640	8.6%
300,000	Royal Bank BA 1.36%	due March 29, 2018	R-1 (high)	99.63	298,875	99.65	298,943	2.5%
					11,735,976		11,745,913	100%

Martin, Lucas & Seagram Ltd.

**CLLAS - LONG TERM INVESTMENT FUND**  
(RBC Investor Services)

**Portfolio Holdings at December 31, 2017**

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
<b>GOVERNMENT BONDS</b>					
250,000	Canada Housing Trust 1.75% due June 15, 2018	100.11	100.22	250,538	4,375
250,000	Canada Housing Trust 1.95% due June 15, 2019	100.10	100.35	250,878	4,875
200,000	Canada Housing Trust 2.4% Series 48 due December 15, 2022	100.37	101.18	202,352	4,800
200,000	Canada Housing Trust 2.35% due September 15, 2023	105.62	100.78	201,562	4,700
300,000	Canada Housing Trust Ser. 70 2.25% due December 15, 2025	100.98	99.27	297,822	6,750
				<hr/> 1,203,151	<hr/> 25,500
<b>PROVINCIAL BONDS</b>					
350,000	Ontario 2.1% due September 8, 2018	99.57	100.42	351,470	7,350
250,000	British Columbia 3.25% due December 18, 2021	102.30	104.34	260,843	8,125
250,000	Ontario 3.15% due June 2, 2022	99.04	104.00	259,995	7,875
350,000	Ontario 2.85% due June 2, 2023	103.15	102.71	359,489	9,975
400,000	Ontario 2.60% due June 2, 2025	101.08	100.60	402,400	10,400
350,000	British Columbia 2.3% due June 18, 2026	104.40	98.34	344,204	8,050
				<hr/> 1,978,400	<hr/> 51,775
<b>CORPORATE BONDS</b>					
200,000	Royal Bank Dep. Note 2.26% due March 12, 2018	99.28	100.16	200,318	4,520
200,000	Wells Fargo Canada 2.944% due July 25, 2019	100.02	101.30	202,590	5,888
300,000	Bank of Montreal 2.84% due June 4, 2020	101.77	101.39	304,167	8,520
250,000	Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	104.57	100.77	251,923	6,408
200,000	Bank of Montreal 3.4% due April 23, 2021	100.65	103.14	206,270	6,800
150,000	Royal Bank 1.968% due March 2, 2022	100.05	97.97	146,957	2,952

Martin, Lucas & Seagram Ltd.

**CLLAS - LONG TERM INVESTMENT FUND**  
**(RBC Investor Services)**

**Portfolio Holdings at December 31, 2017**

<b>Quantity</b>	<b>Security</b>	<b>Unit Cost</b>	<b>Price</b>	<b>Market Value</b>	<b>Annual Income</b>
250,000	National Bank of Canada 2.105% due March 18, 2022	102.04	98.49	246,235	5,263
150,000	Wells Fargo 3.46% due January 24, 2023	102.36	103.84	155,757	5,190
200,000	Bank of Nova Scotia Dep. Notes 2.62% due December 2, 2026	99.23	98.08	196,150	5,240
				1,910,366	50,780
<b>TOTAL PORTFOLIO</b>				<b>5,091,917</b>	<b>128,055</b>

**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 10-01-17 To 12-31-17***

<b>Trade Date</b>	<b>Settle Date</b>	<b>Quantity</b>	<b>Security</b>	<b>Unit Price</b>	<b>Amount</b>
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**No purchases or sales this quarter**

Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - LONG TERM INVESTMENT FUND***  
*From 10-01-17 to 12-31-17*

Cash Balance at September 30, 2017		0.00
ADD: Transfer from Short Term Investment Fund	0.00	<u>0.00</u>
		0.00
ADD: Proceeds from Sales	0.00	
Bond Interest Credited (to Long Term Investment Fund)	46,100.72	
Transfer to Short Term Investment Fund	<u>-46,100.72</u>	<u>0.00</u>
		0.00
LESS: Cost of Purchases	0.00	
Accrued Interest Debited (from Long Term Investment Fund)	<u>0.00</u>	<u>0.00</u>
Cash Balance at December 31, 2017		<b>0.00</b>

Martin, Lucas & Seagram Ltd.  
**INVESTMENT PERFORMANCE**  
Net of Fees  
**CLLAS - LONG TERM INVESTMENT FUND**  
**(RBC Investor Services)**  
December 31, 2017

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 104,915 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 37,207 during the past year.

Amount invested since 07-15-15	159,907
Market value of portfolio on 12-31-17	5,110,450

#### 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	12-31-16	07-15-15
<b>Opening Market Value</b>	<b>5,171,432</b>	<b>4,845,628</b>
Contributions	33,785	766,399
Withdrawals	-131,975	-606,492
Realized Gains	-4,376	-25,958
Unrealized Gains	-83,502	-159,919
Interest	127,675	297,023
Dividends	0	0
Change in Accrued Interest	-2,589	-6,231
<b>Closing Market Value</b>	<b>5,110,450</b>	<b>5,110,450</b>
Portfolio Fees Paid By Client	-14,457	-35,117
<b>Total Fees</b>	<b>-14,457</b>	<b>-35,117</b>

Martin, Lucas & Seagram Ltd.  
**INVESTMENT PERFORMANCE**  
**Net of Fees**  
**CLLAS - LONG TERM INVESTMENT FUND**  
**(RBC Investor Services)**  
*December 31, 2017*

**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	0.44%	-	-	-	0.57%

**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.

**DATE TO DATE GAINS AND LOSSES**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*(RBC Investor Services)*  
*From 09-30-17 to 12-31-17*

Security	09-30-17 Market Value	Additions Withdrawals	12-31-17 Market Value	12-31-17 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
<b>GOVERNMENT BONDS</b>								
Canada Housing Trust 1.75% due June 15, 2018	250,695	-2,188	250,538	250,275	0	0	263	-158
Canada Housing Trust 1.95% due June 15, 2019	251,318	-2,438	250,878	250,238	0	0	640	-440
Canada Housing Trust 2.4% Series 48 due December 15, 2022	202,488	-2,400	202,352	200,740	0	0	1,612	-136
Canada Housing Trust 2.35% due September 15, 2023	201,378	0	201,562	211,240	0	0	-9,678	184
Canada Housing Trust Ser. 70 2.25% due December 15, 2025	295,305	-3,375	297,822	302,940	0	0	-5,118	2,517
<b>GOVERNMENT BONDS Total</b>	<b>1,201,184</b>		<b>1,203,151</b>	<b>1,215,433</b>	<b>0</b>	<b>0</b>	<b>-12,282</b>	<b>1,968</b>
<b>PROVINCIAL BONDS</b>								
Ontario 2.1% due September 8, 2018	351,813	0	351,470	348,495	0	0	2,975	-343
British Columbia 3.25% due December 18, 2021	261,593	-4,063	260,843	255,750	0	0	5,093	-750
Ontario 3.15% due June 2, 2022	260,405	-3,938	259,995	247,600	0	0	12,395	-410
Ontario 2.85% due June 2, 2023	358,894	-4,988	359,489	361,025	0	0	-1,537	595
Ontario 2.60% due June 2, 2025	398,428	-5,200	402,400	404,305	0	0	-1,905	3,972
British Columbia 2.3% due June 18, 2026	339,122	-4,025	344,204	365,400	0	0	-21,196	5,082
<b>PROVINCIAL BONDS Total</b>	<b>1,970,254</b>		<b>1,978,400</b>	<b>1,982,575</b>	<b>0</b>	<b>0</b>	<b>-4,175</b>	<b>8,146</b>
<b>CORPORATE BONDS</b>								
Royal Bank Dep. Note 2.26% due March 12, 2018	200,592	0	200,318	198,560	0	0	1,758	-274
Wells Fargo Canada 2.944% due July 25, 2019	203,100	0	202,590	200,040	0	0	2,550	-510
Bank of Montreal 2.84% due June 4, 2020	305,289	-4,260	304,167	305,307	0	0	-1,140	-1,122
Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	252,563	-3,204	251,923	261,425	0	0	-9,503	-640
Bank of Montreal 3.4% due April 23, 2021	207,184	-3,400	206,270	201,300	0	0	4,970	-914
Royal Bank 1.968% due March 2, 2022	146,988	0	146,957	150,075	0	0	-3,119	-32
National Bank of Canada 2.105% due March 18, 2022	246,370	0	246,235	255,100	0	0	-8,865	-135
Wells Fargo 3.46% due January 24, 2023	155,781	0	155,757	153,542	0	0	2,216	-24
Bank of Nova Scotia Dep. Notes 2.62% due December 2, 2026	193,594	-2,620	196,150	198,460	0	0	-2,310	2,556
<b>CORPORATE BONDS Total</b>	<b>1,911,461</b>		<b>1,910,366</b>	<b>1,923,809</b>	<b>0</b>	<b>0</b>	<b>-13,443</b>	<b>-1,095</b>
<b>TOTAL PORTFOLIO</b>	<b>5,082,898</b>		<b>5,091,917</b>	<b>5,121,816</b>	<b>0</b>	<b>0</b>	<b>-29,899</b>	<b>9,019</b>
<b>TOTAL DATE TO DATE GAIN OR LOSS</b>								<b>9,019</b>
<b>% CHANGE DURING PERIOD</b>								<b>0.18</b>

Martin, Lucas & Seagram Ltd.  
**DATE TO DATE GAINS AND LOSSES**  
**CLLAS - LONG TERM INVESTMENT FUND**  
**(RBC Investor Services)**  
From 12-31-16 to 12-31-17

Security	12-31-16 Market Value	Additions Withdrawals	12-31-17 Market Value	12-31-17 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
<b>CASH</b>								
Cash Account	0	0	0	0				
<b>GOVERNMENT BONDS</b>								
Canada Housing Trust 1.75% due June 15, 2018	253,473	-4,375	250,538	250,275	0	0	263	-2,935
Canada Housing Trust 1.95% due June 15, 2019	255,500	-4,875	250,878	250,238	0	0	640	-4,623
Canada Housing Trust 2.4% Series 48 due December 15, 2022	207,696	-4,800	202,352	200,740	0	0	1,612	-5,344
Canada Housing Trust 2.35% due September 15, 2023	206,442	-4,700	201,562	211,240	0	0	-9,678	-4,880
Canada Housing Trust Ser. 70 2.25% due December 15, 2025	302,535	-6,750	297,822	302,940	0	0	-5,118	-4,713
<b>GOVERNMENT BONDS Total</b>	<u>1,225,646</u>		<u>1,203,151</u>	<u>1,215,433</u>	<u>0</u>	<u>0</u>	<u>-12,282</u>	<u>-22,495</u>
<b>PROVINCIAL BONDS</b>								
Ontario 1.90% due September 8, 2017	332,666	-336,270	0	0	-594	-2,666	0	0
Ontario 2.1% due September 8, 2018	356,458	-7,350	351,470	348,495	0	0	2,975	-4,988
British Columbia 3.25% due December 18, 2021	268,918	-8,125	260,843	255,750	0	0	5,093	-8,075
Ontario 3.15% due June 2, 2022	266,725	-7,875	259,995	247,600	0	0	12,395	-6,730
Ontario 2.85% due June 2, 2023	0	358,798	359,489	361,025	0	0	-1,537	-1,537
Ontario 2.60% due June 2, 2025	406,644	-10,400	402,400	404,305	0	0	-1,905	-4,244
British Columbia 2.3% due June 18, 2026	347,652	-8,050	344,204	365,400	0	0	-21,196	-3,448
<b>PROVINCIAL BONDS Total</b>	<u>1,979,062</u>		<u>1,978,400</u>	<u>1,982,575</u>	<u>-594</u>	<u>-2,666</u>	<u>-4,175</u>	<u>-29,021</u>
<b>CORPORATE BONDS</b>								
Toronto Dominion Bank Dep. Note 2.433% due August 15, 2017	201,710	-204,866	0	0	-1,460	-1,710	0	0
Royal Bank Dep. Note 2.26% due March 12, 2018	202,490	-4,520	200,318	198,560	0	0	1,758	-2,172
Wells Fargo Canada 2.944% due July 25, 2019	206,544	-5,888	202,590	200,040	0	0	2,550	-3,954
Bank of Montreal 2.84% due June 4, 2020	310,572	-8,520	304,167	305,307	0	0	-1,140	-6,405
Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	256,458	-6,408	251,923	261,425	0	0	-9,503	-4,535
Bank of Montreal 3.4% due April 23, 2021	211,860	-6,800	206,270	201,300	0	0	4,970	-5,590
Royal Bank 1.968% due March 2, 2022	148,572	-2,952	146,957	150,075	0	0	-3,119	-1,616
National Bank of Canada 2.105% due March 18, 2022	248,788	-5,263	246,235	255,100	0	0	-8,865	-2,553
Wells Fargo 3.46% due January 24, 2023	158,610	-5,190	155,757	153,542	0	0	2,216	-2,853
Bank of Nova Scotia Dep. Notes 2.62% due December 2, 2026	0	196,988	196,150	198,460	0	0	-2,310	-2,310
<b>CORPORATE BONDS Total</b>	<u>1,945,603</u>		<u>1,910,366</u>	<u>1,923,809</u>	<u>-1,460</u>	<u>-1,710</u>	<u>-13,443</u>	<u>-31,987</u>

Martin, Lucas & Seagram Ltd.  
**DATE TO DATE GAINS AND LOSSES**  
**CLLAS - LONG TERM INVESTMENT FUND**  
**(RBC Investor Services)**  
*From 12-31-16 to 12-31-17*

Security	12-31-16 Market Value	Additions Withdrawals	12-31-17 Market Value	12-31-17 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
<b>TOTAL PORTFOLIO</b>	<b>5,150,310</b>		<b>5,091,917</b>	<b>5,121,816</b>	<b>-2,054</b>	<b>-4,376</b>	<b>-29,899</b>	<b>-83,502</b>
<b>TOTAL DATE TO DATE GAIN OR LOSS</b>								<b>-87,878</b>
<b>% CHANGE DURING PERIOD</b>								<b>-1.71</b>

Martin, Lucas & Seagram Ltd.

EXTERNAL INDIVIDUAL CREDIT RATING REPORT - DEC 31, 2017

CLLAS - LONG TERM INVESTMENT FUND

					Unit	Total		Market	Pct.
Quantity	CUSIP	Security		Rating	Cost	Cost	Price	Value	Assets
GOVERNMENT BONDS									
250,000	13509PDT7	Canada Housing Trust 1.75%	due June 15, 2018	AAA	100.11	250,275	100.28	250,695	4.9%
250,000	13509PEG4	Canada Housing Trust 1.95%	due June 15, 2019	AAA	100.10	250,238	100.53	251,318	4.9%
200,000	13509PDL4	Canada Housing Trust 2.4% Series 48	due December 15, 2022	AAA	100.37	200,740	101.24	202,488	4.0%
200,000	13509PDV2	Canada Housing Trust 2.35%	due September 15, 2023	AAA	105.62	211,240	100.69	201,378	3.9%
300,000	13509PFD0	Canada Housing Trust Ser. 70 2.25%	due December 15, 2025	AAA	100.98	302,940	98.44	295,305	5.8%
						1,215,433		1,201,184	23.5%
PROVINCIAL BONDS									
350,000	68323ABR4	Ontario 2.1%	due September 8, 2018	AA (low)	99.57	348,495	100.52	351,813	6.9%
250,000	110709BJ0	British Columbia 3.25%	due December 18, 2021	AA (high)	102.30	255,750	104.64	261,593	5.1%
250,000	68323AAW4	Ontario 3.15%	due June 2, 2022	AA (low)	99.04	247,600	104.16	260,405	5.1%
350,000	68323ABN3	Ontario 2.85%	due June 2, 2023	AA (low)	103.15	361,025	102.54	358,894	7.0%
400,000	68323ACX0	Ontario 2.60%	due June 2, 2025	AA (low)	101.08	404,305	99.61	398,428	7.8%
350,000	11070TAJ7	British Columbia 2.3%	due June 18, 2026	AA (high)	104.40	365,400	96.89	339,122	6.6%
						1,982,575		1,970,254	38.6%
CORPORATE BONDS									
200,000	780086DV3	Royal Bank Dep. Note 2.26%	due March 12, 2018	AA	99.28	198,560	100.65	201,296	3.9%
200,000	94975ZBM7	Wells Fargo Canada 2.944%	due July 25, 2019	AA (low)	100.02	200,040	102.44	204,886	4.0%
300,000	06367VCT0	Bank of Montreal 2.84%	due June 4, 2020	AA	101.77	305,307	102.95	308,862	6.1%
250,000	891145S47	Toronto Dominion Bank Dep. Note 2.563%	due June 24, 2020	AA	104.57	261,425	102.01	255,018	5.0%
200,000	06367VJN6	Bank of Montreal 3.4%	due April 23, 2021	AA	100.65	201,300	105.13	210,258	4.1%
150,000	780086KD5	Royal Bank 1.968%	due Mar 2, 2022	AA	100.05	150,075	99.23	148,838	2.9%
250,000	633067C27	National Bank of Canada 2.105%	due March 18, 2022	AA (low)	102.04	255,100	99.78	249,458	4.9%
150,000	94975ZBN5	Wells Fargo 3.46%	due January 24, 2023	AA (low)	102.36	153,542	105.81	158,715	3.1%
200,000	064151QE6	Bank of Nova Scotia Dep. Note 2.62%	due December 2, 2026	AA	99.23	198,460	96.80	193,594	3.8%
						1,923,809		1,930,924	37.8%
TOTAL PORTFOLIO						5,121,816		5,102,361	100.0%



## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

### COMMITTEES FOR 2018/19

- |                               |  |
|-------------------------------|--|
| <b>1.     Audit*</b>          | Gordon Goodman ( <b>Chair</b> )<br>Carol Lyons<br>Michael Swartz               |
| <b>2.     Claims**</b>        | Barry Bresner ( <b>Chair</b> )<br>David Morritt<br>William Scott<br>James Tory |
| <b>3.     Policy</b>          | Donald Milner ( <b>Chair</b> )<br>Melanie Koszegi<br>Bruce Blain               |
| <b>4.     Risk Management</b> | Julia Holland ( <b>Chair</b> )<br>Dan MacDonald<br>Eugene Cipparone            |

\*     Members of Audit Committee also serve on the Reinsurance/Insurance Security Committee.

\*\*    Members of ad-hoc claims committee to deal with file 2010-059 are Don Milner, Dan MacDonald and Jim Tory

February 2018