



Canadian Lawyers Liability Assurance Society

Year-end communication of 2015 Audit



To be presented to the Audit Committee
at the meeting on February 18, 2016



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February 18, 2016

Private and confidential

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

Dear Audit Committee Members:

Report on audited annual financial statements and Minimum Capital Test Return

We are pleased to present our year-end communication on the results of our audits of the financial statements and the Minimum Capital Test Return (MCT Return) of Canadian Lawyers Liability Assurance Society (the "Society") as of and for the year ended December 31, 2015.

Our audits were conducted in accordance with Canadian Generally Accepted Auditing Standards (GAAS) and the results of our audits are summarized in this report.

Use of our report

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

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

We look forward to discussing this report with you and answering any questions you may have.

Yours truly,

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
Licensed Public Accountants

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Executive summary

This report summarizes the main findings arising from our audits.

Audit findings and other matters	
Audit scope	<p>Our audit of the Society's financial statements was designed to obtain reasonable, rather than absolute, assurance as to whether the financial statements are free of material misstatement.</p> <p>We confirm that no limitations were placed on the scope of our work and there have been no significant amendments to the audit scope and approach communicated in the audit plan.</p> <p>A description of our audit results has been included in Appendix A of this report.</p>
Significant audit risks	<p>In accordance with our audit plan, our procedures focused on the following areas that we identified as being subject to risk of material misstatement in the current year:</p> <ul style="list-style-type: none">• Provision for unpaid claims and adjustment expenses (valuation);• Recognition, measurement and disclosure of amounts owing to withdrawn subscribers;• Revenue recognition; and• Management override of controls <p>We satisfactorily addressed these significant risks in our audit and have summarized the results of our audit procedures for these risk areas in Appendix B of this report.</p>
Internal control over financial reporting	<p>Our audit was not designed to provide a high degree of assurance that significant deficiencies, if any, would be detected. Accordingly, we are unable to and do not provide any assurance on the design or effective operation of internal control over financial reporting.</p> <p>No matters have come to our attention which indicate a significant deficiency in internal control over financial reporting.</p>
Fraud and illegal acts	<p>Based on the procedures we performed as recommended by Canadian Auditing Standard 240, <i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i>, we are not aware of any illegal acts or fraudulent events with respect to the Society during the year.</p>
Management judgment and accounting estimates	<p>Accounting estimates and interpretations are an integral part of the financial statements prepared by management. They reflect management's current judgments, based on knowledge and experience about past and current events, assumptions about future events and interpretations of the financial reporting standards.</p> <p>During the year ended December 31, 2015 management advised us that there were no changes made in the methodology of calculating the unpaid claims and adjustment expenses.</p> <p>In our judgment, the significant accounting estimates made by management are in all material respects, free of possible management bias and of material misstatement. The disclosure in the financial statements around estimation uncertainty is in accordance with International Financial Reporting Standards (IFRS) and is appropriate to the particular circumstances of the Society.</p> <p>Our views on the significant quantitative and qualitative aspects of the judgments and estimates made by management are presented in Appendix C of this report.</p>

Audit findings and other matters

Significant accounting policies	<p>The Society's significant accounting policies are set forth in Note 3 to the December 31, 2015 financial statements.</p> <p>In our judgment, the significant accounting practices, selected and applied by management are, in all material respects, acceptable under IFRS and are appropriate to the particular circumstances of the Society.</p>
Audit adjustments and uncorrected misstatements	<p>We have aggregated all uncorrected misstatements greater than our clearly trivial amount of \$75,000, those that are quantitatively insignificant but qualitatively material, and adjustments identified as a result of our audit and corrected by management.</p> <p>Our initial estimate of materiality as communicated to the Audit Committee on November 4, 2015 was \$1,500,000, and was based on the Q2 2015 internal financial statements. This materiality amount remained appropriate based on the year-end financial statements of the Society.</p> <p>During the audit, we identified no misstatements.</p>
Disclosure deficiencies	<p>We made various recommendations to management regarding financial statement disclosures, which have been reflected in the financial statements.</p> <p>To date there are no disclosure deficiencies. Disclosure deficiencies that are more than inconsequential, if any, noted during the course of completion of our audit will be presented at the Audit Committee meeting.</p>
Use of the work of experts	<p>We used the work of our actuarial expert as described in our audit plan document. There were no significant issues noted impacting our audits of the Society's financial statements including the MCT Return.</p>
Formal reporting responsibilities	<p>We are required by professional standards to report to you on certain matters to the extent we become aware of them during the performance of our audits.</p> <p>We have summarized the matters that are reportable to the Audit Committee in Appendix D and confirm to you that, as of the date of this report, there are no material matters included in Appendix D requiring your attention.</p>
Representation letters	<p>Management is responsible for the fair presentation of the financial statements of the Society in accordance with IFRS.</p> <p>We expect to receive a representation letter from management, dated February 24, 2016, acknowledging this responsibility.</p>
Independent Auditor's Reports	<p>We intend to issue unmodified audit reports on the financial statements of the Society, the P&C Annual Return for the year ended December 31, 2015 and on the MCT Return as at December 31, 2015 once the outstanding items referred to on page 2 are satisfactorily completed and the financial statements are approved by the Advisory Board. A draft of our Independent Auditor's Reports on these financial statements are included in Appendix E.</p>
Independence	<p>We have developed appropriate safeguards and procedures to eliminate threats to our independence or to reduce them to an acceptable level.</p> <p>As required under Canadian GAAS, we have reported all relationships and other relevant matters that, in our professional judgment, may reasonably be thought to bear on our independence and confirmed our independence to the Audit Committee for the year ended December 31, 2015.</p> <p>Our independence letter is included in Appendix F.</p>
Outstanding items	<p>As of the date of writing, certain aspects of our audit and file documentation are outstanding including:</p> <ul style="list-style-type: none"> • Receipt of signed management representation letter • Performance of subsequent event procedures up to February 24, 2016 • Completion of final partner and Engagement Quality Control reviews. <p>We plan to issue our audit opinions dated February 24, 2016, following completion of the above procedures and approval of the financial statements by the Advisory Board.</p>

In conclusion

We would like to thank management for their contribution towards creating a constructive relationship between our respective teams and in helping us discharge our duties and responsibilities in a comprehensive and efficient manner.

Appendix A – Audit results

Status of deliverables

In our audit plan document, we identified a number of deliverables to be provided to you throughout the course of our audits. The status, as of February 18, 2016, of these items for the Society is as follows:

Deliverables	Status
2015 Audit scope and plan	Complete Dated November 4, 2015
Confirmation of our independence and reporting on non-audit services and relationships	Complete Dated February 18, 2016
Audit results	Complete Dated February 18, 2016
Auditor's report on the following statements: Annual financial statements Annual Return Form P&C-1 Minimum Capital Test Return	Subject to Advisory Board approval and completion of items referred to on Page 2 of this report
Letter of significant recommendations for management	No items of significance noted
Other requests the Audit Committee may have	No such requests

Use of the work of experts

The following expert assisted in our audits:

Provision for claims and adjustment expenses and asset/liability duration for the MCT Return	Our actuarial expert assisted in assessing the adequacy of the valuation of the provision for claims and adjustment expenses. The actuarial expert also assisted in the testing of duration of interest rate sensitive assets/liabilities for the MCT Return.
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Internal control matters

An audit is planned and performed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.

We obtained an understanding of internal control relevant to the audits; however, not all controls are relevant to every audit. We evaluated the design of controls relevant to the audit and determined whether they have been implemented. We are not, however, required to determine whether all relevant controls are operating effectively. Although not required by Canadian GAAS, we may decide that, for a particular engagement, it makes sense to rely on the effective operation of some controls to determine our planned substantive procedures. In such cases, we would go beyond evaluating the design of relevant controls and determining whether they have been implemented to also test whether the controls on which we intend to rely are operating effectively.

During the course of our audits, we did not identify any significant deficiencies in the internal control over financial reporting. Our audits were not designed to provide a high degree of assurance that significant deficiencies, if any, would be detected. Accordingly, we are unable to and do not provide any assurance on the design or effective operation of internal control over financial reporting.

Because of the inherent limitations of internal controls, including the possibility of collusion or management override of controls, material misstatements due to fraud may occur and not be detected. Also, projections of any evaluation of the internal controls to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Significant events and related party transactions

During the course of our audits of the Society's financial statements, we have not identified any related party transactions that are not in the normal course of operations and that involve significant judgments by management concerning measurement or disclosure.

Legal and regulatory compliance

Management is responsible for ensuring that Society's operations are conducted in accordance with applicable laws and regulations. The responsibility for preventing and detecting non-compliance rests with management. The auditor is not and cannot be held responsible for preventing non-compliance with laws and regulations. In the course of our audits, we did not identify any illegal or possibly illegal acts or any areas of material non-compliance with laws and regulations by the Society.

Post-balance sheet events

Management is responsible for assessing subsequent events up to the date of release of the financial statements.

At the date of finalizing this report, we are not aware of any significant post balance sheet events that require disclosure or adjustment to the financial statements. We will update this assessment to February 24, 2016, the date of our auditor's report.

It should be noted that under Canadian Auditing Standard 560, *Subsequent Events*, the auditor is not obligated to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, if, after the date of our reports but before the date the financial statements are released, a fact becomes known which could impact our auditor's reports, we will discuss the matter with management and, where appropriate, the Audit Committee to determine whether the financial statements need amendment and our auditor's reports need updating.

Compliance with IFRS

The audit allows us to express an opinion on whether the financial statements were prepared, in all material respects, in accordance with IFRS. The audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates made by management, and evaluating the overall presentation of the financial statements. Our report on the financial statements and communications required by Canadian GAAS are in accordance with our findings.

The results of our audits indicate that the financial statements of the Society are prepared in all material respects in accordance with IFRS.

Appendix B – Significant audit risks

Significant audit risks

The results of our audit work on areas of significant audit risks are set out below:

Areas of significant audit risk	Our audit response	Our findings
<p>Provision for Unpaid Claims and Adjustment Expenses (valuation)</p> <p>Risk of measurement uncertainty due to a significant amount of judgment required by the Appointed Actuary and management with respect to the assumptions and methodologies underlying the reserves.</p> <p>Estimates are complex and subject to variability. Relatively small variations in assumptions, selections of best estimate and margins for adverse deviations can have a significant impact on the Society's overall financial results.</p> <p>We assessed whether the reserves are appropriately established, carried and released.</p>	<p>This is an area subject to a significant amount of management judgment with respect to the assumptions and methodologies underlying the reserves. The actuarial reserving process utilizes a multitude of data sources and complex models to develop the estimate of policy liabilities.</p> <p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> • Utilized actuarial experts in the planning and execution of our audit procedures • Selected and tested a representative sample of claims to ensure reserved amounts were properly supported and payments were properly authorized and accurately recorded • Tested underlying data used in the valuation including claims reserves, claims paid and premium data • Tested the reconciliation of the reserves, with focus on the reconciliation between the administrative and valuation systems • Reviewed the draft opinion of the Appointed Actuary • Assessed the reasonableness of key assumptions and methodologies • Carried out independent recomputations of the gross and net policy liabilities and compared to the Society's valuation • Reviewed the security in place for the amounts ceded to determine if it is sufficient to cover non-payments by the reinsurers • Reviewed the discount factor used and the application of discounting • Reviewed trends in the development of prior years' ultimate claims and performed a retrospective assessment (a look back test) to determine whether management judgments and assumptions relating to the estimates indicated a possible bias on the part of management. 	<ul style="list-style-type: none"> • Our audit testing did not identify any discrepancies in the claims data. Our audit tests are based on sampling considering materiality and our risk assessment. • Our Actuarial expert reviewed actuarial methodologies and assumptions and has conducted various recomputation tests. The results of conducting these procedures were satisfactory and differences in computed amounts were within the range of acceptable actuarial practice. Security in place for amounts ceded is sufficient to cover non-payments by reinsurers <p>Subject to the completion of the outstanding items referred to on Page 2 of this report, the results of our audit procedures to date have been satisfactory.</p>

Areas of significant audit risk	Our audit response	Our findings
<p>Recognition and disclosure of subscriber withdrawals (occurrence, valuation and presentation)</p> <p>Subscriber withdrawals occur periodically and judgment is involved in determining the appropriate timing of recognition and valuation of amounts and appropriate note disclosures</p>	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> Assessed management's judgment as to the timing and value to be recognized in respect of the liability arising on withdrawal of a subscriber Utilization of actuarial experts to test management's valuation of the recognized liability to the subscriber was not required given the future amounts, if any, owing to the 2012 withdrawn subscriber is determinable once all claims up to the withdrawal have been extinguished. Assessed the appropriateness and completeness of disclosures included in the financial statements 	<p>The results of our audit procedures were satisfactory.</p>
<p>Revenue recognition</p> <p>Revenue streams are contractually driven, although the level of manual intervention increases the risks.</p>	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> Tested management's controls over significant revenue streams Performed a combination of analytical procedures and test of details Agreed, on a sample basis, the insurance premiums recorded in the administration system to supporting documentation Obtained confirmation from the insured and tested reconciling items, if any For investment income performed test of details by selecting a sample of transactions and traced income to the source document and compared the individual income components to the prior year for any unusual movements. 	<p>The results of our audit procedures were satisfactory.</p>
<p>Management override of controls</p> <p>We are obliged under the auditing standard, <i>The auditor's responsibilities relating to fraud in the audit of financial statements</i>, to consider and report on the risk associated with the potential for management override of controls. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud, and thus a significant risk.</p>	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> Assessed the effectiveness of controls over the financial close process including the preparation and posting of journal entries and other adjustments Examined accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatement due to fraud. Selected journal entries for review that displayed characteristics of which could be indicative of fraud. 	<p>The results of our audit procedures were satisfactory.</p>

Appendix C – Management judgments and accounting estimates

Management judgments and accounting estimates

The financial statements of the Society are prepared by management who are responsible for the integrity and fairness of the data presented. The preparation of the financial statements requires management to exercise judgment in the selection and application of accounting policies including the determination of related amounts that must of necessity be based on estimates and judgments. These estimates and judgments are normally based on knowledge and experience about past and current events and on assumptions about future events.

Accounting policies involving significant management judgments and accounting estimates include those for valuation of the provision for unpaid claims and adjustment expenses and collectability of reinsurance receivable.

We have set out in the table on the following page our comments with respect to these significant management judgments and accounting estimates as at December 31, 2015 (with December 31, 2014 comparatives).

Management judgments and accounting estimates	2015 (in '000)	2014 (in '000)	Comments
Provision for unpaid claims and adjustment expenses – Gross	\$102,508	\$75,357	Management's estimate of actuarial liabilities is the most significant area of measurement uncertainty which utilizes complex models and significant management judgment for assumptions.
Provision for unpaid claims and adjustment expenses recoverable from reinsurer	\$96,120	\$68,964	We did not identify any significant reinsurance disputes. Our tests also did not identify any concerns related to the reinsurer credit defaults. Moreover, the security account in place for the unregistered reinsurer at December 31, 2015 amounted to \$66,067,491, (2013:\$68,840,000).
Net impact of changes in assumptions, provisions for adverse deviations and discount rate	\$1,227	\$5	<p>There were no changes made in the methodology of calculating provision for unpaid claims and adjustment expenses between last year and current year end. The Bornhuetter-Ferguson Method (BF) which is based on expected claims development patterns and expected losses continues to be the primary method relied upon by the Appointed Actuary.</p> <p>The discount rate was decreased to 1.50% (2014:1.85%), following movements in bond rates.</p> <p>We noted no changes to the provision for adverse deviations "PfAD" factor as compared to the prior year.</p>

In our judgment, the significant accounting estimates made by management are in all material respects, free of possible management bias and of material misstatement. We will discuss with the Audit Committee our views on the qualitative aspects of the above areas of judgment at the meeting on February 18, 2016. The disclosure in the financial statements around estimation uncertainty is in accordance with IFRS and is appropriate to the particular circumstances of the Society.

Appendix D – Reportable matters to the Audit Committee

We are required by professional standards and regulatory requirements to report to you any of the following matters to the extent we become aware of them during the course of the audits. Our findings are based on the audit work considered necessary by us to render our opinion on the Society's financial statements and the MCT Return.

Reportable matters	Comments
Fraud or possible fraud identified through the audit process	None noted
Illegal or possibly illegal acts	None noted
Related party transactions that are not in the normal course of business	None noted
Responsibility assumed by Deloitte Our Audit Strategy and Scope	As per our audit plan presented to the Audit Committee on November 4, 2015
Management judgments and accounting estimates	See management judgments and accounting estimates in Appendix C
Audit adjustments (non-trivial adjustments whether or not corrected)	None noted
Uncorrected misstatements determined by management to be immaterial	No uncorrected misstatements, misclassifications of disclosure matters were identified.
Significant accounting policies and unusual transactions	See significant accounting policies on page 2. No unusual transactions were noted
Alternative treatments under IFRS for accounting policies and practices related to material items (including specific transactions) that have been discussed with Management during the current audit period, including: Ramifications of the use of such alternative disclosures and treatments The treatment preferred by Deloitte.	No material items noted
Deloitte's judgments about the quality, not just the acceptability, of the Society's accounting principles as applied in its financial reporting	See management judgments and accounting estimates in Appendix C
Disagreements with management	None

Reportable matters	Comments
Consultation with other accountants	None
Major issues discussed with management prior to retention	None
Problems or difficulties encountered in performing the audits and management's response	None
Significant deficiencies in internal control, if any, identified by us during the year, in the conduct of the audit of the financial statements.	None noted. See internal control matters in Appendix A
Material written communications between Deloitte and management	See status of deliverables in Appendix A
All relationships between Deloitte and the Society that, in our professional judgment, may reasonably be thought to bear on independence.	See Independence Letter in Appendix F
A confirmation that Deloitte is independent with respect to the Society within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario.	
Discuss the results of the procedures performed to identify fraud/illegal acts.	To be discussed at the meeting of the Audit Committee on February 18, 2016
Discuss the Society's annual audited financial statements with the Audit Committee.	To be discussed at the meeting of the Audit Committee on February 18, 2016

Appendix E – Draft Independent Auditor's Reports

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

1. Draft audit report on the IFRS financial statements

Independent Auditor's Report

To the Advisory Board of Canadian Lawyers Liability Assurance Society

We have audited the accompanying financial statements of Canadian Lawyers Liability Assurance Society, which comprise the statement of financial position as at December 31, 2015, 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

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canadian Lawyers Liability Assurance Society as at December 31, 2015, 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 24, 2016

2. Draft audit report on the P&C Annual 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, 2015 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 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, 2015 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 24, 2016

3. Draft audit report on the MCT Return

Independent Auditor's Report

To the Provincial Superintendents of Financial Institutions/Insurance

We have audited the accompanying Minimum Capital Test Return (MCT Return) on page 30.70 of the P&C Annual Return of Canadian Lawyers Liability Assurance Society as at December 31, 2015. 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, 2015 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 24, 2016

Appendix F – Independence letter



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February 18, 2016

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

Dear Audit Committee Members:

We have been engaged to audit the financial statements of Canadian Lawyers Liability Assurance Society (Society) for the year ended December 31, 2015 and as contained on pages 20.10 to 20.60 of the Society's P&C Annual Return in accordance with International Financial Reporting Standards ("IFRS") and conducted in accordance with GAAS.

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 Society, our Firm and network firms that, in our professional judgment, may reasonably be thought to bear on our independence. You have also requested that we communicate the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the appropriate provincial institute / ordre and applicable legislation, covering such matters as:

- (a) holding a financial interest, either directly or indirectly, in a client;
- (b) holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- (c) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- (d) economic dependence on a client; and
- (e) provision of services in addition to the audit engagement.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since February 16, 2015, the date of our last letter.

We are aware of the following relationships between the Society and our Firm and network firms that, in our professional judgment, may reasonably be thought to bear on our independence. The following relationships represent matters that have occurred from February 16, 2015 to February 18, 2016.

- The fees chargeable to the Society for audit services are \$85,800 for the year ended December 31, 2015.

We hereby confirm that, we are independent with respect to the Society within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario as at February 18, 2016.

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

We look forward to discussing the matters addressed in this letter with you at our upcoming meeting on February 18, 2016.

Yours truly,

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
Licensed Public Accountants

Appendix G – Draft management representation letter

[Client letterhead]

February 24, 2016

Deloitte LLP
Chartered Accountants
Bay Adelaide East
22 Adelaide Street West
Suite 200
Toronto, ON M5H 0A9

Attention: Elaine Hultzer

Dear Ms Hultzer:

Subject: Management Representation Letter for Canadian Lawyers Liability Assurance Society

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”), for the year ended December 31, 2015, which includes the following:

- The Company’s annual financial statements; and
- The Society’s financial statements contained on pages 20.10 to 20.60 of the P&C Annual Return to the Provincial Superintendents of Financial Institutions / Insurance

In addition, this representation letter is also provided for the audit of the Minimum Capital Test of the Society as contained on page 30.70 of the P&C Annual Return to the Provincial Superintendents of Financial Institutions / Insurance for the year ended December 31, 2015 (the “MCT Return”).

Unless otherwise indicated below, the annual financial statements, pages 20.10 to 20.60 of the P&C Annual Return and 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 IFRS as issued by the International Accounting Standards Board and whether the MCT Return has been prepared in accordance with the provisions of the Office of

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 4, 2015 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, 2015 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 Society. No events have occurred subsequent to December 31, 2015 that requires 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, including associated amounts receivable and payable, 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 February 24, 2016 as this is the date when there are no changes to the Financial Statements (including disclosures) planned or expected; all final adjusting journal entries have been reflected in the Financial Statements and 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, 2015 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.

Information provided

8. 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. 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 Society from whom you determined it necessary to obtain audit evidence.
9. All transactions have been properly recorded in the accounting records and are reflected in the Financial Statements.
10. 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.
11. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Society 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.
12. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Society'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.
13. We have disclosed to you all communications from regulatory agencies 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.
14. 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, including guarantees, non-monetary transactions and transactions for no consideration.
15. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
16. 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.
17. 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.
18. 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.

Independence matters

For purposes of the following paragraph, “Deloitte” shall mean Deloitte LLP and Deloitte Touche Tohmatsu Limited, including related member firms and affiliates.

19. 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.
20. 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

21. 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.

Compliance with contractual agreements

22. 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.

Investments

23. With respect to the Society’s investment in fixed income which are classified as available for sale, at the end of the reporting period, we assessed whether there was any objective evidence that this investment was impaired. If any such evidence existed, we have disclosed to you all events that have occurred and facts that have been discovered and we determined the amount of any impairment loss in accordance with the applicable provisions of IAS 39, *Financial Instruments: Recognition and Measurement*.

Impairment

24. At the end of the reporting period, we assessed whether there was any indication that an asset may be impaired. If any such indication existed, we estimated the recoverable amount of the respective assets and determined whether an impairment loss should be recognized.

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

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

Liabilities and contingencies

26. We have disclosed to you all liabilities, provisions, contingent liabilities and contingent assets, including those associated with guarantees, if any, whether written or oral, and they are appropriately reflected in the Financial Statements.

IFRS 13, Fair Value Measurement

27. The Company 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 Company considered the following items:
- unit of account;
 - principal market and where the principal market does not exist, the Company considered the most advantageous market;
 - pricing assumptions and considerations market participants would take into account; and
 - inputs that are available and the appropriate valuation technique(s).
29. In determining the fair value of the Company’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 Company has not made any adjustment to a Level 1 input except when it has met the circumstances in paragraph 79 of IFRS 13.
31. We have appropriately disclosed fair value information to assess both of the following:
- for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements;
 - for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period; and
 - for recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3).
32. In applying the fair value hierarchy, the Company has applied consistent judgment in determining and prioritizing the appropriate level of inputs to the valuation techniques.
33. The Company has appropriately applied the transitional provisions prospectively to its annual period beginning on or after January 1, 2015 and prior comparative periods have not been adjusted.

Financial instruments

34. The following have been properly recorded and, when appropriate, adequately disclosed and presented in the Financial Statements:
- a. the fair value of financial instruments;
 - b. the impairment of financial assets classified as available-for-sale financial assets; and,
 - c. financial instruments with characteristics of both liabilities and equity.
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, 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.
36. The Society has provided in its Financial Statements the disclosures in accordance with IFRS 7, *Financial Instruments: Disclosures*.

Various matters

37. The following have been properly recorded and, when appropriate, adequately disclosed and presented in the Financial Statements, where applicable:
- 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.
38. The Society is in compliance with Minimum Capital Test requirements as contained in the Guideline.

Yours truly,

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Patrick Mahoney
General Manager

Gordon Goodman
Chair of the Audit Committee

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