

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

Minutes of a Meeting of the Advisory Board

8:30 a.m.
Davies Ward Phillips & Vineberg LLP
40th Floor, RBC Centre
155 Wellington Street West
Toronto, Ontario

Wednesday, February 25, 2015

Present:

Nicholas Leblovic
Robert Love
Gordon Goodman
Donald Milner (by phone)
Shayna Staniloff
Ken Crofoot
Bill Scott
Dan Macdonald (by phone)
Julia Holland

Davies Ward Phillips & Vineberg LLP
Borden Ladner Gervais LLP
Cassels Brock & Blackwell LLP
Fasken Martineau DuMoulin LLP
Dentons LLP
Goodmans LLP
McCarthy Tétrault LLP
McMillan LLP
Torys LLP

Patrick Mahoney
Norma Ibbetson

Office of the General Manager, CLLAS
Office of the General Manager, CLLAS

Absent:

David Morritt
Mike Swartz

Osler Hoskin Harcourt LLP
WeirFoulds LLP

1. Constitution of Meeting

The Chairman brought the meeting to order.

2. Appointment of Secretary

Norma Ibbetson acted as Secretary.

3. Approval of Minutes of the December 10, 2014 Meeting of the Advisory Board

It was moved by Ken Crofoot and seconded by Julia Holland that the minutes of the December 10, 2014 meeting of the Advisory Board be approved. The motion was carried unanimously.

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

CLLAS Expansion initiatives are underway. Discussions with underwriters on the dedicated underwriting facility will take place prior to and during the reinsurance renewal discussions in the Spring and as well firms will be approached to gauge interest in joining CLLAS directly. A report will be provided at the June 2015 Board meeting.

5. **Comments of the Chair**

There were no items to report.

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

Financial Statements Quarter Ending December 31, 2014

CLLAS finished 2014 with a surplus position of \$13.6 million versus \$13.2 million at the end of 2013. CLLAS remains in a strong surplus position. The relatively low number for reinsurance recoverables represents legals that have yet to be reimbursed; overall it reflects prompt reimbursements from reinsurers.

Exhibit 6 of the financial management report shows the results of two regulatory solvency tests for CLLAS that are monitored by management, the Alberta Maintenance of Reserve and Guarantee Funds. CLLAS comfortably passes this test. CLLAS' MCT ratio is shown in the notes to the audited statements and it also on the P&C1 regulatory filing. The ratio at December 31, 2014 was 328%, again comfortably above regulatory expectations.

Actuarial Report

The actuaries presented the results of their 2014 valuation at the Audit Committee meeting held on February 19, 2015. The Actuary's presentation to the Audit Committee was included in the Board material. Several key exhibits were highlighted to illustrate for example claim counts, reported (paid plus case reserves compared with ultimate (paid plus case plus IBNR), and the change in ultimate reserves over the past 12 months. There were no changes in fundamental methodology or assumptions.

Peer Review of Actuarial Valuation

In accordance with regulatory requirements, an independent peer review of the 2014 Actuarial Valuation took place as part of the year-end process. The work of the actuary is reviewed each year as part of the financial audit. The focus of the audit is to determine that the financial statements are free of material misstatements. The peer review is more granular as it reports on the appropriateness of individual assumptions and methodologies, as opposed to the reasonableness of the overall amount of policy liabilities.

The peer review concluded that the assumptions and methodologies used were reasonable and that the actuarial work was completed in accordance with accepted stands. The peer review recommended expanded commentary in a couple of sections of the report and the report was amended in response to the recommendations. Mr. Mahoney advised that it is likely that the regulator will confirm that no peer review is required for three years barring significant change in CLLAS' risk profile or business. The next peer review therefore will take place at the end of 2017.

CLLAS' actuary meets each year with the Audit Committee and Mr. Mahoney advised that the actuary would be happy to meet with the Board to provide an overview of the actuarial process should that be desired.

2015 Operating Budget

Patrick Mahoney presented the proposed draft operating budget for 2015. He reviewed the operating expenses incurred in 2014 and projected for 2015. The proposal includes an increase to the Management Services fee, largely to accommodate the new regulatory requirements, and an overall reduction in the budget for Professional Services to reflect the anticipated level of activity for 2015.

Premium taxes were over-budget for the year, but this reflects the accounting treatment of deferred policy acquisition costs, as actual premium tax expenses are a percentage of premium.

The Board discussed the operating expense of CLLAS and requested, as part of the year-end reporting, that operating expenses be shown on a per lawyer basis, including historical figures, i.e. for the past five years.

The Board discussed the acquisition of Miller by Willis was raised. The Chair will be in London with Miller in May 2015 for the reinsurance renewal discussions and this matter will be discussed. However, CLLAS has been advised that Miller will maintain its independence from Willis and there will be no changes to personnel.

It was moved by Gordon Goodman and seconded by Ken Crofoot to approve the 2015 budget. The motion was carried unanimously.

7. Report of the Audit Committee

Gordon Goodman reported on behalf of the Committee. The formal Audit Committee meeting with the Actuary and Auditors was on held February 19, 2015. An unqualified audit opinion was issued. The Audit Committee had an opportunity to meet with the Auditors without management and no issues or concerns were identified. Copies of the Audit Findings Report and Audited Financial Statements, as well as the Actuarial Valuation and the Actuarial Peer Review Report were included in the Board meeting materials. The P&C1 will be signed after today's meeting.

It was moved by Gordon Goodman and seconded by Nick Leblovic that the Financial Statements at December 31, 2014 be adopted. The motion was carried unanimously.

Mr. Mahoney advised that a meeting with Board members and firm CFO's is being arranged in the late Spring to review CLLAS' Subscribers' Accounts.

8. Report of the Claims Committee

The Chair of the Claims Committee provided a brief report. Board members were reminded to return the claim summary exhibit at the end of the meeting.

9. Report of the Risk Management Committee

Julia Holland reported to the Board.

Audit Process – Ms. Holland reported that the first firm re-audit was nearing completion. As the template for the re-audit has been developed and refined, John Walker expects to be able to complete the balance of the audits simultaneously.

Bluedrop – Ms. Holland reported that the firms were canvassed to ascertain their interest in continuing to utilize the Bluedrop program. To date, feedback was received from six firms who all indicating that further funding on updating the program should be suspended. The general consensus was that Bluedrop was not very responsive. Ms. Holland reported that she will follow up with the remaining firms and a course of action will be proposed in due course.

Future Guidelines – Firms continue to receive requests for broad indemnities during RFP processes and as part of outside counsel guidelines. This issue is being considered for a future guideline or alert to be directed to CLLAS firms.

10. Report of the Policy Committee

There was no report.

11. Investment Report for Quarter Ending December 31, 2014

The investment report was provided as an information item only.

12. Other Business

The CLLAS Annual Dinner will be held on April 24, 2015.

Claims experience on the CLLAS International Program was discussed briefly. Bob Wilson will report on this at the June meeting.

There was no other business.

13. Next Meeting

The next scheduled meeting of the Board is June 24, 2015.

There being no further business, the meeting was adjourned.

Chairman

Secretary



P R I V A T E & C O N F I D E N T I A L

Date: June 15, 2015

To: David Morritt Barry Bresner
William Scott Daniel MacDonald
Donald Milner John Esvelt
Gordon Goodman Julia Holland
Ken Crofoot Michael Swartz
Nicholas Leblovic

Copy: Patrick Mahoney

From: Joe Tontini & Ryan Durrell

Re: Report on the CLLAS Reinsurance Renewal Placement for July 1, 2015/2016 and Preliminary Rates for CLLAS Members

The purpose of this report is to provide the CLLAS Board with information on the reinsurance placement for July 1, 2015/2016 and preliminary rates for CLLAS members. A more complete report/presentation will be made at the June 24, 2015 Advisory Board meeting.

CLLAS Renewal Objectives

The CLLAS renewal objectives for the period July 1, 2015/2016 are as follows:

- Maintain and enhance existing reinsurer relationships;
- Attract new markets;
- Consider a further reduction in Colchester's participation;
- Explore ways of reducing overall reinsurance costs along with possible reduction in insurance rates for CLLAS members;
- Continue to evaluate ability to distribute surplus to members through premium credits.

In addition to the above, CLLAS wants to measure underwriters' appetite for the creation and support of a parallel facility to underwrite Associate Member firms who could eventually become new long term members of CLLAS.

Marketing CLLAS to London Underwriters

Every year, we prepare a comprehensive underwriting package for reinsurance underwriters. The underwriting material includes an update on CLLAS and individual firm activities and the most current claims statistics and analyses. The underwriting submission precedes the face-to-face underwriter meetings that are arranged by our London brokers, Mark Popple and Graeme Lynch of Miller Insurance Services LLP.

Last year, we had achieved a 5% across the board reduction in the reinsurance rates. Our reinsurance submission for this year also recommended a 5% reduction. Notwithstanding that our actuarially determined rates continue to be significantly higher than market rates, our main arguments for a reduction were as follows:

- An improving territorial risk profile, i.e. a greater percentage of Quebec, Alberta and B.C. lawyers compared to Ontario where claims activity is more pronounced;
- The positive impact of CLLAS and individual firm risk management efforts;
- The positive impact of new lawyers in CLLAS, including former Heenan Blaikie LLP (“HB”) lawyers, many of whom were from Quebec and in low risk practice areas such as labour and employment;
- The non-repeatable nature of certain large claims – specifically the class action charitable donation tax claims.

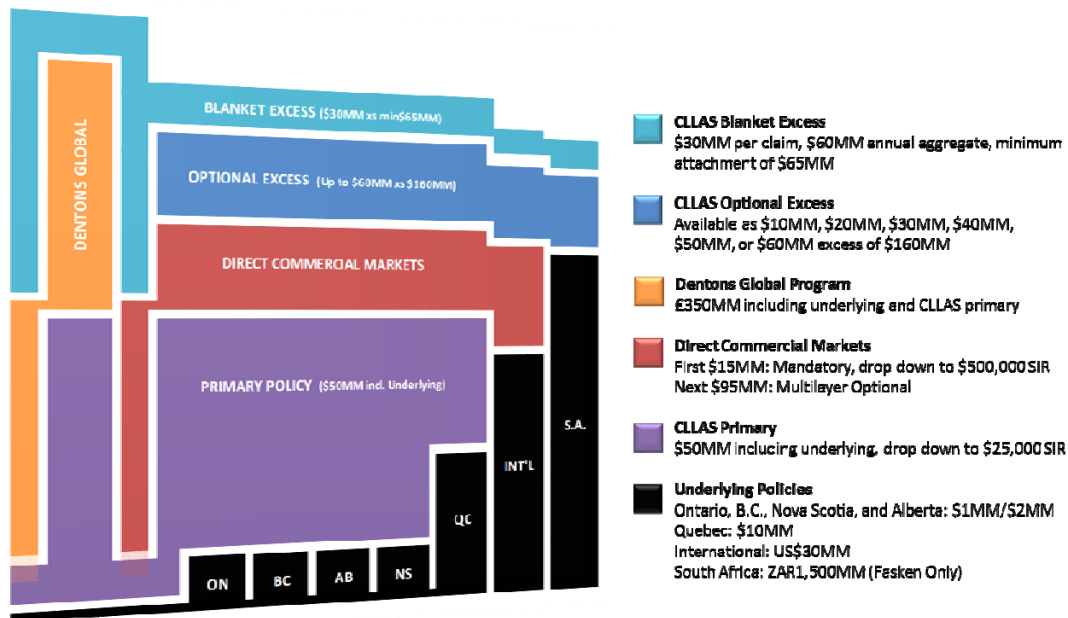
This year, Nick Leblovic, Julia Holland, Patrick Mahoney and Joe Tontini met with Miller Insurance Services LLP and most of the incumbent London underwriters to present our proposed renewal terms. Miller had advised us before the meetings that “cyber risk” would be on the minds of many of the underwriters so in anticipation of many questions in this area, we asked Julia to be prepared to comment. Fortunately, cyber risks was a topic that Julia was more than capable of discussing especially since Tory clients and prospective clients were requesting a significant amount of information about cyber exposures and risk management processes. Julia’s presentation to underwriters on CLLAS risk management and Tory specific risk management was extremely well received and was very helpful in demonstrating what is being done in this area by a member firm.

We do not expect any major change in the reinsurance structure and the current slate of reinsurers. In fact, we are expecting some new underwriter participation on Reinsurance Layer 1 which would allow us, if strategically prudent, to reduce Colchester’s participation. New markets would also facilitate the Associate Member initiative.

Although the insurance market continues to be fairly soft and competitive, the proposed 5% reduction may not be achievable this year. Most of our underwriters depend on actuarial analyses and our current reinsurance rate for \$49,000,000 excess of \$1,000,000 is almost 30% lower than the actuarially determined discounted expected loss costs for the layer. Underwriters are therefore extremely reluctant to allow another reduction this year. Strategically, it would be advisable to accept an “as is” renewal today and be more aggressive in the 2016/17 and 2017/18 years as we get closer to the next underwriting period.

CLLAS Insurance Structure

The current CLLAS insurance structure is depicted below:



The current policies and limits issued by CLLAS are described below:

a) **Primary Policy**

\$50,000,000 each and every claim/annual aggregate, inclusive of the minimum mandatory coverage provided by the applicable law society professional liability insurance program or by the professional liability insurance program of the governing body of a self-regulatory profession other than law and/or other applicable insurance and/or \$25,000 per claim self-insured retention. CLLAS is now licensed in Nova Scotia where one of the CLLAS firms established a satellite office.

b) **Optional Excess Policy**

Limit ranges from \$10,000,000 to \$60,000,000 (in increments of \$10,000,000) each and every claim/annual aggregate, excess of \$110,000,000¹ each and every claim/annual aggregate, excess of the CLLAS Primary Policy or excess of specific underlying insurance arranged by certain CLLAS firms for their offices in the U.S. and/or other international locations or excess of \$500,000 per claim self-insured retention. This policy follows the terms and conditions of the \$15,000,000 excess of \$50,000,000 commercial policy which in itself has a drop-down feature excess of \$500,000 per claim in the event that it is broader than the CLLAS underlying coverage.

Currently, eight firms purchase the full \$60,000,000 limit. One firm purchases \$40,000,000 and two firms do not purchase this layer.

¹ Represents the limits purchased by each firm in the Canadian direct commercial market.

c) **Blanket Excess Policy**

\$30,000,000 each and every claim/\$60,000,000 annual aggregate for all CLLAS member firms combined excess of not less than \$65,000,000 for each CLLAS member firm. This policy also follows the terms and conditions of the \$15,000,000 excess of \$50,000,000 commercial policy and is excess of the Optional Excess Policy and/or specific underlying insurance arranged by certain CLLAS member firms for their offices in the U.S. and/or other international locations, e.g. this policy acts excess of the South African Policy and the Optional Excess Policy for Fasken as well as the Global Policy for Dentons.

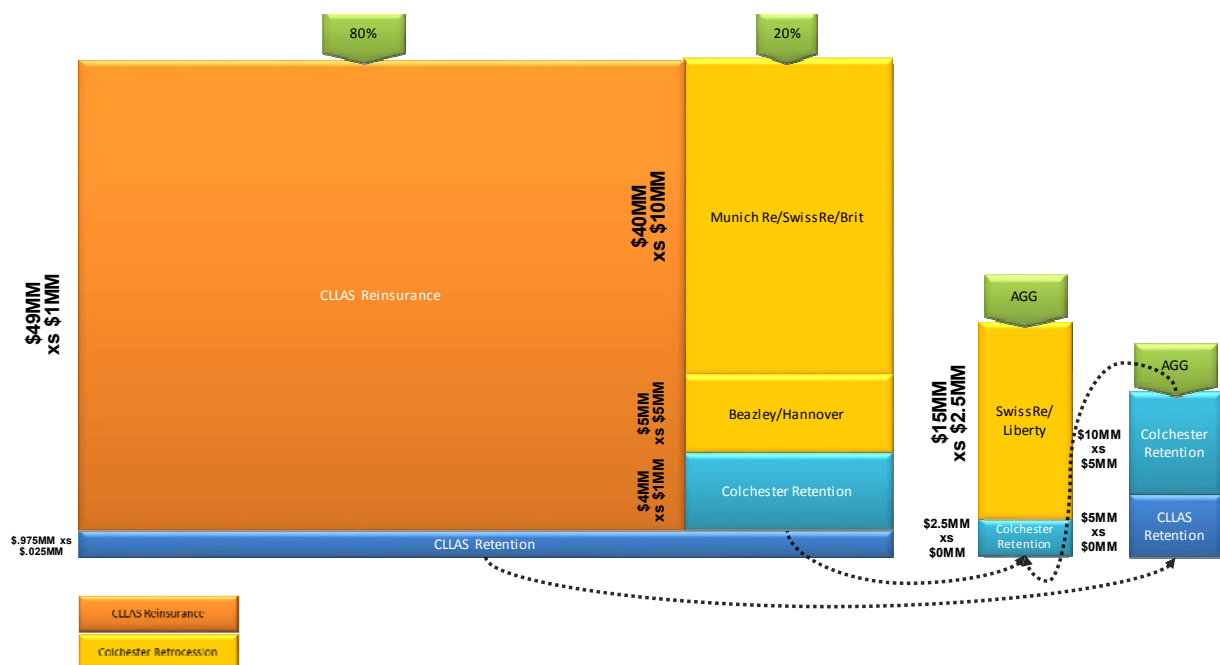
Heenan Blaikie LLP Tail Coverage

CLLAS and its reinsurers had agreed to provide tail coverage under the CLLAS Primary Policy to certain lawyers who had previously been employed by HB. The tail coverage applies from April 30, 2014 to July 1, 2017. Claims made related to Professional Services provided by former HB lawyers before they joined the CLLAS member firms will attach to the CLLAS policy that is in force at the time the claim is made. The aggregate limit over all policy periods that applies to all CLLAS Primary Policies that cover former HB lawyers for tail coverage related claims will be \$50,000,000. The CLLAS coverage sits on top of a specific tail coverage policy arranged through HB. This coverage is for a two-year period beginning April 30, 2014 for an aggregate limit for the period of \$10,000,000.

Endorsements have been issued to have the tail coverage incorporated into the coverage of each respective firm. A premium is charged on the Primary Policy of CLLAS member firms acquiring HB lawyers every year until the end of the current underwriting period. CLLAS will then reassess the risk to determine if additional premiums should continue to be charged during the next underwriting period.

CLLAS Reinsurance Structure

The current CLLAS reinsurance structure on the Primary Policy is depicted below:



- a) **Primary Policy Reinsurance:** \$49,000,000 excess of \$1,000,000 (\$40,000,000 excess of \$10,000,000 for Quebec lawyers) – 100% reinsured.
- 80% of this layer is proportionally reinsured with Lloyd's and other reinsurers;
 - 20% is reinsured with Colchester. Colchester's involvement is then layered and retroceded to various markets. A portion of Colchester's participation which is not transferred to other markets is retained by Colchester. Colchester's participation was reduced from 30% the year before;
 - CLLAS retains the entire drop down exposure below \$1,000,000.
- b) **Optional Excess Policy Reinsurance:** Between \$10,000,000 and \$60,000,000 excess of \$160,000,000 – 100% reinsured.
- c) **Umbrella Policy Reinsurance:** \$30,000,000/\$60,000,000 excess of \$65,000,000 (minimum) – 100% reinsured.
- d) **Aggregate Stop Loss Reinsurance:** \$10,000,000 aggregate excess of \$5,000,000 aggregate – 100% reinsured by Colchester.
- e) **Loss Portfolio Transfer Reinsurance:** \$39,420,000 claims reserves and IBNR as at June 30, 2012 – 100% reinsured by Colchester.

Reinsurance Security

CLLAS has a number of reinsurers participating on the various layers of reinsurance and on the aggregate stop-loss and loss portfolio transfer protections. CLLAS is notably reliant on the following reinsurers:

- **Lloyd's** has a significant participation in all layers of coverage and also participates in Colchester's retrocession protection. The Argo Syndicate at Lloyd's leads Reinsurance Layer 1 and is the most exposed among the Lloyd's syndicates with 29.01% of the layer. Lloyd's is A rated by Best and A+ rated by S&P;
- **Swiss Re/Westport** has a significant participation in Reinsurance Layers 2 and 3 and also in the Colchester retrocession protection. Swiss Re is A+ rated by Best and AA- rated by S&P;
- **Colchester** has a significant participation in Reinsurance Layer 1 and also provides CLLAS with aggregate stop-loss and loss portfolio transfer protections. Colchester is not registered in Canada and is not rated by the rating agencies but CLLAS is protected through a Reinsurance Security Agreement with Colchester.

Risk Retention Strategy

The following highlights the risk retention strategy adopted by CLLAS over the past several years. The retention strategy is largely market driven. In a hard market when actuarially determined rates are lower than the market rates, CLLAS should take on more risk. In a soft market when actuarially determined rates are higher than market rates, CLLAS should take less risk and transfer as much of the risk as practical to third party reinsurers. We have been in a prolonged soft market so CLLAS retention remains relatively low.

Due to the change in regulatory jurisdiction and the loss portfolio transfer which was put into effect in 2012, CLLAS was able to retain less risk and transfer more risk to Colchester subject to Colchester approval. CLLAS currently retains only the drop down exposure (\$975,000). CLLAS needs to evaluate whether Colchester's current 20% participation on the \$49,000,000 xs \$1,000,000 layer should be maintained or reduced. Colchester has been willing to follow the rates established by the lead London underwriters but in order to do so, Colchester subsidizes a portion of the CLLAS reinsurance premium. How much is subsidized depends on how much risk Colchester retains and how much is transferred through retrocession protection arranged on behalf of Colchester. Colchester's current participation is 20% but with retrocession protection, its net retention per claim is \$800,000, down from \$1,700,000 the year before. With the availability of additional capacity from the London and the domestic markets, Colchester could reduce its retention even more but it may not be strategically advisable to do so since Colchester's net retention is already low and reinsurers expect CLLAS and Colchester to participate in the risk.

Premium Reductions through CLLAS Surplus Contributions

We gained a better understanding of regulatory surplus requirements from the Alberta regulator last year and CLLAS members enjoyed a premium reduction due to a reduction in reinsurance rates and a return of surplus from CLLAS. The current surplus analysis can be summarized as follows:

CLLAS Current Surplus:	\$13,300,000
Regulatory Surplus:	\$7,900,000
Dentons & Blakes:	\$3,500,000
Available for distribution:	\$1,900,000
Recommended for 2015/16:	\$500,000
Recommended for 2016/17:	\$700,000
Recommended for 2017/18:	\$700,000

The \$1,900,000 excess surplus available for distribution is based on CLLAS' present surplus policy, and is based on the current OSFI MCT standards.

The CLLAS surplus distribution in the form of premium credits for last year was \$500,000 and we are recommending a similar distribution for this year. We would have to re-evaluate the available surplus each year but based on the current calculation, we would recommend that \$700,000 be set aside for each of the subsequent renewal periods. The 2016/17 and 2017/18 years are critical because they represent the end of the present underwriting cycle and the beginning of the next underwriting cycle.

It should be noted that Colchester would also contribute a portion of its surplus if it continues to follow the reinsurance rates set by the lead underwriter on the \$49,000,000 excess of \$1,000,000 layer. On the basis of expiring rates, we believe that Colchester would be indirectly contributing about \$908,000 in surplus due to a subsidized reinsurance rate. If Colchester were to reduce its participation from 20% to 15% on the quota share reinsurance placement, the surplus contribution would go from approximately \$908,000 to approximately \$813,000.

Proposed CLLAS Structure and Rates – July 1, 2015/2016

As previously discussed, there will be no change to the existing insurance and reinsurance structures at the upcoming renewal. CLLAS will continue to retain 100% of the drop down exposure only.

Negotiations with reinsurers are still going on and reinsurance authorizations are yet to be finalized. We know that underwriters' actuaries would not support a 5% reduction in rates but we feel confident that an "as is"

renewal is achievable. We may be able to achieve a 5% reduction on the Optional Excess and Umbrella placements.

We are confident that:

- a) Reinsurers on the \$49,000,000 excess of \$1,000,000 layer will renew at expiring rates or slightly better than expiring;
- b) Colchester will continue to support 20% of the \$49,000,000 excess of \$1,000,000 placement at the reinsurance rates established by the lead underwriter;
- c) Colchester will continue to support the aggregate stop-loss protection for CLLAS at expiring rates or slightly better;
- d) Reinsurers on the Optional Excess and Umbrella layers will renew at expiring rates or better.

On the basis of the above and on the assumption that CLLAS will continue to provide \$500,000 of surplus distribution in the form of a premium credit, the premiums for CLLAS members at renewal should be approximately as expiring or slightly better. In other words, the renewal rates should be approximately:

CLLAS Primary Policy: \$1,425 per lawyer in Quebec
 \$3,045 per lawyer in the rest of Canada
 (\$50,000,000 inclusive of any underling coverage or \$25,000 deductible)

Optional Excess Policy: \$240 per lawyer (\$60,000,000 excess of \$160,000,000)

Umbrella Policy: \$120 per lawyer (\$30,000,000 per claim \$60,000,000 aggregate excess of a minimum of \$65,000,000)

Proposed Policy Wording Changes at Renewal

The Alberta regulator performed a review on CLLAS in 2013. They concluded that the CLLAS Policies should be governed by the laws of Alberta (currently the laws of Ontario). We did not make the necessary changes last year because time did not permit us to amend both the reinsurance contracts and the insurance policies. When the policies renew this year, appropriate changes will have been made to the "Arbitration", "Choice of Law" and "Action Against Insurer" provisions. Corresponding changes will also have been made to the reinsurance contracts.

The CLLAS Associate Member Initiative

As CLLAS considers expanding its membership, Board members have examined ways to add value to existing and new members. One added value initiative that is currently being investigated is the CLLAS Associate Member Program. The proposed program, if supported by underwriters, will offer prospective new members of CLLAS an "Associate" status which would provide new law firm with many of the CLLAS benefits without the initial obligation to contribute capital and commit to a five-year underwriting period.

The major CLLAS benefits that may be passed on to CLLAS Associate Members include:

- Competitive premiums;
- Broad policy wording, including cyber professional liability;
- CLLAS claims management;

- CLLAS risk management;
- Special access to the CLLAS website;
- Access to excess limits;
- Access to the CLLAS International Program;
- Access to Colchester Reinsurance Limited;
- Access to ODL coverage at more competitive terms; and
- An invitation to formally join CLLAS at the next underwriting period subject to acceptance by CLLAS members.

CLLAS had established membership criteria when it was first formed in 1987. The membership criteria was designed to ensure that new member firms were similar to existing members and did not in any way reduce or tarnish the reputation of CLLAS as a preferred risk group. The underwriting criteria for CLLAS Associate Members would be virtually identical to the CLLAS membership criteria. Quantitative measures include: growth of firm; report and loss claim frequency; large loss claim frequency; and loss per exposure. The qualitative measures include: standing and reputation within the legal community; ongoing stability; internal organization; degree of concentration in “high risk” practice area; and acceptance of CLLAS policies.

There are approximately 50 law firms in Canada that have 50 lawyers or more and that are not current members of CLLAS. We indicated to the CLLAS reinsurance underwriters who we hope will support the CLLAS Associate Member initiative that CLLAS would first concentrate on those law firms with Ontario origins. We identified 11 Ontario firms that may fit the CLLAS criteria and plan to approach them as soon as an underwriting program or “Binding Authority” is established. We are hopeful that the Binding Authority will be provided to Axxima on behalf of CLLAS by new and existing CLLAS reinsurers. We may seek out assistance from the ad hoc CLLAS Expansion Committee and Board members to provide strong contact leads at the 11 law firms that we had identified or other law firms that may be appropriate to engage.

The Colchester Initiative

Another possible added value initiative relates to the use of Colchester. As a more substantial insurance entity, Colchester has the ability to expand its services to individual members. Colchester is considering possible conversion to a “segregated cell captive” which would allow individual members to have a designated cell for its own use to insure certain risks. If an individual member, for example, wanted to use Colchester to participate on its international program, it could capitalize a cell through existing shareholder equity and insure specific risks at no risk to other members. Discussions were initiated with Blakes and Dentons on the prospect of converting its current capital and surplus into a segregated cell in order to expand the possibilities for Colchester and its owners. These discussions are still very preliminary.

Conclusions

This preliminary report should provide the Board with an indication of the renewal terms and conditions and the new initiatives that are currently being explored.

A more definitive report, including lead reinsurance terms and conditions, will be available at the upcoming Board meeting.



MEMORANDUM

DATE: June 12, 2015
TO: CLLAS Advisory Board
FROM: Patrick Mahoney
COPY:
RE: March 31, 2015 Financial Management Report

CLLAS's financial management report for the three months ended March 31, 2015 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 (new)
Exhibit VI:	Alberta Maintenance of Reserve and Guarantee Fund

Financial Results

As shown on Exhibit II, CLLAS experienced a small underwriting loss (premiums minus claims and expenses) of \$47,000 first three months of 2015. After taking into account investment income (including unrealized gains arising during the quarter) CLLAS' total income for the quarter was \$87,000.

The Budget Variance (Exhibit IV) shows that expenses for the first quarter are about 17% (\$110,000) under budget. Expenses associated with July 1, 2015 the reinsurance placement are largely incurred in the second quarter, but in any event, barring unforeseen circumstances, operating expenses are on track to finish the year under budget.

At March 31, 2015, CLLAS had a surplus of \$13.7 million, as shown on Exhibit I.

Solvency Tests

The key regulatory solvency test that CLLAS is required to comply with is known as the Alberta Maintenance of Reserve and Guarantee Fund ("AMRGF"). CLLAS must maintain "cash and approved securities" in excess of the reserve fund plus the guarantee fund required by the Alberta regulator. Exhibit VI of the financial management report shows that the AMRGF required for CLLAS at March 31, 2015 was \$7.4 million. CLLAS' cash and approved securities totaled \$19.3 million, i.e. well in excess of the minimum requirement



CLLAS also monitors its Minimum Capital Test ratio. OSFI (the federal regulator) has implemented changes to the way that MCT is determined starting in 2015. The Alberta regulator has announced that it is adopting OSFI's new methodology. For many reciprocals, the new calculation basis resulted in a lower MCT ratio as reciprocals are generally unable to take advantage of a "diversification credit" in the new approach. For CLLAS, however, the changes have had a beneficial impact because the new rules eliminate a margin requirement that was based on gross claim liabilities (i.e. liabilities before reinsurance). That margin had a significant impact on CLLAS given the current reinsurance structure.

At December 31, 2014, CLLAS' MCT ratio (calculated using the old basis) was 346%. At March 31, 2015, using the new basis, it is estimated to be 372%. There are transitional rules that phase in the new approach over three years, so all other things being equal, CLLAS' MCT ratio can be expected to increase further in the coming years. As mentioned in previous reports, mid-year MCT calculations are done on a simplified basis in the interest of efficiency; the "official" MCT calculation is done at year-end.

Financial Ratios

Exhibit V, which is a new exhibit, follows from the risk appetite discussions the Board had in 2014. During those discussions, the Board and management identified the material risks facing CLLAS and discussed "risk metrics" to monitor the material risks, like insurance risk and interest rate risk, that are capable of being quantified. This Exhibit compares results for CLLAS at December 31, 2013, December 31, 2014 and March 31, 2015 against risk targets and risk limits. The results for March 31, 2015 are within CLLAS' risk tolerances.

This Exhibit will be refined as CLLAS works through the implementation of its Own Risk and Solvency Assessment (ORSA).

Please contact me if you have any questions with respect to the management financial statements or the solvency tests.

Sincerely,

Patrick Mahoney
General Manager

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

QUARTERLY FINANCIAL MANAGEMENT REPORT

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

QUARTERLY FINANCIAL MANAGEMENT REPORT

March 31, 2015

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
March 31, 2015

	As at March 31, 2015	As at March 31, 2014
ASSETS		
Cash	2,639,492	1,896,908
Short term investments	12,061,480	14,308,294
Bonds	4,590,449	3,067,286
Interest income due and accrued	23,923	15,535
Premium receivable	0	0
Other receivable	0	0
Prepaid expenses	139,466	160,978
Deferred policy acquisition costs	44,575	96,484
Unearned reinsurance premium ceded	2,598,579	2,660,755
Reinsurance recoverable	1,655,528	842,638
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	68,398,000	74,070,000
	<u>92,151,491</u>	<u>97,118,879</u>
LIABILITIES		
Accounts payable & accrued charges	357,959	128,799
Premium taxes payable	0	0
Unearned premium	3,208,678	3,435,953
Due to reinsurers	0	0
Provision for unpaid claims and adjustment expenses	74,845,000	80,706,000
Premium deficiency liability	0	0
	<u>78,411,636</u>	<u>84,270,752</u>
SUBSCRIBERS' EQUITY		
Surplus	13,573,107	12,833,517
Accumulated Other Comprehensive Income (Loss)	166,747	14,609
	<u>13,739,855</u>	<u>12,848,126</u>
	<u>92,151,491</u>	<u>97,118,879</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF COMPREHENSIVE INCOME
For the Period Ending March 31, 2015

	Current Year		Prior Year	
	Quarter March 31, 2015	Year to Date March 31, 2015	Quarter March 31, 2014	Year to Date March 31, 2014
Written Premium	0	0	0	0
Gross Written Premiums	0	0	0	0
Less: Reinsurance Ceded	0	0	0	0
Net Written Premiums	0	0	0	0
Change in Unearned Premiums	603,395	603,395	766,679	766,679
Earned Premiums	603,395	603,395	766,679	766,679
Claims Paid	65,418	65,418	0	0
Change in IBNR	41,000	41,000	647,000	647,000
Change in Case Reserve	13,000	13,000	0	0
Premium Deficiency Expense	0	0	0	0
Incurred Claims	119,418	119,418	647,000	647,000
Management and operating expenses	416,394	416,394	374,753	374,753
Reinsurance fees	69,750	69,750	69,750	69,750
Premium taxes	44,575	44,575	96,484	96,484
Total Operating Expenses	530,718	530,718	540,988	540,988
Underwriting Gain (Loss)	(46,742)	(46,742)	(421,309)	(421,309)
Investment Income	41,955	41,955	43,141	43,141
Income on Claim Related Matters	0	0	0	0
Interest Income on Premium Tax	0	0	0	0
NET GAIN/(LOSS)	<u>(4,787)</u>	<u>(4,787)</u>	<u>(378,168)</u>	<u>(378,168)</u>
Other comprehensive income (loss)				
Unrealized gains (losses) on available for sale financial assets arising during the year	92,030	92,030	40,836	40,836
Recognition of realized (gain) loss included in income	-	-	-	-
Other comprehensive income (loss) for the year	92,030	92,030	40,836	40,836
Total comprehensive income (loss)	<u>87,243</u>	<u>87,243</u>	<u>(337,332)</u>	<u>(337,332)</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF CHANGES IN EQUITY
March 31, 2015

	Minimum Surplus	Additional Surplus	Unrealized gains and losses on AFS financial assets	Total Equity
Balance, beginning of year	50,000	13,527,894	74,717	13,652,612
Prior year adjustment		-		-
Comprehensive income (loss) for the year				
Net gain (loss) for the year		(4,787)		(4,787)
Other comprehensive income (loss)				
Change in unrealized gain on available-for-sale assets			92,030	92,030
Recognition of realized (gain) loss on available-for-sale assets			-	-
Total comprehensive income (loss) for the year		(4,787)	92,030	87,243
Balance at March 31, 2015	50,000	13,523,107	166,747	13,739,855

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS
FOR THE PERIOD ENDED March 31, 2015

	Annual Budget	Year to Date Budget % Accrued to Date	Year to Date Budget \$	Year to Date Actual \$	Fav/(Unfav) Variance \$
MANAGEMENT SERVICES	635,000	25%	158,750	158,756	(6)
PROFESSIONAL SERVICES					
Actuarial Services	85,000	25%	21,250	26,657	(5,407)
Reinsurance Matters	300,000	25%	75,000	23,767	51,233
Strategic Matters	150,000	25%	37,500	36,362	1,138
Sub-Total Professional Services	535,000		133,750	86,786	46,964
GST/HST on Consulting Fees	152,100		38,025	31,920	6,105
Total Management & Professional Services *	1,322,100		330,525	277,462	53,063
(See Note 1)					
OTHER EXPENSES					
Audit Expenses	103,000	25%	25,750	31,543	(5,793)
Annual Dinner	7,000	25%	1,750	-	1,750
Premium Taxes	269,000	25%	67,250	44,575	22,676
Chairman's Honourium	75,000	100%	75,000	75,000	-
Reinsurance Expense	11,000	25%	2,750	-	2,750
D&O Insurance	14,000	25%	3,500	-	3,500
Office Expenses	27,500	25%	6,875	5,122	1,753
Office Expenses - Website management software license	3,000	25%	750	563	188
Claims: Borderaux (LawPro/LIF)	14,600	86%	12,600	12,600	-
Special Services	50,000	25%	12,500	-	12,500
Miller Insurance Fees (Reins. Comm.) (See Note 2)	282,000	25%	70,500	69,750	750
FSCO Assessment Fees	3,000	25%	750	-	750
Investment counsel fees	36,000	25%	9,000	5,664	3,336
Investment - Custodial	18,000	25%	4,500	4,114	386
Risk Management/Loss Prevention	50,000	25%	12,500	-	12,500
License Fee	6,500	25%	1,625	3,678	(2,053)
Insurance: Sundry	-		-	-	-
Sub-total	977,600		309,600	253,256	56,344
TOTAL	2,299,700		640,125	530,718	109,407

*** NOTE 1: PROFESSIONAL SERVICES - SEASONALLY WEIGHTED BUDGET**

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

First Quarter, ending March 31st	25%
Second Quarter, ending June 30th	46%
Third Quarter, ending September 30th	14%
Fourth Quarter, ending December 31st	15%
	<u>100%</u>

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

The annual budget is based upon the annual fee estimated for the policy period 2013/2014.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
SUMMARY OF RISK METRICS
March 31, 2015

	Risk Category	Risk Metric	December 31, 2013	December 31, 2014	March 31, 2015	Target	Limit
(1)	Insurance	Prior year development - Gross of reinsurance	-16%	-6%	-4%	0%	20%
(2)		Prior year development - Net of reinsurance	-17%	-33%	5%	0%	10%
(3a)		3-year net combined ratio	n/a	84%	79%		
(3b)		3-year net combined ratio before surplus adjustments via premiums	n/a	81%	75%	100%	125%
(4)		Maximum allocation to a single jurisdiction	57%	57%	57%	n/a	67%
(5)	Interest Rate	Interest rate risk per MCT formula at 1.25%	\$382,500	\$201,667	\$225,000	\$250,000	\$600,000
(6)	Liquidity	Ratio of cash and short-term investments to gross claim liabilities	20%	21%	20%	15%	10%
(7)	Asset Default	Credit rating of invested assets	AAA	AA to AAA	AA to AAA	AA to AAA	A
(8)		Maximum allocation to a single non-government security	1.1%	1.6%	1.8%	n/a	5%
(9)	Strategic	Annual Advisory Board turnover	0	0	0	2 members	4 members
(10)	Regulatory Solvency Indicators	AMRGF - Excess of cash and approved securities over required reserve and guarantee fund	\$7,597,000	\$8,020,000	\$11,938,000	n/a	\$0
(11)		MCT	297%	328%	372%	210%	210%

Notes

(1) and (2) = Year-over-year change in ultimate losses / Prior year undiscounted unpaid claims (excl. ULAE)

(3a) = [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

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

(4) Based on insured lawyer counts

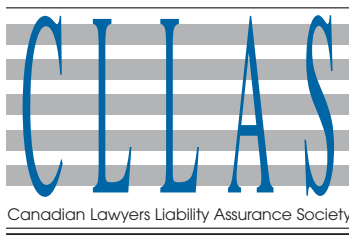
(8) Maximum allocation does not consider cash and cash equivalents

(11) For Provincially Regulated Insurance Entities that are required to file the MCT on an annual basis, the capital impact of the revised Guideline must be phased-in over three years, starting with the first year ending in 2015.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
For the Period Ending March 31, 2015

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

	Current Year to Date 03/31/2015 (in \$000's)	Prior Year End 12/31/2014 (in \$000's)
<u>Reserve Fund</u>		
Premiums collected or credited having one year or less to run	(1) -	13,080
Less: Amount paid to licensed reinsurers	(2) -	10,471
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) -	2,609
Reserve Fund Required (50% of Line 5)	(6) -	1,305
<u>Guarantee Fund</u>		
Total Liabilities	(7) 78,412	84,993
Less: Unearned Premiums	(8) 3,209	6,382
Less: Recoverable from licensed reinsurers	(9) 67,900	68,446
Plus: Statutory Margin	(10) 50	50
Guarantee Fund Required (Line 7 minus Lines 8 and 9 plus line 10)	(11) 7,353	10,215
TOTAL RESERVE & GUARANTEE FUND REQUIRED (Line 6+11)	(12) 7,353	11,520
Cash & Approved Securities	(13) 19,291	19,539
Excess of Cash & Securities over Reserve & Guarantee Fund (line 13 minus line 12)	(14) 11,938	8,020



M E M O R A N D U M

TO: CLLAS Board
FROM: Patrick Mahoney
RE: Progress Update on CLLAS' Solvency, Compliance & Governance Examination
DATE: June 12, 2015

This memo provides a progress report on the implementation of the recommendations outlined in the January 2014 Solvency, Compliance & Governance Examination report of the Alberta Superintendent of Insurance ("ASOI"). CLLAS submitted action plans in April and May 2014 which set out a timeline for adopting the various recommendations over a three year period. At this point in time, 19 of the 39 recommendations have been implemented and progress has been made on a number of others. Attached is a draft letter to the ASOI which provides an update on the outstanding items.

CLLAS will focus on implementing the following recommendations by June 30, 2016:

- Establish terms of reference;
- Amend the subscribers' agreement to include duties of the various committees as well as details on Board composition;
- Review the investment policy to conform with OSFI Guideline B-1;
- Review the reinsurance security policy to conform with OSFI Guideline B-3;
- Develop an outsourcing policy in accordance with OSFI Guideline B-10;
- Develop a related party transaction policy;
- Establish a business continuity plan for outsourced and retained functions;
- Amend the RSA to address technical points; and
- Establish a process to review Board effectiveness (individually and as a unit).

In addition, CLLAS will also continue to develop its ORSA, which will contribute to further defining its risk appetite. The ERM policy, surplus management policy and the stress testing requirements will be addressed in parallel with the ORSA.

I look forward to discussing these matters with you at the upcoming Board meeting.

Patrick Mahoney
General Manager



June 26, 2015

By email: laurie.balfour@gov.ab.ca

Laurie Balfour, MBA, CMA
Senior Manager, Financial Compliance
Alberta Treasury Board and Finance
Financial Sector Regulation and Policy
Superintendent of Insurance
Room 402, Terrace Building
9515 – 107 Street
Edmonton, Alberta T5K 2C3

Dear Laurie:

RE: Progress Update on CLLAS' Solvency, Compliance & Governance Examination

The purpose of this letter is to document outstanding items and inform you of our progress with respect to the recommendations in your Solvency, Compliance and Governance Examination of CLLAS. Please note that the recommendations already adopted by CLLAS are not documented in this letter.

The letter is organized using the same numbering as our initial action plan letter dated April 4, 2014 and in our subsequent letter dated May 2, 2014.

Legislative Compliance

	Section(s)	Requirements	Prior Suggested Timing	Status
4	309, 347, 439(2), 445	Ensure duties of Conduct Review Committee are fulfilled and define minor and general expenditures	Dec. 31, 2014	CLLAS is in the process of developing terms of reference but these have not yet been approved by the Advisory Board. <u>Revised timing: Dec. 31, 2015</u>
5	315, 316, 318	Subscribers Agreement must indicate min and max number of Board members, Agreement may provide that appointments are for max 3 years	Dec. 31, 2015	No change to original timing.

Governance

	Section(s)	Requirements	Prior Suggested Timing	Status
7	Page 9	Define risk appetite and develop an ERM policy	June 30, 2015	Advisory Board discussions on risk appetite, risk tolerance and risk limits have taken place during 2014 and 2015. A draft ERM policy has been presented to the Advisory Board. The risk appetite and ERM policy are expected to be finalized along with the ORSA report by October 2016. <u>Revised timing: Oct. 31, 2016</u>
8	Page 9	Develop an equity management policy	June 30, 2015	CLLAS already has a surplus policy but will make it more comprehensive to meet regulatory guidelines. We propose revise the current equity management policy in parallel with the ORSA. <u>Revised timing: Oct. 31, 2016</u>
9	Page 10	Develop an outsourcing policy	June 30, 2016	No change to original timing.
10	Page 12	Review investment policy	June 30, 2016	No change to original timing.
11	Page 13	Develop a reinsurance risk management policy	June 30, 2016	CLLAS has a reinsurance security policy but will enhance and formalize it. No change to original timing.
13	Page 15	Develop a business plan and a strategic plan	May 15, 2014 (business plan) and June 30, 2015 (strategic plan)	Business plans have been submitted in May 2014 and 2015. CLLAS has developed a strategic plan in 2014 and 2015 and it is expected to be adopted by the end of 2015. <u>Revised timing: Dec. 31, 2015</u>
14	Page 15	Develop a related party transaction policy	June 30, 2016	No change to original timing.
15	Page 16	Develop terms of reference for the Board, Committees and Principal Attorney	June 30, 2015	See Item 4. <u>Revised timing: Dec. 31, 2015</u>

	Section(s)	Requirements	Prior Suggested Timing	Status
16	Page 16	Develop a professional code of conduct	June 30, 2017	No change to original timing.
17	Page 17	Amend Subscribers Agreement to address responsibilities of Committees and Board, etc.	June 30, 2017	No change to original timing.
19	Page 19	Update “membership criteria” document	June 30, 2016	No change to original timing.
20	Page 19	Establish business continuity plan for outsourced and retained functions	June 30, 2016	No change to original timing.
21	Page 20	Amend RSA to address technical points	June 30, 2016	No change to original timing.
22	Page 21	Unaffiliated non-subscriber subject matter experts can be added to the CLLAS Board and size restrictions on the Board can be added	June 30, 2017	No change to original timing.
23	Page 21	Establish a process to review Board effectiveness (individually and as a unit)	June 30, 2016	No change to original timing.
24	Page 22	Define role of Principal Attorney (PA) as distinct from role of Chair, review performance annually	June 30, 2015	See Item 4. <u>Revised timing: Dec. 31, 2015</u>

Solvency

	Section(s)	Requirements	Prior Suggested Timing	Status
29	3.3	Conduct stress testing in accordance with OSFI Guidelines	June 30, 2016	Stress testing will be conducted in the context of ORSA. <u>Revised timing: Oct. 31, 2016</u>



Reporting Requirements

	Section(s)	Requirements	Prior Suggested Timing	Status
38	4.6	Develop reporting on a consistent basis that displays allocation of equity between subscribers	Ongoing	Documentation will be provided to the SOI's office on the allocation of equity (subscribers' accounts) by Dec. 31, 2015.

Other Solvency, Compliance and Governance Priorities

CLLAS is in the process of conducting its first ORSA in accordance with the action plan for the adoption of ORSA that has been filed with your office in December 2014. The first ORSA report is expected to be available by October 30, 2016.

We would be pleased to discuss the matters noted above with you at your convenience.

Sincerely,

Patrick Mahoney
General Manager

Copy: Nicholas Leblovic, CLLAS Chair



M E M O R A N D U M

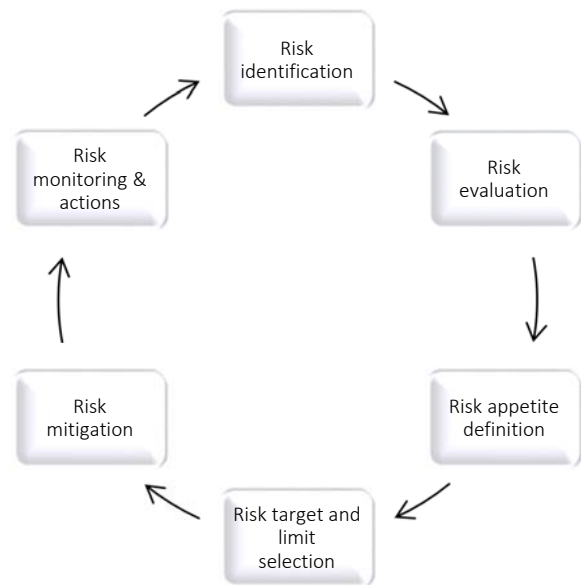
TO: CLLAS Board
FROM: Patrick Mahoney
RE: ORSA – Risk Identification and Qualitative Risk Evaluation
DATE: June 12, 2015

In accordance with a plan filed with the Alberta regulator in 2014, CLLAS has agreed to implement ORSA by October 30, 2016. The figure below summarizes the continual ERM cycle that would be carried out as a part of the ORSA.

CLLAS has already made great progress in identifying material risks, formulating qualitative risk appetite statements, setting risk targets and limits for individual risks based on its risk appetite, performing an inventory of risk mitigation strategies and implementing quarterly risk monitoring.

This memo focuses on the qualitative evaluation and ranking of risks which will be used as a basis for the subsequent quantitative evaluation. This quantitative evaluation will then allow CLLAS to select an internal capital target based on its risk appetite.

The ORSA process culminates in an annual report describing the material risks and the capital required to support those risks (i.e. internal target). Although the regulator does not approve the ORSA, a copy of the ORSA report must be filed annually with the Superintendent.



It is recognized that ERM and ORSA operate as a cycle, and that risk evaluation and risk appetite will be regularly reassessed as a step of the ERM cycle. Risk appetite is fluid and should reflect any improvement or deterioration in risk tolerance, changes in the business strategy and changes in economic conditions.

The first part of this memo summarizes discussions the Board has previously had with respect to defining the risks facing CLLAS. The second part of the memo presents, for consideration by the Board, a qualitative assessment of those risks.



Risk Identification

The following have been identified as potential risk categories that CLLAS may face:

1. Insurance risk
2. Reinsurance risk
3. Strategic risk
4. Operational risk
5. Inflation risk
6. Interest rate risk
7. Regulatory compliance risk
8. Asset default risk
9. Liquidity risk
10. Reputation risk
11. Equity risk (currently no risk exposure)
12. Foreign exchange risk (currently no risk exposure)

As part of an earlier discussion on risk appetite, the Board discussed each of the above risks, and defined each as it arises in the specific context of CLLAS's operations. The result of that discussion is summarized below.

Definition of Material Risks

- 1. Insurance risk:** CLLAS provides Canadian law firms with up to \$139,975,000 of professional liability insurance coverage per occurrence. Coverage is provided on a claims-made basis. Coverage is provided excess of \$1,000,000 (or \$25,000 in the case of drop-down coverage) and so CLLAS is exposed to low frequency, high severity losses. There is significant uncertainty around the timing, frequency and severity of these insurance losses.

Further, CLLAS is a monoline insurer, with no line of business diversification to mitigate insurance risk. However, CLLAS has a geographical diversification benefit as it insures lawyers in multiple Canadian provinces.

- 2. Strategic risk:** Strategic risk arises from the potential inability to implement appropriate business plans and strategies, make decisions, allocate resources, or adapt to changes in the business environment¹.

CLLAS operates on the basis of five year underwriting periods, and can expect significant competitive pressure from insurance brokers during the lead up to a new underwriting period. In order for CLLAS' premium rates to remain

¹ OSFI Own Risk and Solvency Assessment Guideline.



competitive, there must be a sufficiently large subscriber base to share the administrative costs necessary to maintain the self-insurance structure. If the subscriber base decreased significantly, the viability of the reciprocal may be compromised.

- 3. Reinsurance default risk (credit risk):** Given the loss portfolio transfer at June 30, 2012 and the low net claim retention since July 1, 2012, CLLAS retains only a small proportion of its insurance exposure and cedes the remaining exposure to reinsurers. A reinsurer default or dispute on claims presents a material risk as CLLAS has the ultimate responsibility for the payment of claims.

CLLAS places reinsurance with multiple reinsurers, the largest placement being with Colchester Reinsurance Limited due to the loss portfolio transfer. Colchester also has an important participation on the proportional treaty since July 1, 2012.

Deposits held in Canada for unregistered reinsurance amounts recoverable from Colchester Reinsurance Limited do not present a material off-balance sheet risk exposure for CLLAS given that amounts are secured under a security agreement and are held in cash or government bonds in Canadian denomination.

- 4. Operational risk:** Operational risk arises from inadequate or failed internal processes, people and systems, or from external events. It includes selling practices, claims processes, physical security, people, product, project, internal fraud, external fraud, model, legal, privacy and information security, technology and infrastructure, business continuity, third party, financial reporting, and money laundering / terrorist financing risks².

- 5. Inflation Risk:** General inflation risk: Sudden and sustained increases in the inflation rate would most likely lead to higher-than-anticipated claim payments and general expenses as well as disruptions in fixed income and capital markets.

Social inflation risk: This is the risk of unfavorable changes in claim behavior driven by new legal precedents as well as changes in social attitudes and expectations. Social inflation could be exacerbated by the fact that information is readily available through global news, social media and the internet.

² OSFI Own Risk and Solvency Assessment Guideline.



- 6. Interest rate risk (market risk):** CLLAS' fixed income investments are classified as available-for-sale and are therefore reported at fair market value in the financial statements. Claim liabilities are also reported on a fair value basis (i.e. liabilities are discounted using market rates).
- Interest rate risk exists when there is a mismatch between expected payments from assets and expected payments from liabilities. For example, when interest rates increase, both fixed income assets and claim liabilities would decrease. If they were perfectly matched, the impact on surplus would be nil. If not, one would decrease more than the other, creating a non-zero impact on surplus. The converse would also be true when interest rates decrease.
- 7. Regulatory compliance risk:** Regulatory compliance risk arises from losses due to failure to comply with regulatory requirements. Examples include costs associated with the need to restate financial statements if they are not in compliance with professional standards, or fines and penalties if legislative requirements are not fulfilled.
- 8. Asset default risk (credit risk):** Fixed income default risk: CLLAS is exposed to asset default risk as it has investments in fixed income instruments. CLLAS' investment policy allows for long-term investments in federal and provincial government bonds as well as corporate bonds rated A or better.
- The riskiest class of fixed income in CLLAS' portfolio is corporate bonds. Although provincial and federal government bonds present some default risk, it is not considered material at this moment.
- Other asset default risk: CLLAS has minimal exposure to default risk on other assets, for example receivables or cash held in bank accounts.
- 9. Liquidity risk:** Liquidity risk is the potential for losses due to holding insufficient funds in liquid assets such as cash. An example of a situation leading to liquidity risk is needing to realize a loss on the sale of invested assets when insufficient liquid assets are available to pay for losses.
- 10. Reputation risk:** Reputation risk arises when the confidence of insured lawyers, creditors, reinsurers and other business partners leads to a negative impact on earnings, liquidity or capital position.



For example:

- Reputation with insured lawyers could be negatively impacted by unstable or uncompetitive premium rates or failure to pay claims in a timely manner;
- Reputation with reinsurers could be negatively impacted by a lack of risk management efforts or failure to report claims information in a timely manner;
- Reputation with various business partners could be negatively impacted by failure to provide timely payments;
- Reputation with regulators could be negatively impacted by failure to communicate in a timely manner.

**11. Equity risk
(market risk):**

Investments in equities are subject to significant volatility in fair value. In addition, there is typically uncertainty around dividend payments and investments in equities can present significant exposure to default risk. This risk category is not material for CLLAS at this time as the investment policy does not allow for investments in equities.

**12. Foreign exchange
risk (market risk):**

Investments in denominations other than Canadian dollars can present foreign exchange risk, as ultimately these investments would have to be converted to Canadian dollars in order to pay for losses. This risk category is not material for CLLAS at this time as the investment policy does not allow for foreign investments.

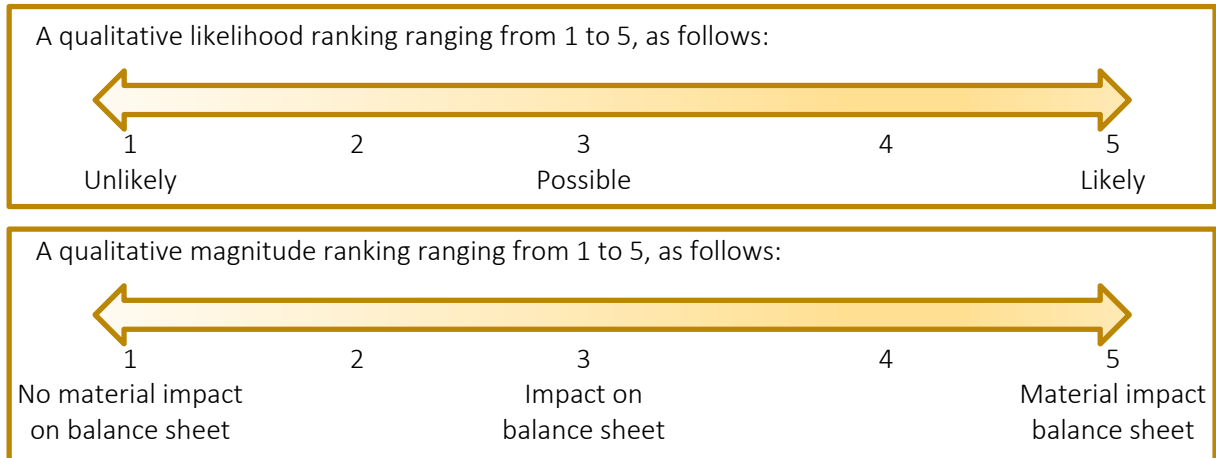
CLLAS is mindful of concentration risk, which arises from failure to diversify risk. It is a risk category that is closely tied with other risk categories, most notably with risks involving insurance, reinsurance and invested assets. Further, CLLAS's risk evaluation takes into account that risk mitigation measures – such as the use of reinsurance to reduce the net insurance exposure or the use of collateral or letters of credit to secure reinsurance recoverables – may not be functioning as usual under stressed market conditions. For example, if there were a property catastrophe and multiple insurers were seeking recoveries from reinsurers, CLLAS's communications and recoveries on its losses with these same reinsurers may be delayed or compromised.

Qualitative Assessment of Material Risks

Risk is the potential that CLLAS's financial position will be affected due to the deviation of actual results from expected results. This implies that CLLAS's ability to pursue its operations may be compromised. In addition, any immediate or long-term impacts on the surplus or risk profile may compromise CLLAS's ability to meet solvency requirements such as the Alberta Maintenance of Reserve and Guarantee Fund ("AMRGF") requirement or the Minimum Capital Test ("MCT").



Inherent risk (i.e. the risk before the application of any risk mitigation strategies) was ranked based on the following scale:



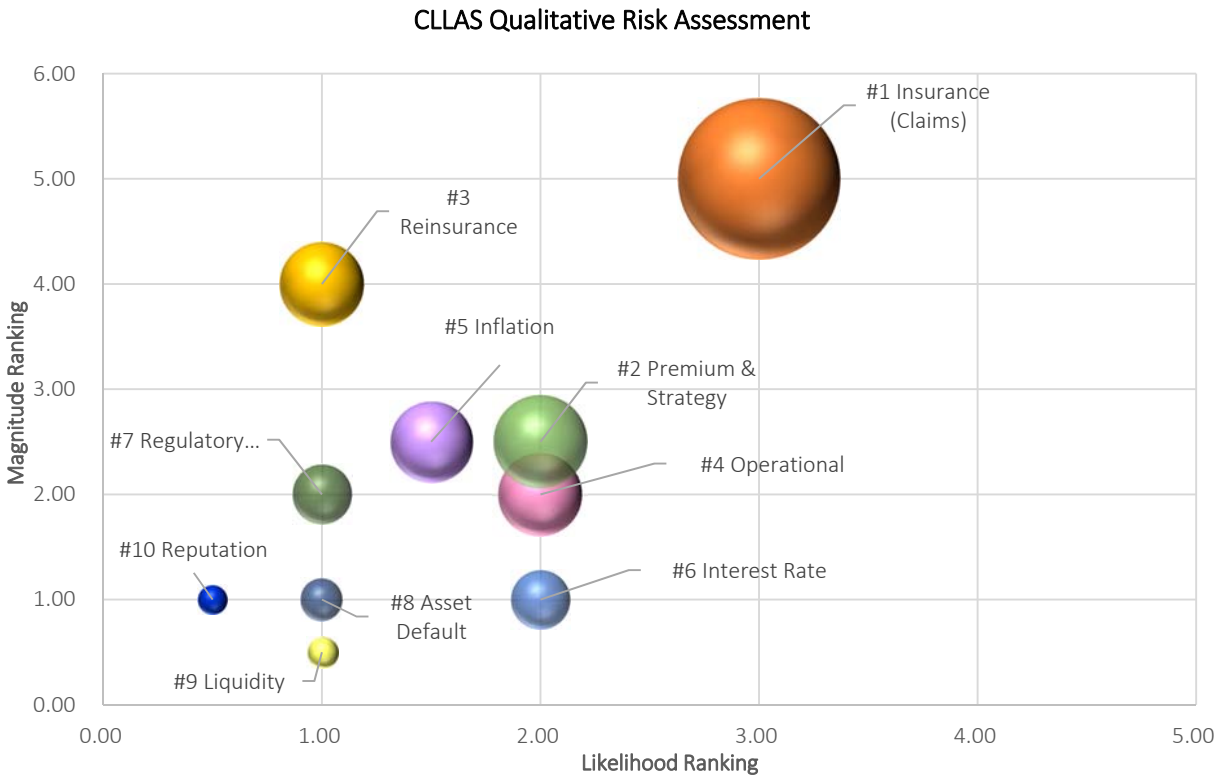
The results of CLLAS's qualitative assessment of its risks are summarized in the table below and presented graphically on the following page.

CLLAS Preliminary Risk Assessment

Category	Overall Likelihood Ranking	Overall Magnitude Ranking	Overall Ranking
#1 Insurance (Claims)	3.00	5.00	15.00
#2 Premium & Strategy	2.00	2.50	5.00
#3 Reinsurance	1.00	4.00	4.00
#4 Operational	2.00	2.00	4.00
#5 Inflation	1.50	2.50	3.75
#6 Interest Rate	2.00	1.00	2.00
#7 Regulatory Compliance	1.00	2.00	2.00
#8 Asset Default	1.00	1.00	1.00
#9 Liquidity	1.00	0.50	0.50
#10 Reputation	0.50	1.00	0.50
#11 Equity	0.00	0.00	0.00
#12 Foreign Exchange	0.00	0.00	0.00



The following chart presents a graphical summary of the risk categories for CLLAS:



Note: The size of each bubble represents the overall ranking for the risk category.

Next Steps

The Board should review and provide input on the qualitative risk assessments set out immediately above. The next step in the ORSA process will consist of a quantitative evaluation of CLLAS's risks. This analysis will be performed by CLLAS' actuaries as it involves the creation of a financial model to test the sensitivity of CLLAS's surplus position to various adverse events, such as a deterioration in claims or a deterioration in investments. The risks modeled will be based on the material risk categories identified by CLLAS. This analysis should allow CLLAS to select a surplus target that is reflective of its risk profile and risk appetite. In addition, the risk metrics targets and limits will be reviewed as part of the analysis.

I look forward to discussing this memo with you.

Patrick Mahoney
General Manager



CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Business Plan Projected for the
Fiscal Years Ending December 31, 2015, 2016 & 2017

Final Report
March 20, 2015



Table of Contents

1. Executive Summary.....	1
2. Overview of CLLAS Operations	2
3. Operating Environment	4
4. Short-Term Opportunities and Threats	5
5. Short-Term Priorities and Initiatives.....	5
6. Financial Performance Measures	6
7. Financial Condition Measures and Regulatory Solvency Requirements.....	6
8. Financial Projections	7
Exhibits	



1. Executive Summary

This report summarizes the business plan for the Canadian Lawyers Liability Assurance Society (“CLLAS”) for fiscal year 2015. A copy of this report was submitted to the Alberta Superintendent of Insurance (“Superintendent”), the regulatory authority responsible for the supervision of CLLAS under the Alberta Insurance Act.

This report was prepared by Axxima Insurance Services, a division of 3303128 Canada Inc., a non-affiliated company of CLLAS providing actuarial and general management services to CLLAS.

Operations and Operating Environment

CLLAS’ core business objective is to meet the liability insurance needs of its subscribers. It provides professional liability insurance to select Canadian law firms since 1987. Professional liability claims are subject to significant volatility and are expected to trend at 6.5% per year.

CLLAS has purchased proportional and aggregate stop loss reinsurance since its inception. In addition, CLLAS entered into a loss portfolio transfer agreement at June 30, 2012 with Colchester Reinsurance Ltd. which covers all outstanding claim obligations on policies written between July 1, 1987 and June 30, 2012. These risk management initiatives have the effect of limiting CLLAS’ loss exposure. Given CLLAS’ strong long-time relationships with its reinsurers, reinsurance rates and availability are expected to be stable.

In March 2013, the Superintendent adopted solvency, governance and other supervisory guidelines that were historically applicable only to federally-regulated insurance companies. The adoption of these guidelines will lead to additional solvency and governance requirements for CLLAS over the next two years. The Superintendent has discretion in the application of these guidelines for reciprocals.

Summary of Financial Projections for Fiscal Year 2015

The underwriting income and investment income for fiscal year 2015 are projected at (\$564,000) and \$357,000 respectively, for a total net income of (\$207,000). The surplus at December 31, 2015 is projected at \$13,371,000.

CLLAS is expected to meet the Alberta Maintenance of Reserves and Guarantee (“AMRGF”) Funds requirement with an excess margin of \$7,338,000 at December 31, 2015. The Minimum Capital Test (“MCT”) ratio at December 31, 2015 is projected at 385%, an increase over the MCT ratio of 346% at December 31, 2014. The MCT ratio is expected to be comfortably above CLLAS’ internal target of 210%.



This business plan report is organized as follows:

- Section 2: Overview of CLLAS Operations
- Section 3: Operating Environment
- Section 4: Short-Term Opportunities and Threats
- Section 5: Short-Term Priorities and Initiatives
- Section 6: Financial Performance Measures
- Section 7: Financial Condition Measures and Regulatory Solvency Requirements
- Section 8: Financial Projections

Any questions regarding this report should be addressed to Mr. Patrick Mahoney:

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2. Overview of CLLAS Operations

CLLAS' core business objective is to meet the professional liability insurance needs of its subscribers.

Insurance Operations

CLLAS was formed on December 22, 1986 under the Reciprocal Insurance Exchange Agreement for Select Canadian Law Firms. CLLAS started its insurance underwriting operations in June 1987 and was regulated by the Financial Services Commission of Ontario. Effective July 1, 2012, CLLAS' lead regulator was changed from Ontario to Alberta. CLLAS is licensed in Alberta, British Columbia and Ontario.

The insurance provided by CLLAS to each of the firms is on a claims-made basis, meaning that a claim first made during the policy period is covered provided that the act, error or omission resulting in a claim happened during the policy period or prior to the policy period (as long as the insured had not given notice to any prior insurer or under any prior insurance, had no prior insurance for the liability arising from such claim and had no reasonable expectation that such act, error or omission was a breach of professional duty or might be the basis for a claim.)

In the fiscal year ending December 31, 2014, CLLAS issued 21 insurance policies issued to 11 Canadian law firms providing a combined maximum limit of liability insurance per occurrence of \$139,975,000 to cover the cost of damages that an insured is legally obligated to pay as a result of single or related act, error, omission or negligent act in the performance of or failure to perform professional services by the insured or by any person for whose acts, errors, or omissions the insured is legally responsible.



The maximum limit provided by CLLAS on a per-claim basis is provided as follows:

- A \$50,000,000 limit inclusive of a minimum \$25,000 retention over the basic liability coverage available to each practicing lawyer of the firm under the basic professional liability coverage provided by the law society governing the professional activities of such lawyers;
- A limit of \$10,000,000 to \$60,000,000 in excess of \$160,000,000 of the professional liability limit purchased by any firm; and
- A \$30,000,000 umbrella limit provided on the overall exposure of all subscribers.

Reinsurance

To provide such coverage limits to any insured, CLLAS purchases proportional reinsurance coverage from registered and unregistered insurance companies to reduce its net maximum loss exposure for any one loss occurrence to \$975,000. The reinsurance purchased for the maximum occurrence limit provided by CLLAS is purchased on a proportional basis. CLLAS retains no exposure on the layers above \$1,000,000.

In addition, for its treaty underwriting year from July 1, 2014 to June 30, 2015, CLLAS purchased an annual stop-loss coverage that provides \$10,000,000 of coverage in excess of \$5,000,000. Annual stop-loss coverage limiting CLLAS' overall annual net retained losses in any one treaty year was also purchased in prior treaty years.

On June 30, 2012, Colchester Reinsurance Ltd. ("Colchester") purchased CLLAS' loss portfolio of net outstanding claims obligations on policies written between July 1, 1987 and June 30, 2012. CLLAS' remaining net claim liabilities attributable to the business written prior to June 30, 2012 are provisions for unallocated loss adjustment expenses.

CLLAS and Colchester have a Reinsurance Security Agreement whereby all the assets supporting Colchester's claim liabilities are held in trust in a custodial account in favor of CLLAS.

Operational Results for Fiscal Year 2014

In 2014, CLLAS generated written premium volumes of \$13,080,000 and \$2,498,000 on gross and net of reinsurance bases respectively. \$10,582,000 of written premium volume was ceded to proportional and aggregate stop loss reinsurers.

The net income was \$366,000 and the net subscribers' equity inclusive of accumulated other comprehensive income (loss) was \$13,653,000 at December 31, 2014.

At December 31, 2014, CLLAS held \$19,558,000 in invested assets comprised of cash and fixed-income securities. CLLAS' main liability was its net provision for unpaid claims in the amount of \$6,393,000.



3. Operating Environment

Professional liability losses are subject to significant volatility surrounding the timing, frequency and severity of claims, especially in higher insured layers such as the layer in excess of \$1,000,000. In addition, claim frequency is expected to remain stable but individual claims are expected to trend up faster than inflation at a rate of approximately 6.5% per year.

CLLAS is not aware of any legal or regulatory changes or any precedents set in case law that would impact existing or future claims.

Reinsurance

Reinsurance costs tend to be cyclical, with high prices and tighter underwriting restrictions following years with poor underwriting results. CLLAS has developed strong relationships with its reinsurers and reinsurance rates have been stable in recent years. CLLAS expects to maintain these relationships in the future.

Regulatory Environment

In March 2013, the Superintendent adopted the Office of the Superintendent of Financial Institutions' ("OSFI") guidelines. These are solvency, governance and other supervisory guidelines which were historically only applicable to federally-regulated insurance companies. The Superintendent has flexibility and discretion in the application of these guidelines for reciprocals.

The key impacts of the adoption of OSFI guidelines on CLLAS are the following:

- Adoption of the Minimum Capital Test ("MCT") as a regulatory solvency requirement;
- Need for a formal enterprise risk management policy;
- Need for a formal equity management policy;
- Need for a formal outsourcing policy;
- Need for a formal reinsurance risk management policy;
- Need for regular stress testing;
- Need for a formal strategic plan; and
- Additional miscellaneous documentation requirements.

In addition, starting on January 1, 2015, the MCT calculation will change. The final guidelines for the MCT calculation was released in the fall of 2014.



4. Short-Term Opportunities and Threats

CLLAS offers professional liability insurance coverage to a select number of law firms in Canada. One firm representing approximately 12% of CLLAS' insured lawyers, Blake, Cassels & Graydon LLP, withdrew from CLLAS at June 30, 2012. Under the terms of its Reciprocal Insurance Exchange Agreement, CLLAS is obligated to return a share of its surplus, if any, to any a departed subscriber when the claims for which the departed subscriber are resolved but may event no earlier than the fifth anniversary of its departure, based on that subscriber's participation in CLLAS. As a result, a payment may be due to Blake, Cassels & Graydon LLP subsequent to June 30, 2017. Depending on the amount of such payment and the amount of CLLAS' surplus at that time, such payment may have a material effect on the equity position of CLLAS.

In 2014, approximately 125 lawyers joined CLLAS firms as a result of the dissolution of Heenan Blaikie, thereby increasing the number of insured lawyers by approximately 3%. In addition, CLLAS is considering inviting one or two firms to join its subscriber base. A growth in the subscriber base would further spread risk among existing subscribers and, in addition, translate into the operational expenses being pooled among a greater number of members, thereby decreasing premiums for all members.

Given the loss portfolio transfer at June 30, 2012 and the low net claim retention since July 1, 2012, CLLAS' net exposure is mainly for unallocated loss adjustment expenses. The main threat for CLLAS would be a reinsurer's default on unpaid claims. However, this threat is not considered significant given that CLLAS' reinsurance partners are in sound financial condition and the vast majority of reinsurance is recoverable from reinsurers registered in Canada or secured via a reinsurance security agreement.

5. Short-Term Priorities and Initiatives

During 2015, CLLAS will focus on the following initiatives in addition to the management of its usual insurance operations:

1. Development of a budget and business plan for fiscal year 2015;
2. Determination of expected loss costs and premium rates for the policy year starting July 1, 2015;
3. Negotiation of reinsurance contracts and costs for the policy year starting July 1, 2015;
4. Periodic review of reinsurance concentration and risk;
5. Quarterly valuation of policy liabilities;
6. Adoption of a formal enterprise risk management policy and development of ORSA;
7. Development of a formal equity management policy;
8. Adoption of a formal medium- to long-term strategic plan; and
9. Other work further to the Superintendent's Solvency, Compliance and Governance examination.



6. Financial Performance Measures

CLLAS monitors its net income on a quarterly basis, with a focus on the following key elements of financial performance:

- **Claims development:** All open case files are reviewed quarterly and case reserve estimates are adjusted accordingly. The provision for Incurred but not Reported (“IBNR”) claims is reviewed quarterly by CLLAS’ Appointed Actuary. Claims development is compared against the actuary’s prior estimates (i.e. estimates from prior actuarial valuations and estimates of expected loss costs underlying premium rates);
- **Expenses:** Expenses are tracked by category (e.g., financial services, claims administration, actuarial services, reinsurance services, audit services, etc.) and compared quarterly against the expense budget; and
- **Investment income:** Investment returns are compared against benchmarks established per the investment policy.

Quarterly financial statements are provided to the Advisory Board.

7. Financial Condition Measures and Regulatory Solvency Requirements

Per its surplus policy, the level of surplus CLLAS maintains is set such that the reciprocal balances the probability of retroassessment with the efficiency of operating with as little capital as is prudent and appropriate. CLLAS regularly monitors using the following regulatory solvency measures:

a. Alberta Maintenance of Reserve and Guarantee Funds (“AMRGF”)

This solvency requirement is determined based on premium volume and liabilities net of registered reinsurance. The Superintendent has confirmed that reinsurance with Colchester is considered to be registered as Colchester’s obligations to CLLAS are secured via a reinsurance security agreement.

CLLAS must maintain cash and securities in excess of the regulatory requirement to avoid a retroassessment. At December 31, 2014, CLLAS met this requirement with an excess margin of \$8,020,000.

The AMRGF is shown in Exhibit 3.

b. Minimum Capital Test (“MCT”)

The Superintendent requires reciprocals to make annual regulatory filings including the MCT. The MCT is a solvency test which has historically applied to incorporated insurance entities. The



Superintendent is increasingly looking to apply the MCT standard to reciprocals but has indicated that it has discretion in the application of solvency requirements for reciprocals.

The MCT ratio is calculated as follows:

$$\text{MCT Ratio} = \frac{\text{Capital Available}}{\text{Minimum Capital Required}}$$

The Capital Available is generally equal to the entity's surplus excluding recoverables from unregistered reinsurers not covered by deposits in Canada or letters of credit. Reinsurance recoverable from Colchester is covered by deposits in Canada per a reinsurance security agreement, and therefore is an asset used in the calculation of the Capital Available.

The Minimum Capital Required is a function of the entity's risk profile. The Minimum Capital Required accounts for risks such as the deterioration of asset values, adverse development on unpaid claims or credit risk related to unregistered reinsurance, operational risk, etc.

At December 31, 2014, CLLAS's MCT ratio was 346%. CLLAS' target MCT ratio is 210%.

The MCT is shown in Exhibit 4.

8. Financial Projections

The expected financial performance is presented in Exhibits 1 to 4 as follows:

Exhibit 1: Proforma Statement of Financial Position

Exhibit 2: Proforma Statement of Income

Exhibit 3: Proforma Alberta Maintenance of Reserve and Guarantee Fund

Exhibit 4: Proforma Minimum Capital Test

These projections are based on a starting financial position at December 31, 2014 and were completed in accordance with the directives of the Superintendent issued for the completion of the 2014 P&C-1 Annual Return filed by CLLAS. We present below details of the analysis for the 2015 projection. Similar assumptions were taken to project the results for 2016 and 2017.



Data

To develop the expected financial performance, we relied on the following information developed by CLLAS at December 31, 2014:

- The 2014 P&C-1 Annual Return filed by CLLAS with the Alberta Superintendent of Insurance;
- The 2014 Auditor's Report issued by Deloitte LLP; and
- The Report on the Valuation of the Policy Liabilities as at December 31, 2014 issued by Ms. Julie-Linda Laforce, the Appointed Actuary for CLLAS.

Projection of Premiums

Net premiums written in 2015 are expected to be \$2,660,000, up from \$2,498,000 in 2014. Renewal premiums were assumed to increase based on a trend of 6.5% in retained premiums and ceded premiums.

Projection of Investment Income

The expected investment income for 2015 is \$357,000 (\$184,000 in 2014). In December 2013, CLLAS adopted an investment policy where invested assets would be allocated in proportions of 40% in short-term securities and 60% in long-term securities. The yield-to-maturity on invested assets at December 31, 2014 was 1.85% net of investment manager expenses and the investment yield for 2015 was projected at 1.85%.

Projection of Claims

Claims were projected on bases gross and net of reinsurance. These projections assume, to a large extent, that the reinsurance structure in effect at December 31, 2014 is maintained on renewal. Gross and net incurred losses for 2015 were projected in two steps:

a. Settlement of claim liabilities incurred on or prior to December 31, 2014

Paid claims during 2015 and undiscounted claim liabilities at December 31, 2015 were projected based on the Appointed Actuary's estimates at December 31, 2014 and CLLAS' historical claims settlement patterns. There is no expected gain or loss relative to the actuary's ultimate estimates at December 31, 2015.

Per accepted actuarial practice in Canada, undiscounted claim liabilities were then discounted and a provision for adverse deviation ("PfAD") was added. The assumptions used in the December 31, 2014 actuarial valuation were used. PfADs are assumed to be gradually released as losses are paid.



On a gross of reinsurance basis, CLLAS' expected payments in 2015 are \$10,780,000 and the claim liabilities on a discounted basis including PfAD at December 31, 2015 are expected to be \$64,100,000.

On a net of reinsurance basis, CLLAS' expected payments in 2015 are \$90,000 and the claim liabilities on a discounted basis including PfAD at December 31, 2015 are expected to be \$5,490,000.

b. Projected claims incurred after December 31, 2015 on policies in-force at December 31, 2014 and on policies expected to be renewed on July 1, 2015 under the new 2015/2016 policy year

Ultimate gross and net incurred claims for those policies were estimated based on the projected loss cost per layer estimated by the Appointed Actuary at December 31, 2014 with a 6.5% increase. These loss costs were then applied to the estimated in-force lawyers at December 31, 2014, since no growth at renewal was assumed for the underlying number of insured lawyers.

The expected projected loss costs per layer for the first and second half of 2015 are as listed in the following table.

Projected Loss Costs by Reinsured Layer for Fiscal Year 2015

Reinsurance Layers	Estimated loss cost for 1st Half of 2015	Estimated loss cost for 2nd Half of 2015
\$975,000 xs \$25,000	\$ 113	\$ 121
\$49,000,000 xs \$1,000,000	3,501	3,729
\$30,000,000 xs Umbrella	10	11
\$40,000,000 xs \$160,000,000	14	15
\$60,000,000 xs \$160,000,000	18	19

On a gross of reinsurance basis, CLLAS' expected payments in 2015 are \$550,000 and the claim liabilities on a discounted basis including PfAD at December 31, 2015 are expected to be \$16,030,000.

On a net of reinsurance basis, CLLAS' expected payments in 2015 are \$15,000 and the claim liabilities on a discounted basis including PfAD at December 31, 2015 are expected to be \$1,630,000.



Total Claims

Total net claim liabilities at December 31, 2015 were estimated at \$7,120,000, which represents an increase of \$727,000 over the December 31, 2014 net claim liabilities of \$6,393,000. Net paid losses were projected at \$105,000 during 2015.

Estimated incurred claims for fiscal year 2015 are estimated at \$832,000 as the sum of net paid claims in the year and the change in net claim liabilities.

The net results of this analysis can be summarized as follows:

Summary of Outstanding Claim Liabilities Projections for December 31, 2015

Net Amounts	Occurrences on or prior to Dec. 31, 2014	Occurrences after Dec. 31, 2014	Total
(1) Net Payments during 2015	\$ 90,000	\$ 15,000	\$ 105,000
(2) Net Claim Liabilities at December 31, 2015 *	5,490,000	1,630,000	7,120,000
(3) Net Claim Liabilities at December 31, 2014 *	6,393,000	n/a	6,393,000
(4) Net Incurred Claims in 2015 [(1) + (2) – (3)]	\$ (813,000)	\$ 1,645,000	\$ 832,000

* Liabilities on a discounted basis including PfAD.

Projection of Operating Expenses

Operating expenses are projected at \$1,642,000 for general management fees, \$282,000 for reinsurance fees and \$376,000 for premium taxes. Premium taxes vary by province and are expected to average 2.8% of direct written premiums. A portion of premium taxes is deferred in order for the expense to be recognized as the premium is earned. At December 31, 2015, the deferred policy acquisition cost asset is estimated at \$140,000.

Summary of Results

Based on the foregoing assumptions, the underwriting income and investment income for fiscal year 2015 are projected at (\$564,000) and \$357,000 respectively, for a total net income of (\$207,000) as shown in Exhibit 2. The surplus at December 31, 2015 is projected at \$13,371,000 as shown in Exhibit 1.

CLLAS is expected to meet the AMRGF requirement with an excess margin of \$7,338,000 at December 31, 2015, as shown in Exhibit 3.



CLLAS' MCT ratio at December 31, 2015 is projected at 385%, an increase over the MCT ratio of 346% at December 31, 2014, as shown in Exhibit 4. The MCT ratio is expected to be comfortably above the CLLAS' internal target of 210%.

EXHIBIT 1

CANADIAN LAWYERS' LIABILITY ASSURANCE SOCIETY
PROFORMA STATEMENT OF FINANCIAL POSITION

	As at <u>December 31, 2017</u>	As at <u>December 31, 2016</u>	As at <u>December 31, 2015</u>	As at <u>December 31, 2014</u>
	PROJECTED	PROJECTED	PROJECTED	ACTUAL
ASSETS				
Cash	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 6,498,867
Investments				
Short Term	6,138,000	5,958,000	5,778,000	9,010,686
Bonds	9,207,000	8,937,000	8,668,000	4,030,005
Interest income due and accrued	0	0	0	18,436
Premiums receivable	5,850,000	5,490,000	5,150,000	4,354,998
Unearned reinsurance premium ceded	6,230,000	5,860,000	5,500,000	5,168,601
Prepaid Expenses	160,000	150,000	140,000	139,500
Deferred policy acquisition costs	210,000	200,000	190,000	89,149
Reinsurance recoverable	0	0	0	371,647
Other receivable	0	0	0	0
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	81,610,000	77,250,000	73,020,000	68,964,000
Total Assets	114,405,000	108,845,000	103,446,000	98,645,889
LIABILITIES				
Provision for unpaid claims and adjustment expenses	90,290,000	85,090,000	80,140,000	75,357,000
Provision for unpaid premium liabilities	0	0	0	0
Premium Deficiency Liability	0	0	0	0
Unearned premium	7,710,000	7,240,000	6,800,000	6,382,095
Due to reinsurers	2,560,000	2,410,000	2,260,000	1,682,942
Accounts payable & accrued charges	800,000	800,000	800,000	1,519,940
Premium taxes payable	0	0	0	51,301
Total Liabilities	101,360,000	95,540,000	90,000,000	84,993,278
SUBSCRIBERS' EQUITY				
Surplus	12,970,000	13,230,000	13,371,000	13,577,894
Accumulated Other Comprehensive Income (Loss)	75,000	75,000	75,000	74,717
Total Subscribers' Equity	13,045,000	13,305,000	13,446,000	13,652,611
TOTAL LIABILITIES AND SUBSCRIBERS' EQUITY	114,405,000	108,845,000	103,446,000	98,645,889

EXHIBIT 2

CANADIAN LAWYERS' LIABILITY ASSURANCE SOCIETY
PROFORMA STATEMENT OF INCOME
FOR THE PERIOD ENDED

	Year to date Jan. 2017 to Dec. 2017 PROJECTED	Year to date Jan. 2016 to Dec. 2016 PROJECTED	Year to date Jan. 2015 to Dec. 2015 PROJECTED	Previous year Jan. 2014 to Dec. 2014 ACTUAL
Direct written premiums *	\$ 15,800,000	\$ 14,840,000	\$ 13,930,000	\$ 13,080,403
Gross Written Premiums	15,800,000	14,840,000	13,930,000	13,080,403
Less: Reinsurance Ceded **	12,780,000	12,000,000	11,270,000	10,582,777
Net Written Premiums	3,020,000	2,840,000	2,660,000	2,497,626
Change in Unearned Premiums	(100,000)	(80,000)	(87,000)	328,383
Earned Premiums	2,920,000	2,760,000	2,573,000	2,826,009
Claims Paid	240,000	160,000	110,000	(76,122)
Change in Reserves	840,000	720,000	727,000	404,000
Premium Deficiency Expense	0	0	0	0
Paid on Premium liability	0	0	0	0
Change in provision for Unpaid Premium liability	0	0	0	0
Incurred Claims	1,080,000	880,000	837,000	327,878
Management and Operating Expenses	1,742,000	1,691,000	1,642,000	1,569,041
Reinsurance Fees	299,000	290,000	282,000	279,000
Premium Taxes	427,000	401,000	376,000	468,101
Total Operating Expenses	2,468,000	2,382,000	2,300,000	2,316,142
Underwriting Gain (Loss)	(628,000)	(502,000)	(564,000)	181,989
Investment Income	368,000	361,000	357,000	184,221
Other Income	0	0	0	0
Net Income (Loss) for the year	(260,000)	(141,000)	(207,000)	366,210
Surplus - Beginning of Period	13,230,000	13,371,000	13,578,000	13,211,686
Less: Prior period adjustment	0	0	0	0
Surplus - End of Period	12,970,000	13,230,000	13,371,000	13,577,896

Notes:

* Assumes 6.5% rate increase on renewal on July 1st, 2015 (equal to expected trend in claim severity)

** Future years projected based on current reinsurance structure

CANADIAN LAWYERS' LIABILITY ASSURANCE SOCIETY
 PROFORMA ALBERTA MAINTENANCE OF RESERVE AND GUARANTEE FUNDS REQUIREMENT
 (All amounts in \$'000s)

	As at December 31, 2017 PROJECTED	As at December 31, 2016 PROJECTED	As at December 31, 2015 PROJECTED	As at December 31, 2014 ACTUAL
Reserve Fund				
(1) Premiums collected or credited having one year or less to run	15,800	14,840	13,930	13,080
(2) Less: Amount paid to licensed reinsurers	12,780	12,000	11,270	10,471
(3) Premiums collected with more than one year to run, less expired portion	0	0	0	0
(4) Less: Amount paid to reinsurers on premiums on line 3, less expired portion	0	0	0	0
(5) Subtotal [(1) - (2) + (3) - (4)]	3,020	2,840	2,660	2,609
(6) Reserve Fund Required [50% x (5)]	1,510	1,420	1,330	1,305
Guarantee Fund				
(7) Total Liabilities	101,360	95,540	90,000	84,993
(8) Less: Unearned Premiums	7,710	7,240	6,800	6,382
(9) Less: Recoverable from licensed reinsurers	80,997	76,670	72,472	68,446
(10) Plus: Statutory Margin	50	50	50	50
(11) Guarantee Fund Required [(7) - (8) - (9) + (10)]	12,703	11,680	10,778	10,215
(12) Total Reserve and Guarantee Fund Required [(6) + (11)]	14,213	13,100	12,108	11,520
(13) Cash & Approved Securities	20,345	19,895	19,446	19,539
(14) Excess of Cash & Securities over Reserve & Guarantee Fund [(13) - (12)]	6,132	6,795	7,338	8,020

**CANADIAN LAWYERS' LIABILITY ASSURANCE SOCIETY
PROFORMA MINIMUM CAPITAL TEST**
MINIMUM CAPITAL TEST (per P&C-1)

(All amounts in \$'000s)

	As at <u>12.31.2017</u> PROJECTED	As at <u>12.31.2016</u> PROJECTED	As at <u>12.31.2015</u> PROJECTED	As at <u>12.31.2014</u> 2015 MCT		As at <u>12.31.2014</u> ACTUAL
Capital Available					Capital Available	
Total Equity less Accumulated Other Comprehensive Income	12,970	13,230	13,371	13,578	Total Equity less Accumulated Other Comprehensive Income	13,578
Add:					Add:	
Subordinated Indebtedness and Redeemable Preferred Shares	0	0	0	0	Subordinated Indebtedness and Redeemable Preferred Shares	0
Accumulated Other Comprehensive Income (Loss) on:					Accumulated Other Comprehensive Income (Loss) on:	
Available for Sale Equity Securities	0	0	0	0	Available for Sale Equity Securities	0
Available for Sale Debt Securities	75	75	75	75	Available for Sale Debt Securities	75
Foreign Currency (Net of Hedging Activities)	0	0	0	0	Foreign Currency (Net of Hedging Activities)	0
Share of Other Comprehensive Income of non-qualifying Subsidiaries,					Share of Other Comprehensive Income of non-qualifying Subsidiaries,	
Associates and Joint Ventures	0	0	0	0	Associates and Joint Ventures	0
Remeasurements of Defined Benefit Plans	0	0	0	0	Remeasurements of Defined Benefit Plans	0
Revaluation Losses in Excess of Gains on Own Use Properties	0	0	0	0	Revaluation Losses in Excess of Gains on Own Use Properties	0
Less:					Less:	
Accumulated net after-tax fair value gains (losses) arising from					Accumulated net after-tax fair value gains (losses) arising from	
changes in the company's own credit risk	0	0	0	0	changes in the company's own credit risk	0
Unrealized Fair Value Gains (Losses) from Own Use					Unrealized Fair Value Gains (Losses) from Own Use	
Properties at Conversion	0	0	0	0	Properties at Conversion	0
Shadow Accounting Impact	0	0	0	0	Shadow Accounting Impact	0
Assets with a Capital Requirement of 100% *	678	642	607	573	Assets with a Capital Requirement of 100% *	573
(1) Total Capital Available	12,367	12,663	12,839	13,080 (1)	Total Capital Available	13,080
Minimum Capital Required					Minimum Capital Required	
Insurance Risk:					Balance Sheet Assets	788
Premium liabilities	272	256	239	225	Unearned Premiums/Unpaid Claims/Premium Deficiencies	2,651
Unpaid claims	1,085	944	826	707	Catastrophes	0
Catastrophes	0	0	0	0	Reinsurance Ceded to Unregistered Insurers *	57
Margin required for reinsurance ceded to unregistered insurers	102	96	90	85	Interest Rate Risk	121
Subtotal: Insurance risk margin	1,459	1,296	1,156	1,017	Capital Required reported by Regulated FI Subsidiaries	0
Market Risk:					Structured Settlements, Letters of Credit, Derivatives and Other Exposures	164
Interest rate risk	251	237	225	203		
Foreign exchange risk	0	0	0	0		
Equity risk	0	0	0	0		
Real estate risk	0	0	0	0		
Other market risk exposures	0	0	0	0		
Subtotal: Market risk margin	251	237	225	203		
Credit Risk:						
Counterparty default risk for balance sheet assets	1,215	1,149	1,086	1,025		
Counterparty default risk for off-balance sheet exposures	0	0	0	0		
Counterparty default risk for unregistered reinsurance collateral and SIFs	204	198	192	173		
Subtotal: Credit risk margin	1,418	1,347	1,277	1,198		
Operational risk margin	938	864	798	725		
Less: Diversification credit	417	382	350	315		
Total Capital (Margin) Required at Target	3,649	3,362	3,106	2,828		
Minimum Capital (Margin) Required	2,433	2,241	2,071	1,885		
Phase-in of Capital (Margin) Required	0	632	1,264	0		
Total Minimum Capital (Margin) Required	2,433	2,873	3,335	1,885		
(2) Minimum Capital Required	2,433	2,873	3,335	1,885 (2)	Minimum Capital Required	3,781
(3) Excess of Capital Available over Capital Required [(1) - (2)]	9,934	9,790	9,505	11,195 (3)	Excess of Capital Available over Capital Required [(1) - (2)]	9,299
(4) Minimum Capital Test Ratio [(1) / (2)]	508.3%	440.8%	385.0%	693.8% (4)	Minimum Capital Test Ratio [(1) / (2)]	346.0%

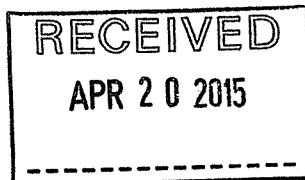
Notes:

* Assumes similar level of shortfall in vested assets held in trust

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

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E-MAIL: INFO@MLSINVEST.COM

April 16, 2015



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 March 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.

Domestic bond prices moved erratically lower until early February and settled into a sideways trading range for the balance of the period. As a result, the Long Term Investment Fund recorded a capital increase of just over \$90,000.

Activity during the quarter centred on the roll-over of maturities in the Short Term Investment Fund, and the addition of \$3.5 million at the end of the period was invested in a Canada Treasury Bill and Banker's Acceptance. In the Long Term Investment Fund a new Canada guaranteed issue was added to the list, together with a new medium term corporate bond.

Turning to regulatory matters, to ensure the Know Your Client (KYC) form that we have on file is current, we have enclosed a copy (note the signature page is not included) and would kindly ask you to review this and let us know if there have been any changes in the KYC information.

Please do not hesitate to call if you have any questions or comments.

With best regards,

Yours sincerely,

A handwritten signature in cursive script, appearing to read "Andrew Bell".

RWB/mab
Enclosures

CLLAS
CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

INVESTMENT REPORT
MARCH 31, 2015

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 MARCH 31, 2015

Review of Market Yields

After holding steady early in the quarter, money market yields shifted sharply lower late in January following an unexpected rate cut by the Bank of Canada. Meanwhile, bond yields moved erratically lower until early February and settled into a sideways trading range for the balance of the period. Over the quarter, Treasury Bill yields declined 36 basis points, 5-year issues dropped 57 basis points and 10-year issues fell back 43 basis points.

As a result of these shifts, the yield curve moved down and flattened slightly with the yield advantage of 10-year issues over Treasury Bills decreasing from 88 basis points at year-end to 81 basis points at the end of March.

	Jan. 1/95	Sep. 30/14	Dec. 31/14	Mar. 31/15
3-Month Treasury Bills	6.80%	0.92%	0.91%	0.55%
5-year Canadas	8.99%	1.63%	1.34%	0.77%
10-year Canadas	9.09%	2.15%	1.79%	1.36%

During the quarter, in the Short Term Investment Fund, activity involved the roll-over of money market securities. Further activity involved the addition of \$3.5 million at the end of the period which was invested in a Canada Treasury Bill and Banker's Acceptance.

In the Long Term Investment Fund a new Canada guaranteed issue was added to the list, together with a new medium term corporate bond.

During the first quarter, the market value of the Long Term Investment Fund holdings increased by \$90,184, or 2.2% on a capital basis.

At March 31, 2015, the average term to maturity of the Long Term Investment Fund stood at 4.4 years.

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

<i>Distribution at March 31, 2015</i>	<i>Valuation</i>	<i>%</i>
Short Term Investment Fund	\$12,068,659	72.4%
Long Term Investment Fund	4,592,134	27.6%
TOTAL COMBINED VALUATION	\$16,660,793	100.0%

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 March 31, 2015
- 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 MARCH 31, 2015

	Since Inception Dec. 17/13	1 Year	Last 3 months
<i>Long Term Investment Fund – Gross of Fees</i>	5.34%	5.95%	2.76%
<i>Long Term Investment Fund – Net of Fees</i>	5.03%	5.64%	2.68%
Benchmark Portfolio **	6.35%	6.44%	2.86%

** 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 MARCH 31, 2015

	Since Inception Oct. 1/08 *	Three Years*	Two Years *	One Year	Last 3 Months
<i>Short Term Investment Fund – Gross of Fees</i>	0.83%	0.90%	0.90%	0.87%	0.18%
<i>Short Term Investment Fund – Net of Fees</i>	0.71%	0.78%	0.79%	0.77%	0.15%
Benchmark Portfolio **	0.80%	0.92%	0.92%	0.89%	0.20%

* 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	Jun. 30/14	Sep. 30/14	Dec. 31/14	Mar. 31/15
Bonds, Treasury Bills & Cash Less than 1 year term	100.0%	0.0%	0.0%	0.0%	0.0%
Canadas Greater than 1 year term		21.2%	21.2%	25.2%	27.2%
Provincials Greater than 1 year term		39.9%	39.9%	37.9%	34.0%
Corporates Greater than 1 year term		38.9%	38.9%	36.9%	38.8%
TOTAL PORTFOLIO	100.0%	100.0%	100.0%	100.0%	100.0%

LONG TERM INVESTMENT FUND**DISTRIBUTION OF SECURITIES BY MATURITY**
(Based on Market Values)

	Mar. 31/14	Sep. 30/14	Dec. 31/14	Mar. 31/15
Under 1 year	19.5%	0.0%	0.0%	0.0%
1 - 3 years	21.2%	35.4%	33.4%	34.0%
3 - 5 years	35.1%	33.2%	31.6%	23.8%
5 - 7 years	5.4%	13.6%	19.5%	23.4%
7 - 10 years	18.8%	17.8%	15.5%	18.8%
TOTAL	100.0%	100.0%	100.0%	100.0%
Average Maturity (yrs)	3.65	4.39	4.35	4.39
Average Duration	3.37	4.05	4.02	4.07

SHORT TERM INVESTMENT FUND

	Mar. 31/14	Sep. 30/14	Dec. 31/14	Mar. 31/15
Short Term Average Duration	0.13	.11	.09	.11

CLLAS

COMPLIANCE WITH INVESTMENT POLICY STATEMENT

AT MARCH 31, 2015

	Investment Limits	Investment Funds	Compliance
<i>Short Term Investment Fund</i>			
Maximum Term of Any Issue	1 year	0.2 years	Yes
Minimum Percentage of Total Fund (Short & Long)	40% of Total	72.4%	Yes
Minimum Canada & Provincial Percentage	50%	55.1%	Yes
Minimum Provincial Quality	A	N/A	Yes
Minimum Bank CD & BA Quality	R1	R1	Yes
<i>Long Term Investment Fund</i>			
Maximum Term of Any Issue	10 years	8.5 years	Yes
Maximum Percentage of Total Fund (Short & Long)	60% of Total	27.6%	Yes
Minimum Canada Percentage	20%	27.2%	Yes
Maximum Provincial Percentage	40%	34.0%	Yes
Minimum Canada & Provincial Percentage	60%	61.2%	Yes
Minimum Provincial Quality *	A	AA (low)	Yes
Maximum Corporate Percentage	40%	38.8%	Yes
Minimum Corporate Quality *	A	AA	Yes

* At time of purchase

This will confirm that during the first 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

From 12-31-14 to 03-31-15

Portfolio Value on 12-31-14	4,029,285
Accrued Interest	18,436
Contributions	474,604
Withdrawals	-19,817
Realized Gains	0
Unrealized Gains	90,184
Interest	17,878
Dividends	0
Change in Accrued Interest	3,579
Portfolio Value on 03-31-15	4,592,134
Accrued Interest	22,014
Average Capital	4,065,703
Total Gain before Fees	111,641
IRR for 0.25 Years	2.75%

CLLAS

BOND MARKET COMMENTARY AND FUTURE POLICY

Similar to the first quarter of last year, the North American economic expansion has stumbled during the first three months of 2015. After showing good momentum during the second half of 2014, both Canada and the U.S. have been mostly underperforming expectations since the start of the New Year. While this has been partly attributed to another harsh winter, a variety of other factors have also been weighing on growth.

In Canada, the primary drag has come from the precipitous drop in energy prices. As expected, the negative impact has been concentrated in the domestic oil patch, where the downturn has caused overall manufacturing and construction activity to contract. Furthermore, there has been some spillover into the retail and wholesale sectors, which have not yet received much of an offsetting lift from the decrease in energy costs or the weaker dollar. As a result, Canada's economy contracted slightly in January and the Bank of Canada now expects zero growth for the first quarter, down from its January forecast of a 1.5% gain.

Expectations for U.S. aggregate growth in the first quarter have also been trimmed. While the drop in oil prices was broadly expected to provide an overall boost south of the border, the impact to date has been mixed. Consumer spending data has been generally disappointing, as a rise in the savings rate has blunted the positive impact of lower energy costs. Meanwhile, the strong U.S. dollar has weighed on the export sector, which has slowed manufacturing activity. While growth in the labour market had been a bright spot earlier this year, the latest employment report fell noticeably below expectations. This has fuelled concerns that weakness in the factory and energy sectors may now be spilling over into the broader economy. As a result, first quarter growth is now expected to be well below the 2.2% increase in the previous quarter.

Outside of North America, results for the major economies have also been lacklustre since the start of the year. China's growth rate slowed further in the first quarter to 7%, following an increase of 7.4% in 2014, which marked the weakest annual advance since 1990. In response to the slowdown, policy makers have adopted new stimulative policies and indicated that additional interest rate and quantitative measures may be enacted in order to meet the government's GDP growth target of 7% this year. Elsewhere in the region, Japan emerged from recession during the final quarter of last year, although the rebound thus far has been slower than expected. Looking ahead, the impact of lower oil prices, a more competitive exchange rate and a continuation of monetary stimulus are expected to boost Japan's growth rate going forward. These same trends are expected to benefit the euro-zone, which also moved out of recession last year. While the pace of economic activity in Europe continues to lag well behind North America, deflationary pressures have eased and there are preliminary signs that a fragile recovery is beginning to gain traction, based on the latest manufacturing and service sector data.

Mixed trends in the global economy, coupled with the adoption of increasingly stimulative policies by the major offshore central banks, have fuelled considerable volatility in the currency and financial markets. During the first quarter, officials in Japan, China and Europe have introduced a series of monetary measures which have pushed already depressed bond yields even lower and weakened their currencies.

CLLAS

Meanwhile, Canadian and U.S. bond yields have also moved lower. Part of the decline has been fuelled by disappointing economic news, geopolitical flare-ups that encouraged a risk-off trade into bonds, dovish guidance by the monetary authorities and lower inflation expectations in the wake of the drop in energy prices. Rising offshore demand has also contributed to the drop in U.S. and domestic yields. During the quarter, the European Central Bank launched its quantitative easing program, which has helped push yields in the euro-zone to record lows, and in some cases sovereign yields have moved into negative territory for some issuers out to ten years. As a result, global investors have been drawn to North American bonds to capitalize on their sizeable relative yield advantage, and in the case of Treasury issues, the ongoing strength of the U.S. dollar.

Over the near term, the above factors are expected to remain supportive of bond prices, although we expect volatility will likely increase due to the uncertainty surrounding the future course of Canadian and U.S. monetary policy. In the U.S., the Fed has stated that future changes in policy will be data-dependent. As a result, the sensitivity of bond prices to economic indicators will likely increase as market participants parse each release for clues on the timing of a policy shift. There is also uncertainty surrounding the path of Canadian monetary policy, as the Bank and the markets weigh the ongoing impact of the oil shock and whether another cut in the bank rate later this year will be necessary. Considering the probabilities, we expect monetary policy will remain supportive of the bond market for some time yet. While the Fed is expected to raise interest rates later this year for the first time since 2006, the Fed recently lowered their economic projections and their communications suggest that the first increase will be delayed until September or even later. In Canada, it seems likely the authorities will be even less aggressive and the Bank of Canada is expected to lag well behind the normalization of administered rates once the process starts south of the border.

Looking further ahead, much of the recent decline in yields coincided with disappointing first-quarter economic data. However, temporary factors accounted for much of the weakness and U.S. economic fundamentals, by most measures, remain solid. The ongoing improvement in the labour market and lower oil prices will fuel disposable income growth. These factors, along with rising confidence, point to a recovery in growth in the second half of this year. Furthermore, early signs of recovery in Europe and Japan bode well for a pickup in global growth as the year progresses. This will have a positive spillover effect on Canada, which endured the frontloaded costs associated with the drop in energy revenues and investment, while the benefits of lower energy costs to consumers and a lower dollar for manufacturers will come later. With prevailing domestic yields near their historic lows, we expect better economic data later this year, particularly out of the U.S., will put modest upward pressure on domestic yields. As a result, we believe the Long Term Investment Fund's laddered maturity structure and somewhat defensive duration of 4.1 years is appropriate and expect there will be more favourable opportunities ahead to expand the Long Term Fund.

RWB/mab
April, 16, 2015

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

Portfolio Holdings at March 31, 2015

<u>Quantity</u>	<u>Security</u>	<u>Unit Cost</u>	<u>Price</u>	<u>Market Value</u>	<u>Annual Income</u>
CASH					
	Cash Account			11,994	0
MONEY MARKET ISSUES					
1,765,000	Canada Treasury Bill .41% due April 9, 2015	99.94	99.99	1,764,760	7,232
1,525,000	Bank of Nova Scotia BA .78% due April 27, 2015	99.81	99.93	1,523,975	11,873
1,030,000	Toronto Dominion Bank BA .76% due April 29, 2015	99.82	99.93	1,029,257	7,793
1,750,000	Royal Bank BA .72% due April 30, 2015	99.94	99.93	1,748,793	12,575
1,635,000	Canada Treasury Bill .39% due May 7, 2015	99.93	99.95	1,634,138	6,355
1,510,000	Canada Treasury Bill .48% due May 21, 2015	99.91	99.93	1,508,893	7,241
1,750,000	Canada Treasury Bill .43% due June 4, 2015	99.92	99.91	1,748,364	7,519
1,100,000	CIBC BA .73% due June 8, 2015	99.86	99.86	1,098,484	8,008
				<u>12,056,665</u>	<u>68,597</u>
TOTAL PORTFOLIO				12,068,659	68,597

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
From 01-01-15 To 03-31-15

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
PURCHASES					
01-02-15	01-05-15	1,030,000	Royal Bank BA 1.08% due January 30, 2015	99.93	1,029,238.83
01-14-15	01-15-15	1,500,000	Canada Treasury Bill .77% due March 12, 2015	99.88	1,498,230.00
01-27-15	01-28-15	1,575,000	CIBC BA .78% due March 31, 2015	99.87	1,572,916.27
01-29-15	01-30-15	1,525,000	Bank of Nova Scotia BA .78% due April 27, 2015	99.81	1,522,169.60
01-30-15	02-02-15	1,030,000	Toronto Dominion Bank BA .76% due April 29, 2015	99.82	1,028,163.51
02-11-15	02-12-15	1,765,000	Canada Treasury Bill .41% due April 9, 2015	99.94	1,763,889.82
02-25-15	02-26-15	1,635,000	Canada Treasury Bill .39% due May 7, 2015	99.93	1,633,778.65
03-12-15	03-13-15	1,510,000	Canada Treasury Bill .48% due May 21, 2015	99.91	1,508,630.43
03-27-15	03-30-15	1,750,000	Canada Treasury Bill .43% due June 4, 2015	99.92	1,748,640.25
03-27-15	03-30-15	1,750,000	Royal Bank BA .72% due April 30, 2015	99.94	1,748,930.75
03-30-15	03-31-15	1,100,000	CIBC BA .73% due June 8, 2015	99.86	1,098,484.20
					16,153,072.31
SALES					
01-05-15	01-05-15	1,030,000	Toronto Dominion Bank BA 1.03% due January 5, 2015	100.00	1,030,000.00
01-15-15	01-15-15	1,500,000	Canada Treasury Bill .77% due January 15, 2015	100.00	1,500,000.00
01-28-15	01-28-15	1,570,000	CIBC BA 1.05% due January 28, 2015	100.00	1,570,000.00
01-30-15	01-30-15	1,525,000	Bank of Nova Scotia BA 1.052% due January 30, 2015	100.00	1,525,000.00
01-30-15	01-30-15	1,030,000	Royal Bank BA 1.08% due January 30, 2015	100.00	1,030,000.00
02-12-15	02-12-15	1,760,000	Canada Treasury Bill .76% due February 12, 2015	100.00	1,760,000.00
02-26-15	02-26-15	1,630,000	Canada Treasury Bill .78% due February 26, 2015	100.00	1,630,000.00
03-12-15	03-12-15	1,500,000	Canada Treasury Bill .77% due March 12, 2015	100.00	1,500,000.00

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
From 01-01-15 To 03-31-15

<u>Trade Date</u>	<u>Settle Date</u>	<u>Quantity</u>	<u>Security</u>	<u>Unit Price</u>	<u>Amount</u>
03-31-15	03-31-15	1,575,000	CIBC BA .78% due March 31, 2015	100.00	1,575,000.00
					13,120,000.00

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Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - SHORT TERM INVESTMENT FUND
From 01-01-15 to 03-31-15

Cash Balance at January 1, 2015			9,205.17
ADD:	Capital Added	3,500,000.00	
	Proceeds from Sales	13,120,000.00	
	Bond Interest Credited (from Long Term Investment Fund)	19,817.00	
	Bank Interest Credited	<u>155.36</u>	<u>16,639,972.36</u>
			16,649,177.53
LESS:	Cost of Purchases	16,153,072.31	
	Transfer to Long Term Investment Fund	474,604.27	
	Investment Counsel Fees - Short Term Investment Fund	2,547.13	
	Investment Counsel Fees - Long Term Investment Fund	2,845.68	
	Trust Company Charges	<u>4,113.97</u>	<u>16,637,183.36</u>
Cash Balance at March 31, 2015			11,994.17

Martin, Lucas & Seagram Ltd.

EXTERNAL INDIVIDUAL CREDIT RATING REPORT - MARCH 31, 2015

CLLAS - SHORT TERM INVESTMENT FUND[illegible]

CLLAS - LONG TERM INVESTMENT FUND

Portfolio Holdings at March 31, 2015

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
GOVERNMENT BONDS					
300,000	Canada Housing Trust 1.85% Series 43 due December 15, 2016	101.30	102.00	305,997	5,550
250,000	Canada Housing Trust 1.75% due June 15, 2018	100.11	102.87	257,173	4,375
250,000	Canada Housing Trust 1.95% due June 15, 2019	100.10	104.01	260,033	4,875
200,000	Canada Housing Trust 2.4% Series 48 due December 15, 2022	100.37	106.54	213,076	4,800
200,000	Canada Housing Trust 2.35% due September 15, 2023	105.62	105.87	211,746	4,700
				<hr/> 1,248,024	<hr/> 24,300
PROVINCIAL BONDS					
300,000	Alberta 1.85% due September 1, 2016	101.35	101.72	305,145	5,550
330,000	Ontario 1.90% due September 8, 2017	100.18	102.54	338,389	6,270
350,000	Ontario 2.1% due September 8, 2018	99.57	103.80	363,311	7,350
250,000	British Columbia 3.25% due December 18, 2021	102.30	111.37	278,433	8,125
250,000	Ontario 3.15% due June 2, 2022	99.04	110.00	275,003	7,875
				<hr/> 1,560,279	<hr/> 35,170
CORPORATE BONDS					
200,000	Bank of Nova Scotia Dep. Note 2.1% due November 8, 2016	100.32	101.43	202,856	4,200
200,000	Toronto Dominion Bank Dep. Note 2.433% due August 15, 2017	100.73	102.67	205,336	4,866
200,000	Royal Bank Dep. Note 2.26% due March 12, 2018	99.28	102.64	205,276	4,520
200,000	Wells Fargo Canada 2.944% due July 25, 2019	100.02	105.69	211,384	5,888
300,000	Bank of Montreal 2.84% due June 4, 2020	101.77	105.72	317,169	8,520
250,000	Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	104.57	104.23	260,570	6,408
200,000	Bank of Montreal 3.4% due April 23, 2021	100.65	109.28	218,568	6,800
150,000	Wells Fargo 3.46% due January 24, 2023	102.36	108.45	162,672	5,190
				<hr/> 1,783,831	<hr/> 46,392

Martin, Lucas & Seagram Ltd.

CLLAS - LONG TERM INVESTMENT FUND

Portfolio Holdings at March 31, 2015

<u>Quantity</u>	<u>Security</u>	<u>Unit Cost</u>	<u>Price</u>	<u>Market Value</u>	<u>Annual Income</u>
TOTAL PORTFOLIO				4,592,134	105,862

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - LONG TERM INVESTMENT FUND
From 01-01-15 To 03-31-15

<u>Trade Date</u>	<u>Settle Date</u>	<u>Quantity</u>	<u>Security</u>	<u>Unit Price</u>	<u>Amount</u>
PURCHASES					
03-27-15	04-01-15	200,000	Canada Housing Trust 2.35% due September 15, 2023	105.62	211,240.00
03-27-15	04-01-15	250,000	Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	104.57	261,425.00
					472,665.00

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Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - LONG TERM INVESTMENT FUND
From 01-01-15 to 03-31-15

Cash Balance at January 1, 2015			0.00
ADD: Transfer from Short Term Investment Fund			<u>474,604.27</u>
			474,604.27
LESS: Cost of Purchases	472,665.00		
Accrued Bond Interest on Purchases	<u>1,939.27</u>	<u>474,604.27</u>	
Cash Balance at March 31, 2015			0.00

DATE TO DATE GAINS AND LOSSES
CLLAS - LONG TERM INVESTMENT FUND

Security	12-31-14 Market Value	Additions Withdrawals	03-31-15 Market Value	03-31-15 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
CASH								
Cash Account	0	0	0	0				
GOVERNMENT BONDS								
Canada Housing Trust 1.85% Series 43 due December 15, 2016	304,044	0	305,997	303,900	0	0	2,097	1,953
Canada Housing Trust 1.75% due June 15, 2018	252,715	0	257,173	250,275	0	0	6,898	4,458
Canada Housing Trust 1.95% due June 15, 2019	253,980	0	260,033	250,238	0	0	9,795	6,053
Canada Housing Trust 2.4% Series 48 due December 15, 2022	204,518	0	213,076	200,740	0	0	12,336	8,558
Canada Housing Trust 2.35% due September 15, 2023	0	211,459	211,746	211,240	0	0	506	506
GOVERNMENT BONDS Total	1,015,257		1,248,024	1,216,393	0	0	31,632	21,527
PROVINCIAL BONDS								
Alberta 1.85% due September 1, 2016	303,732	-2,775	305,145	304,050	0	0	1,095	1,413
Ontario 1.90% due September 8, 2017	334,528	-3,135	338,389	330,594	0	0	7,795	3,861
Ontario 2.1% due September 8, 2018	356,944	-3,675	363,311	348,495	0	0	14,816	6,367
British Columbia 3.25% due December 18, 2021	268,703	0	278,433	255,750	0	0	22,683	9,730
Ontario 3.15% due June 2, 2022	264,305	0	275,003	247,600	0	0	27,403	10,698
PROVINCIAL BONDS Total	1,528,211		1,560,279	1,486,489	0	0	73,790	32,068
CORPORATE BONDS								
Bank of Nova Scotia Dep. Note 2.1% due November 8, 2016	201,344	0	202,856	200,640	0	0	2,216	1,512
Toronto Dominion Bank Dep. Note 2.433% due August 15, 2017	202,984	-2,433	205,336	201,460	0	0	3,876	2,352
Royal Bank Dep. Note 2.26% due March 12, 2018	201,774	-2,260	205,276	198,560	0	0	6,716	3,502
Wells Fargo Canada 2.944% due July 25, 2019	205,794	-2,944	211,384	200,040	0	0	11,344	5,590
Bank of Montreal 2.84% due June 4, 2020	308,142	0	317,169	305,307	0	0	11,862	9,027
Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	0	263,145	260,570	261,425	0	0	-855	-855
Bank of Montreal 3.4% due April 23, 2021	210,604	0	218,568	201,300	0	0	17,268	7,964
Wells Fargo 3.46% due January 24, 2023	155,175	-2,595	162,672	153,542	0	0	9,131	7,497
CORPORATE BONDS Total	1,485,817		1,783,831	1,722,274	0	0	61,558	36,589
TOTAL PORTFOLIO	4,029,285		4,592,134	4,425,155	0	0	166,979	90,184
TOTAL DATE TO DATE GAIN OR LOSS								90,184
% CHANGE DURING PERIOD								2.24

Martin, Lucas & Seagram Ltd.

EXTERNAL INDIVIDUAL CREDIT RATING REPORT - MARCH 31, 2015

CLLAS - LONG TERM INVESTMENT FUND

Quantity	Security			Rating	Unit Cost	Total Cost	Price	Market Value	Pct. Assets
GOVERNMENT BONDS									
300,000	Canada Housing Trust 1.85% Series 43	due December 15, 2016		AAA	101.30	303,900	102.00	305,997	6.7
250,000	Canada Housing Trust 1.75%	due June 15, 2018		AAA	100.11	250,275	102.87	257,173	5.6
250,000	Canada Housing Trust 1.95%	due June 15, 2019		AAA	100.10	250,238	104.01	260,033	5.7
200,000	Canada Housing Trust 2.4% Series 48	due December 15, 2022		AAA	100.37	200,740	106.54	213,076	4.6
200,000	Canada Housing Trust 2.35%	due September 15, 2023		AAA	105.62	211,240	105.87	211,746	4.6
						1,216,393		1,248,024	27.2
PROVINCIAL BONDS									
300,000	Alberta 1.85%	due September 1, 2016		AAA	101.35	304,050	101.72	305,145	6.6
330,000	Ontario 1.90%	due September 8, 2017		AA (low)	100.18	330,594	102.54	338,389	7.4
350,000	Ontario 2.1%	due September 8, 2018		AA (low)	99.57	348,495	103.80	363,311	7.9
250,000	British Columbia 3.25%	due December 18, 2021		AA (high)	102.30	255,750	111.37	278,433	6.1
250,000	Ontario 3.15%	due June 2, 2022		AA (low)	99.04	247,600	110.00	275,003	6
						1,486,489		1,560,279	34.0
CORPORATE BONDS									
200,000	Bank of Nova Scotia Dep. Note 2.1%	due November 8, 2016		AA	100.32	200,640	101.43	202,856	4.4
200,000	Toronto Dominion Bank Dep. Note 2.433%	due August 15, 2017		AA	100.73	201,460	102.67	205,336	4.5
200,000	Royal Bank Dep. Note 2.26%	due March 12, 2018		AA	99.28	198,560	102.64	205,276	4.5
200,000	Wells Fargo Canada 2.944%	due July 25, 2019		AA	100.02	200,040	105.69	211,384	4.6
300,000	Bank of Montreal 2.84%	due June 4, 2020		AA	101.77	305,307	105.72	317,169	6.9
250,000	Toronto Dominion Bank Dep. Note 2.563%	due June 24, 2020		AA	104.57	261,425	104.23	260,570	5.7
200,000	Bank of Montreal 3.4%	due April 23, 2021		AA	100.65	201,300	109.28	218,568	4.8
150,000	Wells Fargo 3.46%	due January 24, 2023		AA	102.36	153,542	108.45	162,672	3.5
						1,722,274		1,783,831	38.8
TOTAL PORTFOLIO						4,425,155		4,592,134	100