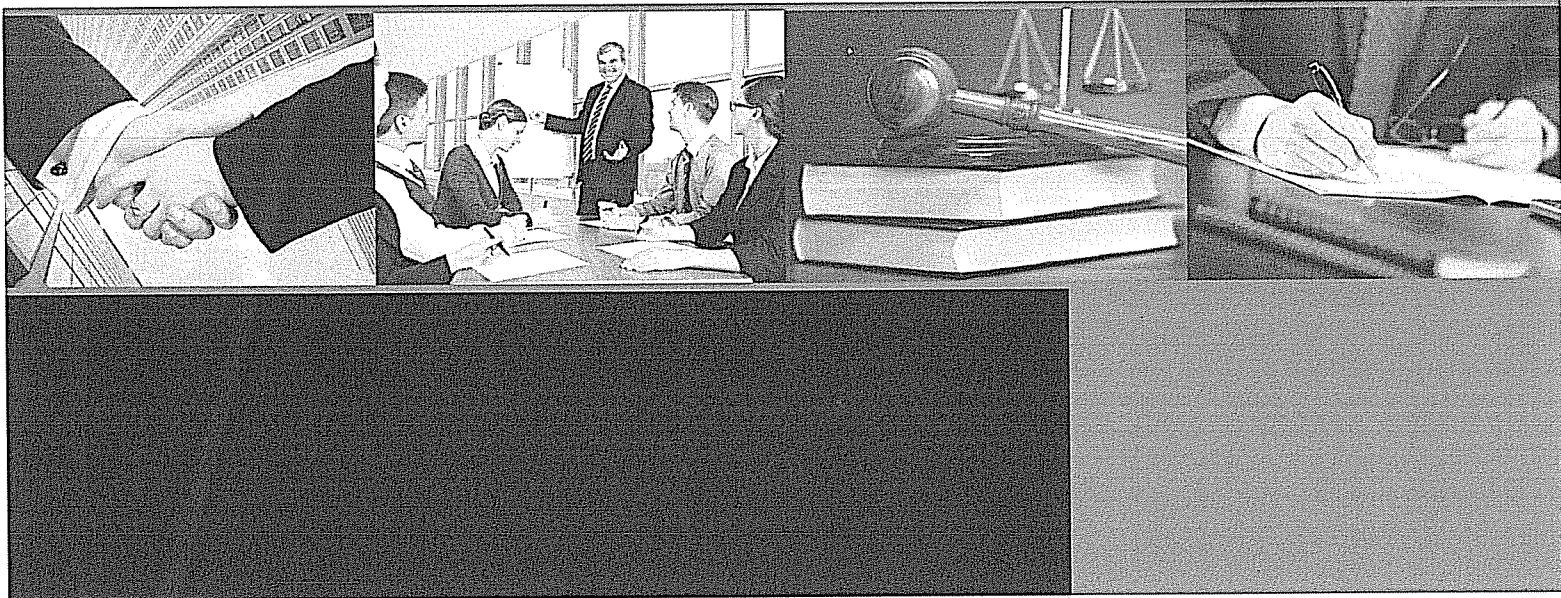
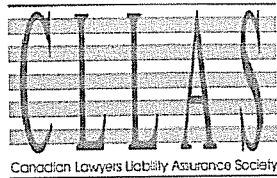


2014 Renewal Submission

Prepared For:

Canadian Lawyers Liability Assurance Society



Presented By:

Robert S. Wilson
Executive Managing Director
Pro-Form Sinclair Professional

Tel: 905-305-1054
Fax: 905-305-1093
Email: robert.wilson@hubinternational.com



TABLE OF CONTENTS

SECTION 1	Introduction
SECTION 2	Policy Wordings
SECTION 3	Renewal Quotations
SECTION 4	Rate Comparison & Review
SECTION 5	Competition
SECTION 6	Insurer Financial Ratings
SECTION 7	Final Renewal Process

INTRODUCTION

I am pleased to advise you that, as a group, you did meet the claims criteria to allow the further extension of the excess program and rate guarantee; we did advise all of the Insurers that the rate will not change and that you would take advantage of the guaranteed rate for July 1, 2014.

In addition, the Insurers have agreed to a further rate guarantee for the group as long as the claims criteria is met again in 2014, if so the rate guarantee will continue for the renewal on July 1, 2015.

I am however, very pleased to confirm that we were able to negotiate a further 5% reduction in the excess rates for the July 1, 2014 renewal despite the fact that we did have the rate guarantee in place. These new rates are reflected in this submission in the renewal quotations.

We have done a comparison to other insurance programs negotiated in our office this year and I believe this layer continues to be very competitively priced for \$110,000,000 in coverage. The list of participating Insurers has slightly changed in that ACE INA Insurance Company, who participated in two layers, has agreed to transfer their current Professional Liability business to ENCON effective July 1, 2014 as part of an overall corporate strategy going forward. ACE will still continue to support and re-insure ENCON; however, Encon will in fact be the Named Insurer on the program in two separate layers.

The CLLAS International program rates will renew as per expiry for most firms. We did have some further deterioration in the claims experience and this will affect one of the participating firms (they are aware of this). In addition, the participating Insurers will remain the same for July 1, 2014 as noted in the presentation.

I am extremely pleased that we were able to continue the rate guarantee for the CLLAS group and as far as we know there are still no other multi-year policies in place for large law firms at this time. We believe Insurers are willing to provide this guarantee primarily because they continue to be very pleased with the results of the group.

As I indicated to you, we did see some softening of the rating on the primary \$50M programs excess of Law Society and this is mainly driven by additional Insurers attempting to enter the marketplace, in particular the Lloyds market where several Syndicates are competing with each other for the excess business in Canada.

We have provided you with the financial information in this submission regarding the participating Insurers. All of the Insurers remain strong and have AM Best (or equivalent) rating of A or better.

I trust the you will find the renewal program to be satisfactory and I am very pleased with the overall outcome in obtaining a 5% reduction on the excess program as this certainly does show the commitment of the existing Insurers going forward.

It has been a pleasure working with you in the past year and I will look forward to the future.

POLICY WORDINGS

There will be an endorsement attached to the first and second excess wording to address the addition of the Heenan Blaikie lawyers (copies attached)

CLLAS International Wording

No changes to this wording.

Endorsement No.

Heenan Blaikie LLP Lateral Hire Extension Endorsement
(Draft for the excess policies issued through Pro-Form)

In consideration of the premium charged under this policy it is understood and agreed that the coverage afforded under this policy which is also afforded to **Insureds** under Item B of the **Heenan Blaikie LLP Lateral Hire Extension Endorsement** (hereafter referred to as Heenan Blaikie prior acts) issued by CLLAS shall not apply until an aggregate limit of \$50,000,000 under Item B of all similar endorsements on policies issued by CLLAS from the period July 1, 2013 to July 1, 2017 has been exhausted by payment of claims.

This endorsement does not increase the **Sum Insured** stated in Item 8 of the Schedule of this policy and in no event will the aggregate payments of all policies in excess of CLLAS exceed \$90,000,000 for the coverage provided by this endorsement.

Attaching to and forming part of Policy Number _____ by _____.

All other terms, conditions, exclusions and limitations remain unchanged.

This endorsement shall be effective from _____, 12:01 a.m. Local Time at the administrative office of the **Named Insured**.

Per: _____

(First Excess Policy)

Endorsement No.

Heenan Blaikie LLP Lateral Hire Extension Endorsement
(Draft for the excess policies issued through Pro-Form)

In consideration of the premium charged under this policy it is understood and agreed that the coverage afforded under this policy which is also afforded to **Insureds** under Item B of the **Heenan Blaikie LLP Lateral Hire Extension Endorsement** (hereafter referred to as Heenan Blaikie prior acts) issued by CLLAS shall not apply until an aggregate limit of \$50,000,000 under Item B of all similar endorsements on policies issued by CLLAS from the period July 1, 2013 to July 1, 2017 has been exhausted by payment of claims.

This endorsement does not increase the **Limit of Liability** stated in Item 4 of the Declaration of this policy and in no event will the aggregate payments of all policies in excess of CLLAS exceed \$90,000,000 for the coverage provided by this endorsement.

Attaching to and forming part of Policy Number _____ by _____.

All other terms, conditions, exclusions and limitations remain unchanged.

This endorsement shall be effective from _____, 12:01 a.m. Local Time at the administrative office of the **Named Insured**.

Per: _____

(Excess of First Excess Policy)

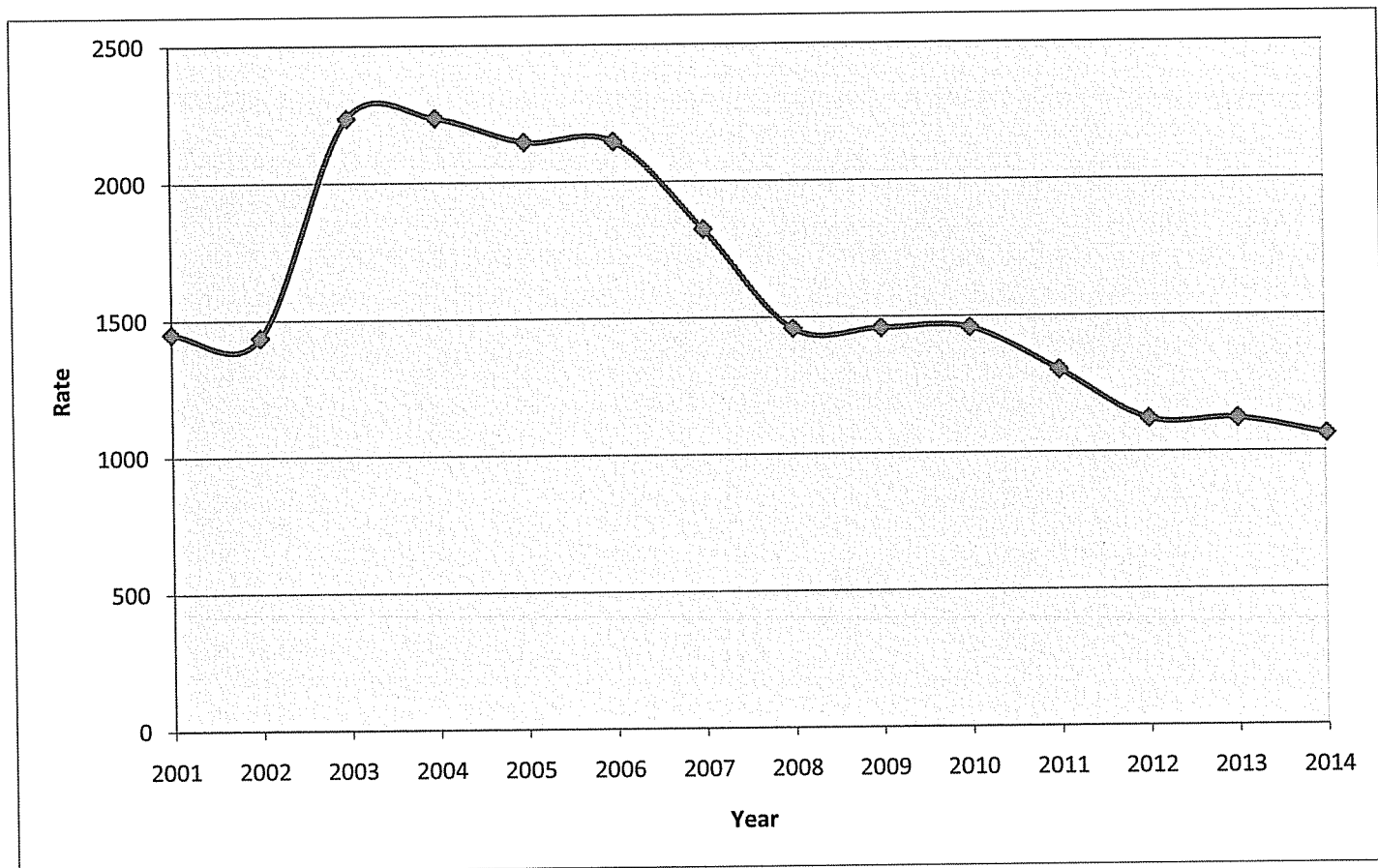
RENEWAL QUOTATIONS

Insurer	Layer	Proposed Renewal
		2014 - 2015
Liberty International Canada (66%)	15,000,000 each claim and aggregate excess of 50,000,000 total underlying limit	231
ENCON (ACE INA Insurance) (34%)		
Travelers Insurance Company of Canada	10,000,000 each claim and aggregate excess of 65,000,000 total underlying limit	109
RSA Insurance Company	5,000,000 each claim and aggregate excess of 75,000,000 total underlying limit	49
Chartis Insurance Company of Canada	15,000,000 each claim and aggregate excess of 80,000,000 total underlying limit	116
Chubb Insurance Company (50%)	20,000,000 each claim and aggregate excess of 95,000,000 total underlying limit	189
Liberty International Canada (25%)		
QBE Insurance Group (25%)		
ENCON (100%)	20,000,000 each claim and aggregate excess of 115,000,000 total underlying limit	185
Travelers Insurance Company of Canada	10,000,000 each claim and aggregate excess of 135,000,000 total underlying limit	84
Northbridge Insurance Company (33%)	15,000,000 each claim and aggregate excess of 145,000,000 total underlying limit	99
RSA Insurance Company (67%)		
		1062
All quotations are subject to the underlying CLLAS coverage being renewed at \$50,000,000		

CLLAS INTERNATIONAL

Insurer	Layer	Proposed Renewal
		2014 - 2015
Lexington Insurance Company (%TBA)	US\$30,000,000 each claim and aggregate	Various
Interstate Fire & Casualty (%TBA)		
CNA (%TBA)		
Huntersure (Scottsdale) (%TBA)		

13-YEAR RATE SUMMARY



COMPETITION

We continue to review the renewal programs for Canadian law firms across the country and the excess programs (excess of \$50,000,000). Generally we have seen some slight rating reductions in 2014 at the primary/first excess levels. The excess pricing has remained stable.

We can confirm to you that it is our opinion that this excess program is currently very competitive in comparison to firms outside of the CLLAS group.

The U.S. market was seeing some hardening but due to additional capacity we now see a stable rate environment.

I do believe that we ultimately approach the entire insurance market between ourselves, AXXIMA and your U.K. broker. If any new capacity does become available, we are aware of it; This year between ourselves, AXXIMA and your U.K. Broker we again did an extensive search of the market and this was done to ensure the CLLAS program remains competitive.

INSURER FINANCIAL RATINGS CLLAS CANADIAN EXCESS PROGRAM

INSURANCE COMPANY		COUNTRY	BEST'S RATING	S&P RATING	CAPITAL & SURPLUS	GROUP AFFILIATION
LIBERTY INTERNATIONAL UNDERWRITERS CANADA, A DIVISION OF LIBERTY MUTUAL INSURANCE COMPANY		U.S.A.	A	A-	630 Million	Liberty Mutual
TRAVELERS GUARANTEE COMPANY OF CANADA		Canada		AA	328 Million	Travelers Companies
AIG INSURANCE COMPANY OF CANADA		Canada	A	A+	1,296 Billion	A.I.G.
CHUBB INSURANCE COMPANY		Canada	A++	AA	784 Million	Chubb Corp
NORTHBRIDGE COMMERCIAL INSURANCE CORP.		Canada	A	A-	173 Million	Fairfax Corp.
ROYAL & SUN ALLIANCE INS CO OF CANADA		Canada	NR	A	763 Million	RSA Ins Group
QBE INSURANCE (INTERNATIONAL) LTD.		U.S.A.	A	A+	1,468 Billion	QBE Ins Group
ENCON GROUP INC. - Participants						Marsh
1.	Continental Casualty Company	U.S.A.	A	A	9,888 Billion	Loews Corp.
2.	XL Reinsurance America Inc.	U.S.A.	A	A+	2,094 Billion	XL Group
3.	Temple Insurance Company	Canada	A+		153 Million	Munich Re
4.	Aviva Insurance Company of Canada	Canada	A	A	920 Million	Aviva PLC

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

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

INSURER FINANCIAL RATINGS CLLAS INTERNATIONAL PROGRAM

INSURANCE COMPANY	COUNTRY	BEST'S RATING	S&P RATING	CAPITAL & SURPLUS US\$	GROUP AFFILIATION
LEXINGTON INSURANCE COMPANY	U.S.A.	A	A+	7,798 Billion	American International Group Inc.
INTERSTATE FIRE & CASUALTY COMPANY	U.S.A.	A	A	156 Million	Allianz of America
CONTINENTAL CASUALTY COMPANY	U.S.A.	A	A-	9,888 Billion	Loews Corp.
SCOTTSDALE INSURANCE COMPANY	U.S.A.	A+	A+	670 Million	Nationwide Mutual Insurance Company

FINAL RENEWAL PROCESS

As in past years we will now proceed to renew the coverage for your firm based on the limits you currently purchase and based on the final headcount provided by you. We understand that you will be providing the final headcounts as soon as possible to AXXIMA who in turn will provide this information to us.

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

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

In addition, those firms who added more than 10 Heenan Blaikie lawyers will receive an additional premium notice shortly.

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

**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 26, 2014

Present:

Nicholas Leblovic
Barry Bresner
Gordon Goodman
Donald Milner (by phone)
Shayna Staniloff
Ken Crofoot
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
McMillan LLP
Torys LLP

Patrick Mahoney
Norma Ibbetson
Joe Tontini

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

Absent:

Bill Scott
David Morritt
Mike Swartz

McCarthy Tétrault LLP
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 11, 2013 Meeting of the Advisory Board

It was moved by Barry Bresner and seconded by Gord Goodman that the minutes of the December 11, 2013 meeting of the Advisory Board be approved. The motion was carried unanimously.

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

There were no items for discussion that will not be addressed through the agenda items.

5. **Comments of the Chair**

Renewal

The Chair reported that work on the July 1, 2014 reinsurance renewal will be starting soon. CLLAS has been advised that the rates are hardening. The Board should not expect the reinsurance rates to move down. Barry Bresner will be attending the meetings in London along with the Chair. The idea of bringing an additional Board member to the renewal negotiations in London was very well received last year.

New Members

No discussions with potential member firms have taken place since the last meeting.

Annual Dinner

The date has been set for April 11, 2014.

Committees 2014

No changes are being made to the Committee composition for 2014, with the exception of the Risk Management Committee where Bill Scott has retired from the Committee and Julia Holland has replaced Mr. Scott as Chair.

Subscriber Agreement

The Chair advised that the Subscribers Agreement was amended as part of the transition to Alberta but that those revisions were not extensive and a comprehensive review of the Agreement, much of which is unchanged from the mid-1980's, is advisable. He proposed that the Policy Committee be involved in the redrafting of the Agreement.

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

Financial Statements Quarter Ending December 31, 2013

CLLAS finished 2013 with a surplus position of \$13.2 million versus \$11.8 million at the end of 2012. The overall gain of \$1.4 million leaves CLLAS with a strong surplus position. He pointed out that the current reinsurance arrangements and the Loss Portfolio Transfer mean that the volatility that is inherent in the claims portfolio is no longer directly reflected in CLLAS' financial statements.

The Board adopted a surplus policy last year, and surplus levels will be reviewed and reported on at the June Board meeting.

Actuarial Report

The actuaries presented the results of their 2013 valuation at the Audit Committee meeting held on February 19, 2014. The Actuary's presentation to the Audit Committee was included in the Board material. Mr. Mahoney highlighted several key elements of presentation. Mr. Mahoney advised that the actuary would be pleased to meet with the full Board at the June Board meeting.

7. Report of the Audit Committee

Gordon Goodman reported on behalf of the Committee. The Committee held a planning meeting in December by teleconference. They met again on February 12, 2014 by conference call to review the Management Financial Statements and the formal Audit Committee meeting with the Actuary and Auditors was on held February 19, 2014. Mr. Goodman commented that the discussion with the Actuary gives the Committee a good overview of the experience in the past year.

An unqualified audit opinion was issued. Copies of the Audit Findings Report and Audited Financial Statements were included in the Board meeting materials.

The Committee will be holding two additional meetings in 2014, one in late April/early May to review the Reinsurance Security schedules in detail (in anticipation of the upcoming reinsurance renewal) and the other at the end of October to review Colchester's financial statements as at June 30th.

It was moved by Ken Crofoot and seconded by Barry Bresner that the Financial Statements at December 31, 2013 be adopted. The motion was carried unanimously.

The P&C1 will be signed in due course.

It was moved by Gordon Goodman and seconded by Barry Bresner that Julie-Linda Laforce of Axxima Inc. be appointed the Actuary for 2014. The motion was carried unanimously.

8. Report of the General Manager's Office continued

2014 Operating Budget

Patrick Mahoney presented the proposed Budget for FY14, and reviewed the operating expenses incurred in 2013 and projected for 2014.

It was moved by Barry Bresner and seconded by Ken Crofoot to approve the FY14 budget as amended. The motion was carried unanimously.

Alberta Regulatory Examination

The Alberta Regulator completed their 2012 examination of CLLAS during the course of 2013, and provided their report on January 17, 2014. The report was provided to the Chair, the CLLAS Audit Committee and CLLAS' auditors on receipt and was included in the Board materials.

There were four main areas of review: legislative compliance; governance; solvency and reporting. There were a number of recommendations under each heading coming out of the examination. A response from CLLAS to the audit report has been requested for March 15, 2014. Mr. Mahoney reviewed a memo to the Board discussing the various recommendations and the Board discussed the appropriate response to the key recommendations. It was noted that some of the recommendations

were out of place in the context of a reciprocal which has a Board comprised of representatives of all subscribers. Mr. Mahoney was asked to work with the Chair and the Chairs of the Audit and Policy Committees to formulate an appropriate response to the various recommendations while keeping in mind whether particular actions are mandated by virtue of legislative requirements applicable to reciprocals.

The regulator has asked for a response to the report by March 15, 2014. Given the scheduled of the key people involved in finalizing CLLAS' response, Mr. Mahoney was asked to seek an extension to early April. He advised that he believed the regulator would grant the request.

As it is expected that the action plan arising from the examination report will lead to changes to CLLAS' Subscribers Agreement, the Board agreed that the redrafting initiative should be led by the Policy Committee.

LawPro Sharing of Information

In 2005, LawPRO, CLLAS and Dion Durrell as CLLAS' General Manager entered into an agreement to facilitate LawPRO providing claims information to CLLAS. In order to allow this arrangement to continue unaffected by the transition of management services from Dion Durrell to Axxima, LawPRO has requested that CLLAS provide them with written notice that it has appointed Axxima as its General Manager and program administrator in place of Dion Durrell.

It was moved by Gord Goodman and seconded by Don Milner that Axxima through its wholly owned subsidiary, 3303128 Canada Inc., be appointed as General Manager and program administrator of CLLAS in place of Dion Durrell effective September 18, 2013. The motion was carried unanimously.

The appropriate communication will be sent on behalf of CLLAS to LawPRO.

Heenan Blaikie Insurance Coverage

A number of CLLAS firms have hired and/or are considering hiring lawyers from the dissolving firm of Heenan Blaikie. Historically, CLLAS has provided coverage for prior acts in the case of a formal merger (where the CLLAS firm conducts due diligence on the firm it is merging with) but not in the case of "lateral hires". Given that a number of CLLAS firms are expected to hire a number of Heenan Blaikie lawyers, CLLAS has reviewed what can be done in the area.

There was some discussion with respect to the applicability of the policy provision requiring notice if 11 or more partners join a CLLAS firm and it was agreed that this provision determined whether CLLAS had the right to assess an additional premium at the applicable time, but had no impact on the decision to cover prior acts and such lateral hire did not automatically constitute a merger for the purpose of the CLLAS policies.

Heenan Blaikie has advised that no decision has been made concerning whether the firm itself will buy Extended Reporting Period (ERP) coverage. The Board concluded that it was best to operate on the assumption that no such coverage will be arranged. If CLLAS is to provide limited prior acts cover for the lawyers joining the CLLAS firms, it is important that CLLAS is able to review Heenan Blaikie's claims experience.

It was agreed that CLLAS would try to get information on claims history and Heenan Blaikie's ERP coverage. The intention would be to approach CLLAS underwriters on a specific named-lawyer basis to cover prior acts (no vicarious liability) for an additional premium to be proposed by CLLAS.

Bob Wilson at ProForm will be advised of the addition of Heenan Blaikie lawyers to various CLLAS firms.

D&O Quote

The Board reviewed the options set out in Joe Tontini's memorandum of February 21, 2014

It was moved by Gordon Goodman and seconded by Ken Crofoot that D&O coverage be arranged through the Encon or the Lloyds facility (after review of the policy terms of each) for limits of \$10 million, naming CLLAS as the entity including coverage for the Board members and their alternates as well as the various Board Committees. The motion was carried unanimously.

The premium for the coverage will be added into the operating budget as a separate line item.

9. Report of the Claims Committee

The newly formatted chart summarizing CLLAS claims was reviewed. The chart now includes the reserve change quarter over quarter as well as the year of the claim.

While 2013 has been relatively quiet in terms of claims payments, the Committee expects that the class action files will become quite active in 2014.

10. Report of the Risk Management Committee

Julia Holland reported on behalf of the Risk Management Committee. Current activity is with respect to the gathering of information with respect to how member firms handle tax opinions.

11. Report of the Policy Committee

There was no report.

12. Report of the Investment Manager

Mr. Mahoney reviewed the quarterly report from the investment manager. This was an information item only.

13. Other Business

Firms continue to see RFP's from prospective clients/current clients containing indemnification clauses. CLLAS firms have traditionally resisted these requests and will continue to do so. There was some discussion around whether all firms are responding to these requests in the same way. It was noted that this issue has been addressed by LawPRO in past PracticePRO alerts. The General Manager's office will follow up with Dan Pinnington at PracticePRO and report back to Julie Holland.

There was no other business.

14. Next Meeting

The next regularly scheduled meeting of the Board will be on June 25, 2014.

There being no further business, the meeting was terminated.

Chairman

Secretary



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

Date: June 13, 2014

To: David Morritt
William Scott
Donald Milner
Gordon Goodman
Ken Crofoot
Nicholas Leblovic

Barry Bresner
Daniel MacDonald
John Esvelt
Julia Holland
Michael Swartz

Copy: Patrick Mahoney

From: Joe Tontini & Ryan Durrell

Re: Report on the CLLAS Reinsurance Renewal Placement for July 1, 2014/2015 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, 2014/2015 and preliminary rates for CLLAS members. A more complete report/presentation will be made at the June 25, 2014 Advisory Board meeting.

CLLAS Renewal Objectives

The CLLAS renewal objectives for the period July 1, 2014/2015 were established as follows:

- Maintain and enhance existing reinsurer relationships;
- Attract new markets;
- Reduce Colchester's participation;
- Reduce 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.

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 proposed a 5% across the board reduction in the reinsurance rates but underwriters were very concerned about claims development especially as it related to class actions and tax matters. The 5% reduction was not achieved and we had to settle with status quo reinsurance rates. This was still considered a very positive outcome because the actuarially determined rates were significantly higher by a margin of about 50%.

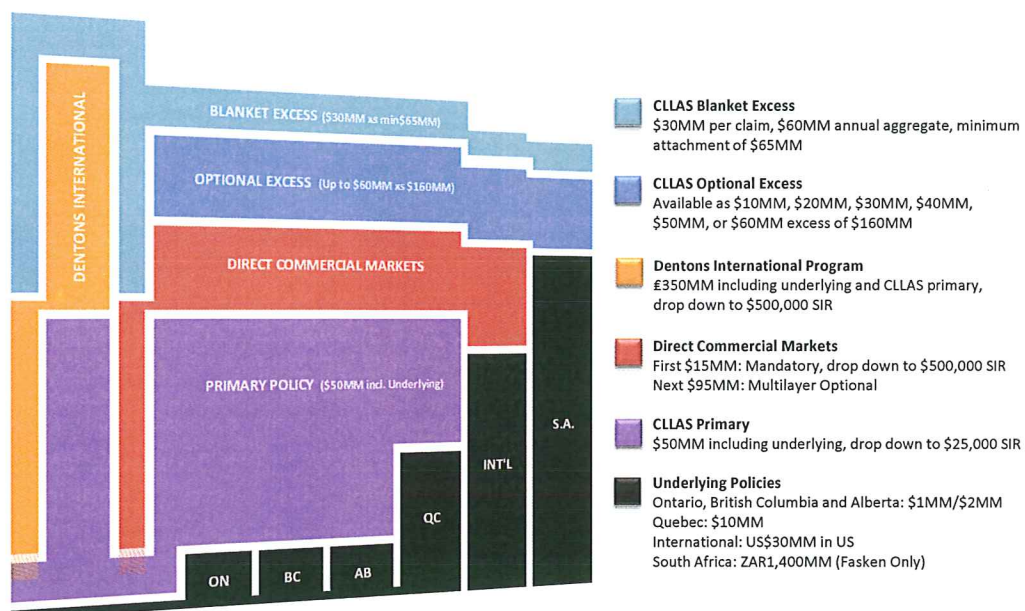
This year, Nick Leblovic, Barry Bresner, Patrick Mahoney and Joe Tontini met with Miller Insurance Services LLP and most of the incumbent London underwriters to present our renewal terms. Once more, we proposed a 5% reduction. Our main arguments, despite the fact that our actuarially determined rates continue to be significantly higher than market rates, 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.

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 will enable us to reduce the Colchester participation. The London and domestic markets appear to be expanding which generally means that rates continue to be relatively soft. We are therefore cautiously optimistic about achieving the 5% reduction in rates that we requested.

CLLAS Insurance Structure

The current CLLAS insurance structure is depicted below:



We do not expect any changes to the current structure for the upcoming year. However, given the additional capacity that is available in the market, we believe that we can secure additional limits of \$20 to \$30 million in the optional excess and/or umbrella layers with relative ease. We would appreciate knowing what appetite there might be for additional limits among the firms. 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.

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.

On July 1, 2013, eight firms had purchased the full \$60,000,000 limit. One firm purchased \$40,000,000 and two firms did not participate in this layer.

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 follows the terms and conditions of the \$15,000,000 excess of \$50,000,000 commercial policy for most firms. It also 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

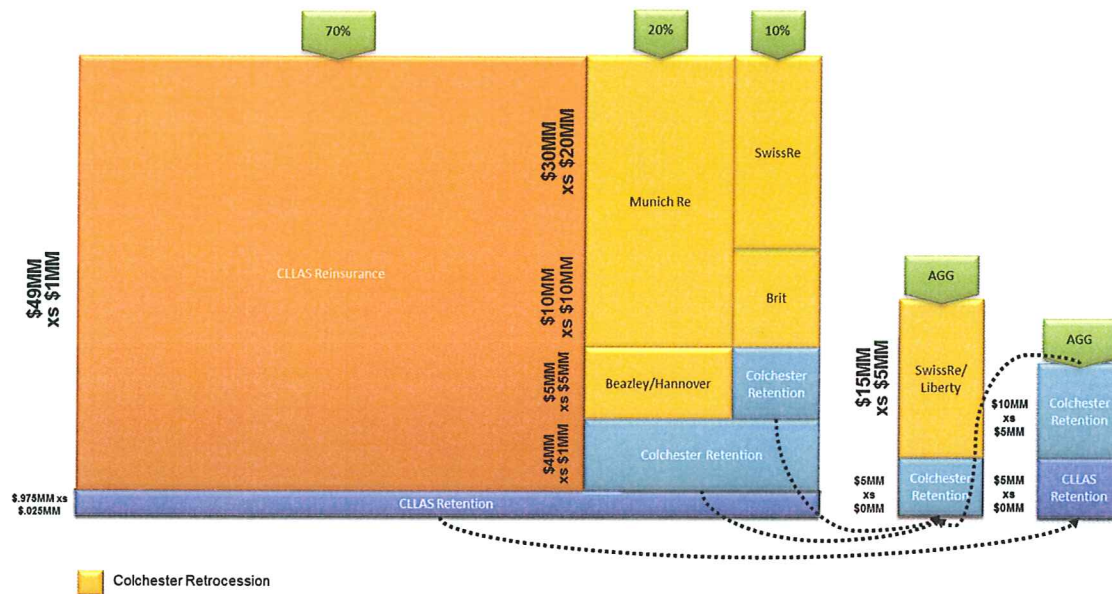
CLLAS and its reinsurers have agreed to provide tail coverage under the CLLAS Primary Policy to certain lawyers who had previously been employed by HB. The tail coverage applies from April 30, 2014 to July 1, 2017. Claims made related to Professional Services provided by former HB lawyers before they 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 existing coverage of each of the respective firms. A premium has been charged on the Primary Policy of CLLAS member firms acquiring HB lawyers for two months of the current year and then will be charged for each of the next three years to the end of the current underwriting period. CLLAS will assess the risk after the 38 months to determine if additional premiums should continue to be charged during the next underwriting period.

¹ Maximum limits purchased under the Commercial Insurance Policies arranged through Pro-Form.

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.
 - 70% of this layer is proportionally reinsured with Lloyd's and other reinsurers;
 - 30% 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. Given the additional capacity that is in the market, we believe that we can reduce Colchester's participation from 30% to 20% for the policy period July 1, 2014/2015;
 - 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 30% 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 30% participation should be maintained or reduced to 20% on the \$49,000,000 xs \$1,000,000 layer. 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 30% but with retrocession protection, its net retention per claim is \$1,700,000, down from \$4,150,000 the year before. With the availability of additional capacity from the London and domestic market, Colchester may reduce its retention to as little as \$1,050,000.

Proposed CLLAS Structure and Rates – July 1, 2014/2015

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 ongoing and authorizations are yet to be finalized but we are cautiously optimistic that all reinsurers will agree to across the board reductions of 5%. We should be in a position to confirm this at the Board meeting on June 25. A reduction in reinsurance rates does not always translate into an equivalent reduction in what CLLAS members pay. The ultimate cost to CLLAS members will depend on how much risk is retained, how much risk is transferred and how many lawyers there are to spread the administrative cost. Given the premium subsidy from Colchester and the increase in the number of lawyers to spread administrative costs, a 5% reduction in CLLAS premium rates can be expected.

Further Premium Reductions through CLLAS Surplus Contributions

Last year, we advised that it would be prudent for the Board to refrain from allowing premium subsidies derived from CLLAS surplus. When CLLAS was under FSCO's regulatory jurisdiction, CLLAS was able to provide premium subsidies. In recent years, we suggested that this practice be discontinued until we acquired a better understanding from the Alberta regulator as to how much surplus should be retained in CLLAS. We now have an understanding of regulatory surplus requirements and can discuss the extent to which additional premium subsidies may be possible. We will be prepared to have that discussion at the upcoming Board meeting.

Proposed Policy Wording Changes at Renewal

a. Heenan Blaikie LLP Tail Coverage Endorsement

At renewal, CLLAS will likely endorse the Optional Excess and Blanket Excess policies to recognize the possibility of drop down resulting from the exhaustion of the underlying limits due to claims relating to former HB lawyers.

b. Changes Recommended by the Alberta Regulator

As part of its review on CLLAS, the Alberta regulator recommended a number of changes to the CLLAS policies. We are working through the suggested changes with the regulator. Apparently, none of them will modify coverage in any way but will merely place the policies in compliance with the Insurance Act. Any changes to be adopted will be incorporated into the 2014/15 policies.

Other Considerations

As CLLAS considers expanding its membership, Board members should look at ways to add value to existing and new members. Two added value possibilities are presented below.

You should recall that the Chubb underwriter, Matthew Davies, had made a presentation to the CLLAS Board about cyber exposures and insurance. Subsequently, CLLAS amended its policy to clarify that cyber exposures were covered as it related to professional liability. We have had further meetings with Chubb who is willing to provide the full scope of cyber coverage to CLLAS firms on a difference in conditions and difference in limits basis. This offering would include first party coverage and valuable claims and risk management expertise from their service providers. If all CLLAS members are willing to proceed, the premium would be discounted due to the group purchasing power that CLLAS commands. We hope to present more information on this at the Board meeting.

Another possibility relates to the use of Colchester. As a more substantial insurance entity, Colchester has the ability to expand its services to individual members. It is possible, for example, to convert Colchester to a cell captive to 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. We would like to initiate some discussions on how to expand the possibilities for Colchester and its owners.

Conclusions

This preliminary report should provide the Board with an indication of the renewal terms and conditions. A more definitive report, including lead reinsurance terms and conditions, will be available at the upcoming Board meeting.



Actuaries & Insurance Management Advisors



CLLAS

Board Presentation – Renewal Strategy

June 25, 2014

Overview

- Renewal strategy
- Insurance and reinsurance structures
- Insurance and reinsurance costs
- Return of surplus options
- Recommended reinsurance structure
- Board resolution on reinsurance

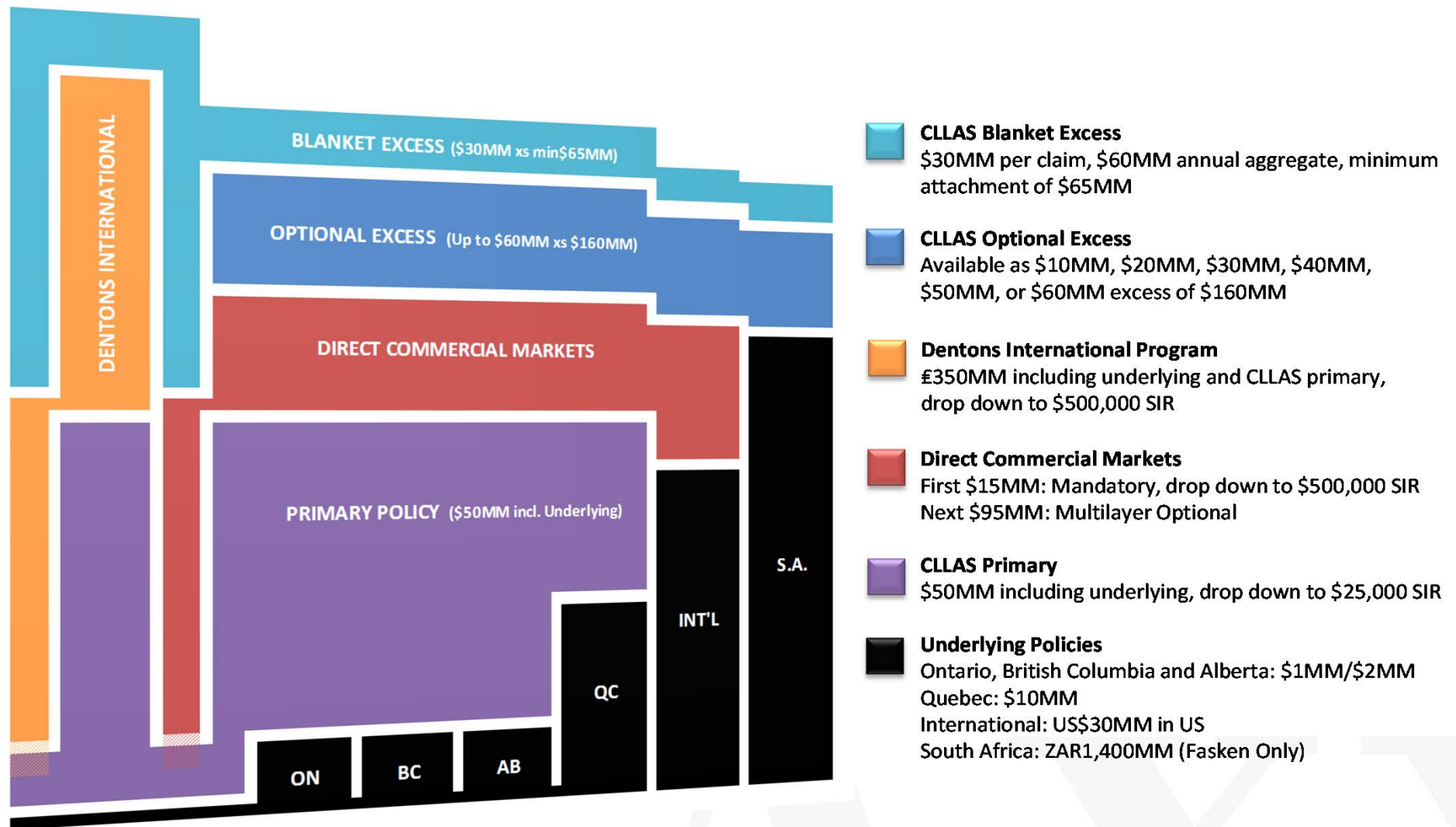
Renewal Objectives

- Maintain and enhance existing reinsurer relationships
- Attract new markets
- Maintain or reduce Colchester's participation
- Reduce 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

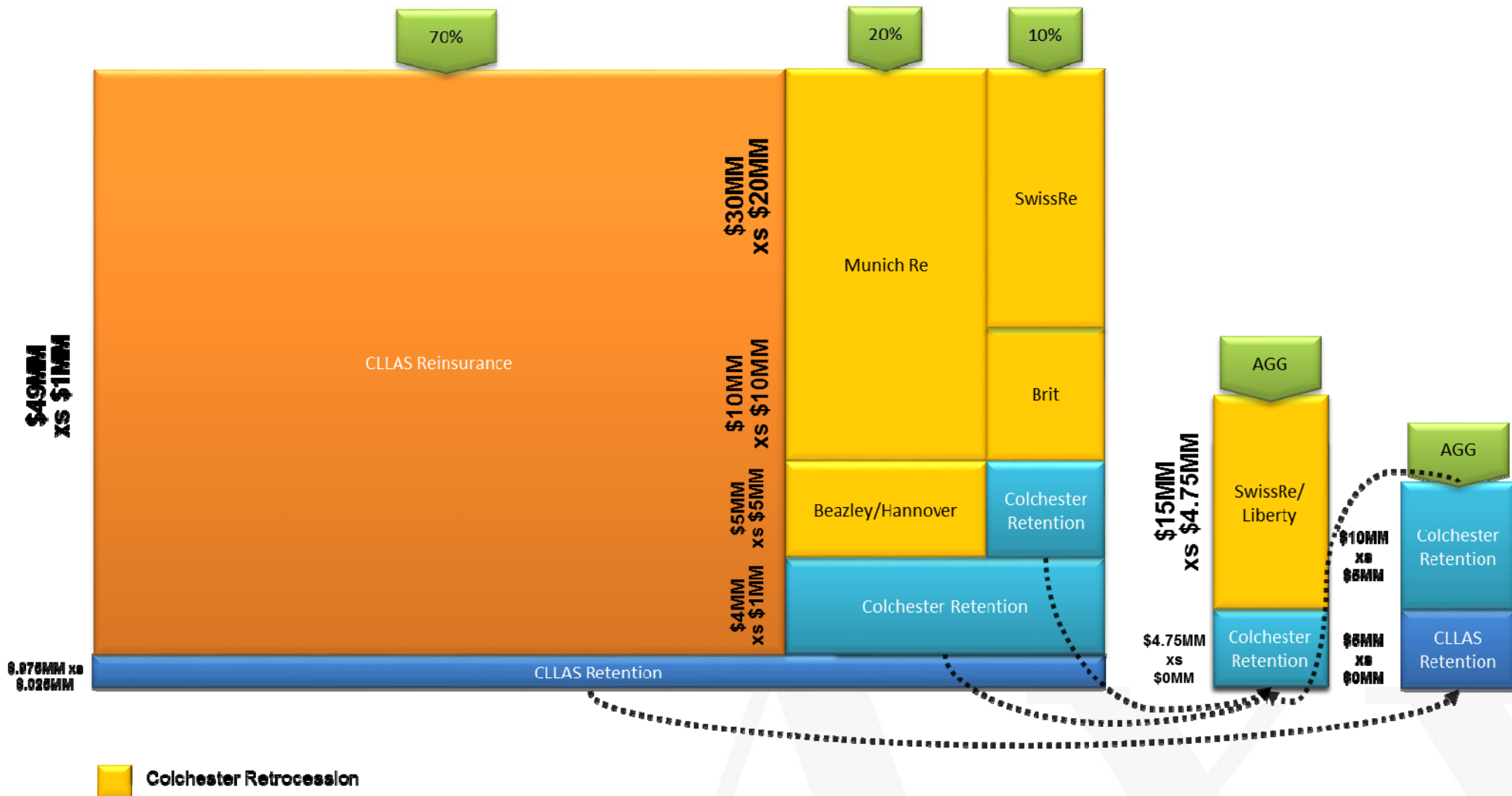
Retention Strategy

- CLLAS currently retains only drop-down exposure below \$1,000,000 (maximum exposure of \$975,000, any one loss)
- Subject to Colchester approval, CLLAS needs to evaluate whether Colchester's current 30% participation should be maintained or reduced to 20% on the \$49mm xs \$1mm layer
 - Colchester's current participation is 30% but with retrocession protection its net retention per claim is \$1,700,000
 - With the availability of additional capacity from the London market, Colchester may reduce its retention to as little as \$800,000
- On a combined basis, the CLLAS/Colchester per claim retention would be a maximum of \$2,675,000 (as per expiring) or a minimum of \$1,775,000

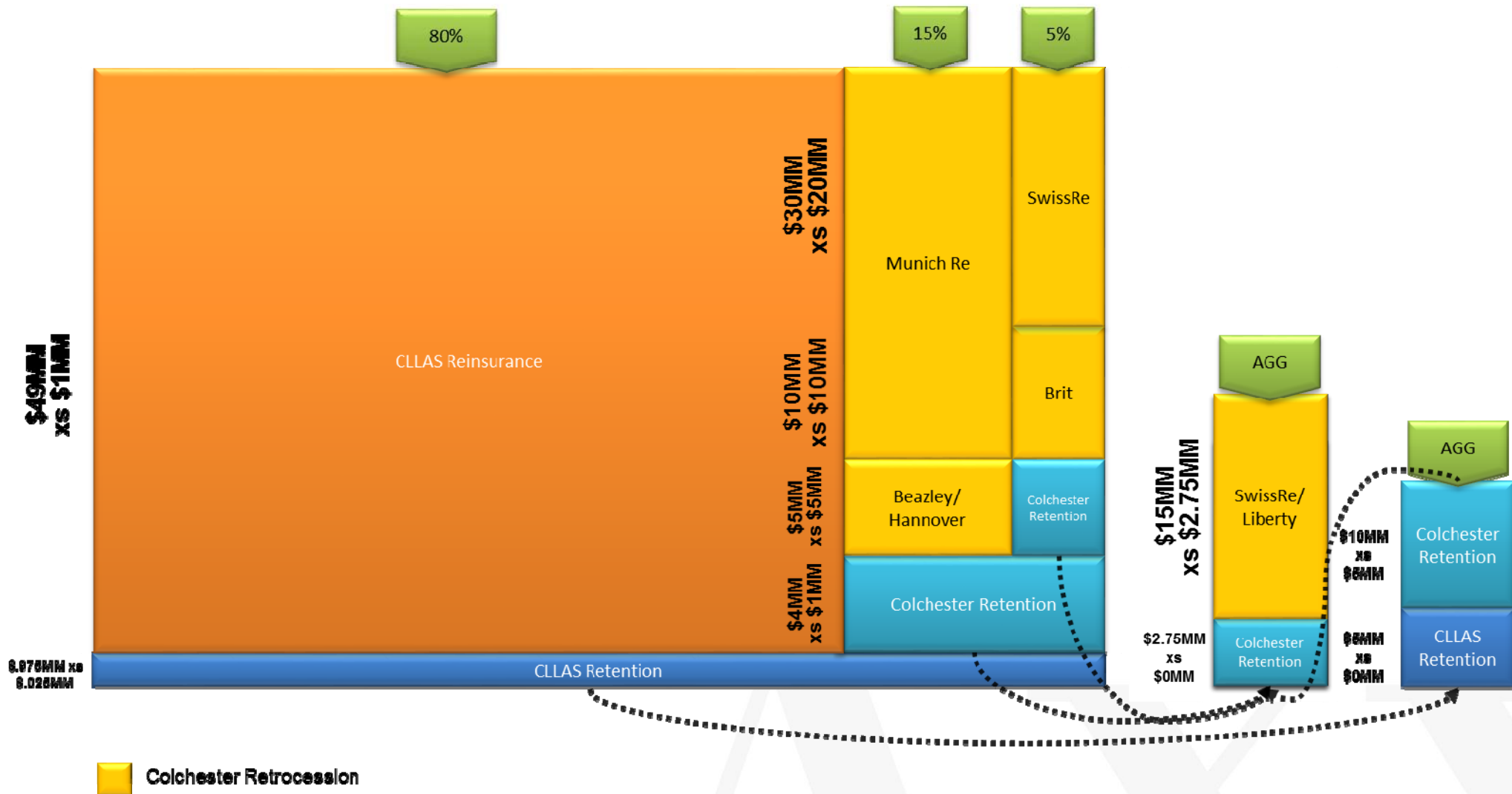
Insurance Structure Overview



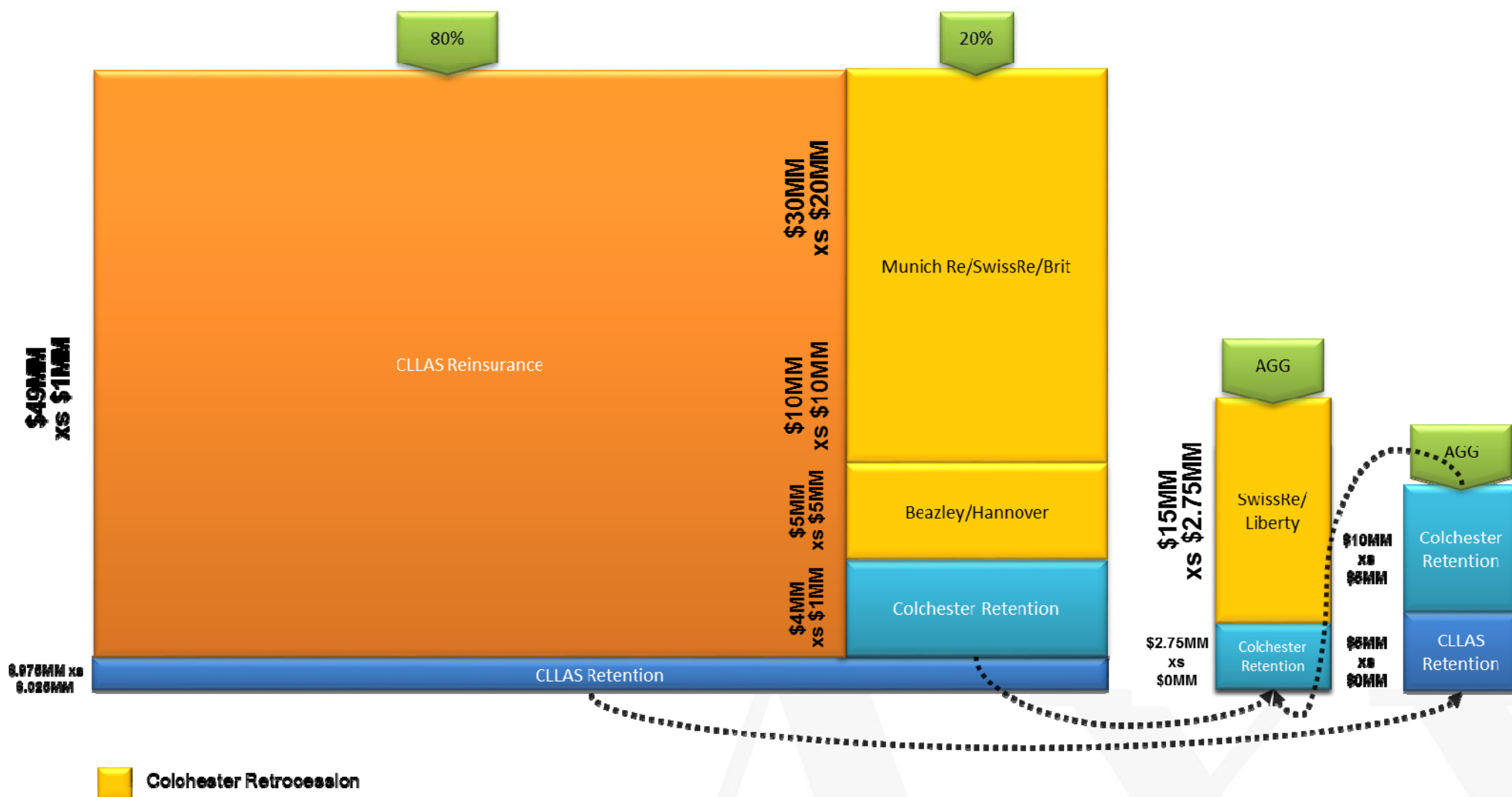
Reinsurance Structure - Status Quo



Reinsurance Structure – Preferred



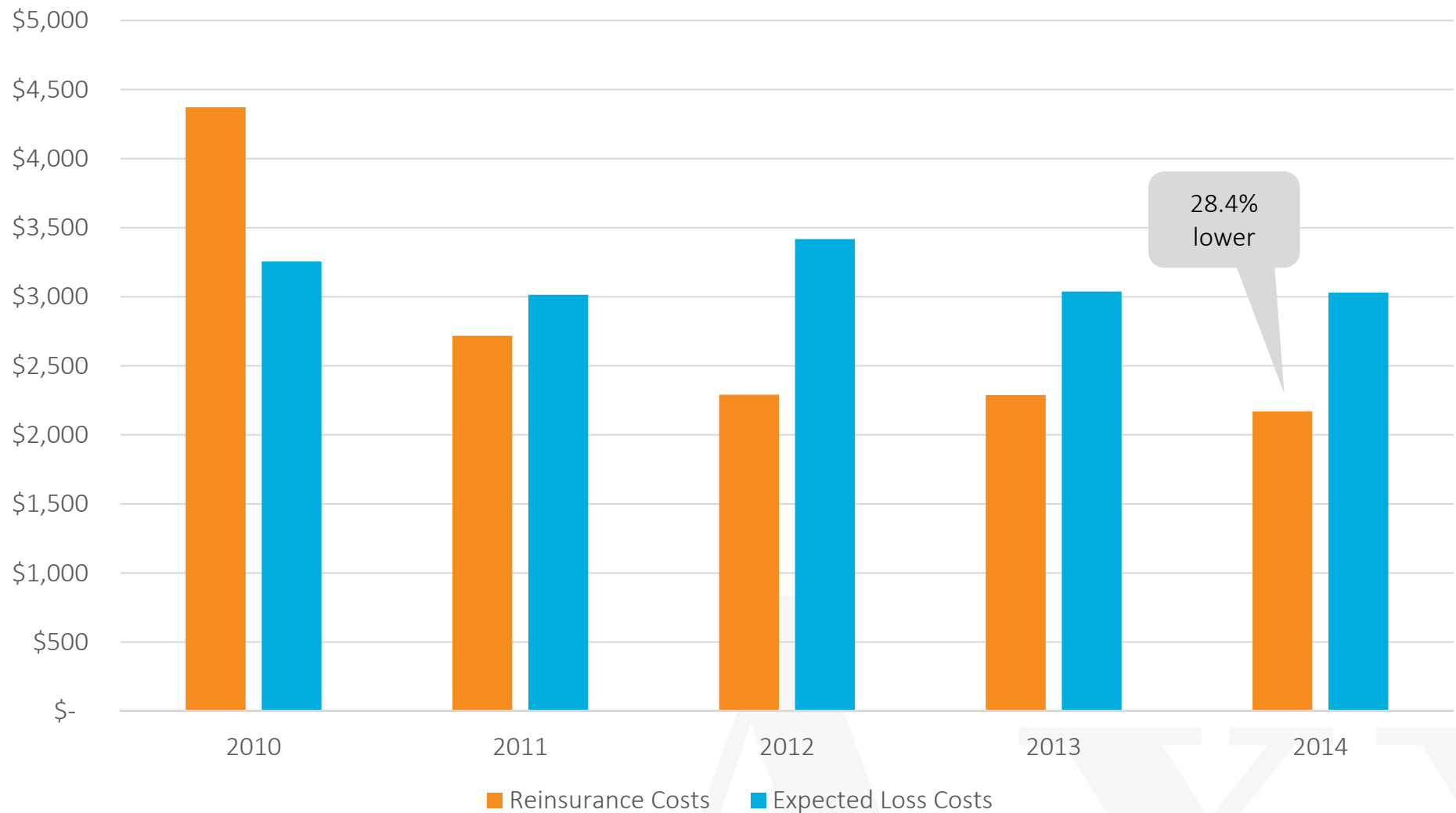
Reinsurance Structure – Preferred (Simple)



Reinsurance Costs for 2014/2015

- Reinsurance reductions in the order of 5% were sought, and all the reinsurance leads have agreed
- Additional markets, including domestics, are considering entering the \$49MM xs \$1MM layer, which would allow for a reduction in Colchester's participation to 20%

\$49MM xs \$1MM Cost Comparison*



* Blended costs between Quebec and Rest of Canada lawyers

Summary

	2013/2014*	2014/2015 STATUS QUO	2014/2015 PREFERRED	\$ Change	% Change
Total Premium**	\$13,354,671	\$12,584,249		(\$770,422)	(5.7%)
Premium per Lawyer***	\$3,166	\$2,984		(\$182)	(5.7%)
Per Claim Retention	\$2,675,000	\$2,675,000	\$1,775,000	\$0 to (\$900,000)	0% to (34%)

* The 2014/2015 lawyer count (791 in Quebec and 3,427 in the rest of Canada) is applied to the 2013/2014 policy year rates for the purposes of this summary.

** Premiums exclude optional excess layers

*** The Premium per Lawyer amount is a simple average of total premium divided by total number of lawyers (4,218), which yields a result higher than actual for Quebec lawyers, and lower than actual for lawyers in the rest of Canada.

Return of Surplus / Premium Credit

- Return of surplus had traditionally (pre-2012/2013) been arrived at using the following two sources:
 - Investment income on surplus
 - Board-directed surplus disbursement
- In 2011/2012 the amount distributed from CLLAS was \$1,600,000
- In 2012/2013 and 2013/2014 the Board determined that a CLLAS surplus distribution would not be prudent
- With CLLAS' first audit by the Alberta regulator completed, and additional surplus having emerged through 2013, CLLAS is in a position to distribute surplus for 2014/2015

Surplus Distribution

- CLLAS' minimum surplus is based on the surplus required to maintain the greater of the following regulatory balances:

Regulatory Test	CLLAS Minimum	Projected Surplus Requirement at 12/31/2014
Minimum Capital Test ("MCT")	210% (Regulatory Minimum is 150%)	\$9,100,000
Alberta Minimum Reserve and Guarantee Fund ("AMRGF")	Regulatory Minimum + 20%	\$7,400,000

Surplus Distribution

- CLLAS Surplus as at December 31, 2013 was \$13,200,000, however:
 - Blakes' surplus will likely be distributed at the end of the current underwriting period
 - Reducing overall surplus by Blakes' current CLLAS surplus level of approximately \$1,200,000 is deemed to be prudent
 - Should Dentons follow through with their planned exit from CLLAS at the end of the current underwriting period, this will result in an additional surplus drain at the end of the 7th underwriting period
 - While not due to be returned until 2022, and likely to fluctuate over the next 8 years (including being reduced by surplus returns), consideration should be given to Dentons' CLLAS surplus of approximately \$1,600,000

Surplus Distribution

- CLLAS' "free surplus", surplus unencumbered by regulatory requirements and surplus distributions, is as follows:

Current Surplus	\$13,200,000
Less: Maximum Regulatory Requirement	(\$9,100,000)
Less: Estimated Blakes Distribution	(\$1,200,000)
Less: Estimated Dentons Distribution	<u>(\$1,600,000)</u>
Free Surplus	\$1,300,000

- CLLAS' actuary does not recommend a distribution of more than \$500,000 in 2014/2015

Policy Wording

- Two years ago we effected two significant policy wording changes:
 - Clarified cyber coverage for professional liability risks
 - CLLAS International exposures were covered under the blanket excess (umbrella) policy
- Last year we added a “foreign claims” wording which allows CLLAS to pay foreign claims in Canada if the foreign jurisdiction restricts CLLAS from paying directly in the foreign jurisdiction
- This year we will make the following changes:
 - Add the Heenan Blaikie endorsement
 - Add statutory language to comply with provincial regulations
 - Change the definition that refers to fines and penalties in the policy

Final Remarks

- Reinsurance rates will be reduced by 5%
- The final rate will depend on the board's decision regarding the return of additional surplus and the final reinsurance rates

Advisory Board Resolution

- We would recommend that the Advisory Board moves:

To instruct Axxima and Miller to bind reinsurance with current and new reinsurers on the basis of the “Preferred” scenario, subject to final reinsurance terms and conditions that are not significantly different from those presented in this report and failing this, on the most conservative basis, to instruct Axxima and Miller to bind reinsurance with current and new reinsurers on the basis of the “Status Quo” scenario subject to final reinsurance terms and conditions that are not significantly different from those presented in this report.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

QUARTERLY FINANCIAL MANAGEMENT REPORT

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

QUARTERLY FINANCIAL MANAGEMENT REPORT

March 31, 2014

CONTENTS

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

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF FINANCIAL POSITION
March 31, 2014

	As at March 31, 2014	As at March 31, 2013
ASSETS		
Cash	1,896,908	4,575,896
Short term investments	14,308,294	13,268,641
Bonds	3,067,286	0
Interest income due and accrued	15,535	0
Premium receivable	0	0
Other receivable	0	0
Prepaid expenses	160,978	206,742
Deferred policy acquisition costs	96,484	73,879
Unearned reinsurance premium ceded	2,660,755	2,714,167
Reinsurance recoverable	842,638	1,296,773
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	74,070,000	74,167,000
	<u>97,118,879</u>	<u>96,303,098</u>
LIABILITIES		
Accounts payable & accrued charges	128,799	344,133
Premium taxes payable	0	0
Unearned premium	3,435,953	3,547,436
Due to reinsurers	0	0
Provision for unpaid claims and adjustment expenses	80,706,000	80,715,000
Premium deficiency liability	0	0
	<u>84,270,752</u>	<u>84,606,570</u>
SUBSCRIBERS' EQUITY		
Surplus	12,833,517	11,704,150
Accumulated Other Comprehensive Income (Loss)	14,609	(7,621)
	<u>12,848,126</u>	<u>11,696,529</u>
	<u>97,118,879</u>	<u>96,303,098</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF COMPREHENSIVE INCOME
For the Period Ending March 31, 2014

	Current Year		Prior Year	
	Quarter March 31, 2014	Year to Date March 31, 2014	Quarter March 31, 2013	Year to Date March 31, 2013
Written Premium	-	-	-	-
Gross Written Premiums	-	-	-	-
Less: Reinsurance Ceded	-	-	-	-
Net Written Premiums	-	-	-	-
Change in Unearned Premiums	766,679	766,679	824,113	824,113
Earned Premiums	766,679	766,679	824,113	824,113
Claims Paid	-	-	-	-
Change in IBNR	647,000	647,000	367,000	367,000
Change in Case Reserve	-	-	-	-
Premium Deficiency Expense	-	-	-	-
Incurred Claims	647,000	647,000	367,000	367,000
Management and operating expenses	374,753	374,753	451,434	451,434
Reinsurance fees	69,750	69,750	68,250	68,250
Premium taxes	96,484	96,484	73,879	73,879
Total Operating Expenses	540,988	540,988	593,563	593,563
Underwriting Gain (Loss)	(421,309)	(421,309)	(136,451)	(136,451)
Investment Income	43,141	43,141	30,854	30,854
Income on Claim Related Matters	-	-	-	-
Interest Income on Premium Tax	-	-	-	-
NET GAIN/(LOSS)	(378,168)	(378,168)	(105,597)	(105,597)
Other comprehensive income (loss)				
Unrealized gains (losses) on available for sale financial assets arising during the year	40,836	40,836	2,391	2,391
Recognition of realized (gain) loss included in income	-	-	-	-
Other comprehensive income (loss) for the year	40,836	40,836	2,391	2,391
Total comprehensive income (loss)	(337,332)	(337,332)	(103,206)	(103,206)

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF CHANGES IN EQUITY
March 31, 2014

	Minimum Surplus	Additional Surplus	Unrealized gains and losses on AFS financial assets	Total Equity
Balance, beginning of year	50,000	13,161,685	(26,227)	13,185,458
Prior year adjustment		-		-
Comprehensive income (loss) for the year				
Net gain (loss) for the year		(378,168)		(378,168)
Other comprehensive income (loss)				
Change in unrealized gain on available-for-sale assets			40,836	40,836
Recognition of realized (gain) loss on available-for-sale assets			-	-
Total comprehensive income (loss) for the year		(378,168)	40,836	(337,332)
Balance at March 31, 2014	50,000	12,783,517	14,609	12,848,126

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
FINANCIAL ANALYSIS OF COMPREHENSIVE INCOME
For the Period Ending March 31, 2014

	Year to Date March 31, 2014			Annual 2014
	Actual	Budget	Variance	Budget
Written Premium	-	-	-	14,660,000
Gross Written Premiums	-	-	-	14,660,000
Less: Reinsurance Ceded	-	-	-	11,350,000
Net Written Premiums	-	-	-	3,310,000
Change in Unearned Premiums	-	-	-	(108,000)
Earned Premiums	766,679	800,500	33,821	3,202,000
Claims Paid	-	17,500	17,500	70,000
Change in IBNR	647,000	172,750	(474,250)	691,000
Change in Case Reserve	-	-	-	-
Premium Deficiency Expense	-	-	-	-
Incurred Claims	647,000	190,250	(456,750)	761,000
Management and operating expenses	374,753	507,555	132,802	1,771,220
Reinsurance fees	69,750	70,500	750	282,000
Premium taxes	96,484	90,750	(5,734)	363,000
Total Operating Expenses	540,988	668,805	127,817	2,416,220
Underwriting Gain (Loss)	(421,309)	(58,555)	362,753	24,780
Investment Income	43,141	136,750	93,609	547,000
Income on Claim Related Matters	-	-	-	-
Interest Income on Premium Tax	-	-	-	-
NET GAIN/(LOSS)	(378,168)	78,195	456,363	571,780
Other comprehensive income (loss)				
Unrealized gains (losses) on available for sale financial assets arising during the year	40,836	-	-	-
Recognition of realized (gain) loss included in income	-	-	-	-
Other comprehensive income (loss) for the year	40,836	-	-	-
Total comprehensive income (loss)	(337,332)	78,195	456,363	571,780

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS
FOR THE PERIOD ENDED March 31, 2014

	Annual Budget	Year to Date Budget % Accrued to Date	Year to Date Budget \$	Year to Date Actual \$	Fav/(Unfav) Variance \$
MANAGEMENT SERVICES	624,000	25%	156,000	156,000	0
PROFESSIONAL SERVICES					
Actuarial Services	100,000	25%	25,000	21,888	3,112
Reinsurance Matters	350,000	25%	87,500	25,731	61,769
Strategic Matters	120,000	25%	30,000	15,878	14,122
Sub-Total Professional Services	570,000		142,500	63,497	79,003
GST/HST on Consulting Fees	155,220		38,805	28,535	10,270
Total Management & Professional Services *	1,349,220		337,305	248,032	89,273
(See Note 1)					
OTHER EXPENSES					
Audit Expenses	95,000	25%	23,750	16,519	7,231
Annual Dinner	7,000	0%	-	-	-
Premium Taxes	363,000	25%	90,750	96,484	(5,734)
Chairman's Expenses	2,000	25%	500	-	500
Chairman's Honourarium	75,000	100%	75,000	75,000	-
Reinsurance Expense	11,000	25%	2,750	-	2,750
D&O Insurance	13,500	25%	3,375	-	3,375
Office Expenses	27,500	25%	6,875	6,318	557
Office Expenses - Website management software license	3,000	25%	750	1,032	(282)
Claims: Borderaux (LSUC)	16,000	75%	12,000	12,600	(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
I.B.C Statistical Plan Fees	10,000	25%	2,500	1,242	1,258
FSCO Assessment Fees	5,000	25%	1,250	-	1,250
Investment counsel fees	34,000	25%	8,500	5,397	3,103
Investment - Custodial	18,000	25%	4,500	4,147	353
Risk Management/Loss Prevention	50,000	25%	12,500	966	11,534
License Fee	5,000	70%	3,500	3,500	-
Insurance: Sundry	-		-	-	-
Sub-total	1,067,000		331,500	292,956	38,544
TOTAL	2,416,220		668,805	540,988	127,817

* 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	26%
Second Quarter, ending June 30th	41%
Third Quarter, ending September 30th	16%
Fourth Quarter, ending December 31st	17%
	<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
For the Period Ending March 31, 2014

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

	Current Year to Date 3/31/2014 (in \$000's)	Prior Year End 12/31/2013 (in \$000's)
<u>Reserve Fund</u>		
Premiums collected or credited having one year or less to run	(1) 0	13,770
Less: Amount paid to licensed reinsurers	(2) 0	10,548
Premiums collected with more than one year to run, less expired portion	(3) 0	0
Less: Amount paid to reinsurers on premiums on line 3, less expired portion.	(4) 0	0
Subtotal (lines 1, minus line 2, plus line 3, minus line 4)	(5) 0	3,222
Reserve Fund Required (50% of Line 5)	(6) 0	1,611
<u>Guarantee Fund</u>		
Total Liabilities	(7) 84,271	81,852
Less: Unearned Premiums	(8) 3,436	6,834
Less: Recoverable from licensed reinsurers	(9) 73,431	66,613
Plus: Statutory Margin	(10) 50	50
Guarantee Fund Required (Line 7 minus Lines 8 and 9 plus line 10)	(11) 7,454	8,455
TOTAL RESERVE & GUARANTEE FUND REQUIRED (Line 6+11)	(12) 7,454	10,066
Cash & Approved Securities	(13) 19,272	17,663
Excess of Cash & Securities over Reserve & Guarantee Fund (line 13 minus line 12)	(14) 11,818	7,597

CLLAS SUBSCRIBERS' ACCOUNTS

STATEMENT OF FINANCIAL POSITION AND STATEMENT OF OPERATIONS BY UNDERWRITING PERIOD
FOR THE YEAR ENDED JUNE 30, 2013

LAW FIRMS:

- 1 Blake, Cassels & Graydon LLP
- 2 Borden Ladner Gervais LLP
- 3 Fasken Martineau DuMoulin LLP
- 4 Davies Ward Phillips & Vineberg LLP
- 5 Dentons Canada LLP
- 6 Goodman and Carr LLP
- 7 Goodmans LLP
- 8 McCarthy Tetrault LLP
- 9 McMillian LLP
- 10 Osler, Hoskin & Harcourt LLP
- 11 Torys LLP
- 12 WeirFoulds LLP
- 13 Cassels, Brock & Blackwell LLP

UNDERWRITING PERIODS:

- 1 1987/1988 to 1991/1992
- 2 1992/1993 to 1996/1997
- 3 1997/1998 to 2001/2002
- 4 2002/2003 to 2006/2007
- 5 2007/2008 to 2011/2012
- 6 2012/2013 to 2017/2018

CLLAS SUBSCRIBERS' ACCOUNTS
UNDERWRITING PERIODS CONSOLIDATED
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 2013

Exhibit I
Page 1

SUBSCRIBER	1	2	3	4	5	6	7	8	9	10	11	12	13	Total
ASSETS														
Net Asset Account	1,716,907	1,742,593	2,320,933	1,048,495	2,295,651	665,688	651,044	3,479,975	588,273	1,832,443	1,101,354	218,266	437,887	18,099,509
Accrued Interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Premium Receivable	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Reinsurance Receivable	59,255	74,545	53,890	19,412	55,994	4,246	24,588	63,468	41,684	45,742	25,883	9,927	23,000	501,634
Prepaid Expenses	0	36,782	25,928	8,538	26,222	0	12,547	24,696	19,973	19,173	13,748	4,763	10,746	203,115
Reinsurance Paid in Advance	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Surplus Contribution Receivable	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Assets	1,776,162	1,853,919	2,400,750	1,076,445	2,377,867	669,935	688,179	3,568,138	649,930	1,897,358	1,140,986	232,956	471,633	18,804,258
LIABILITIES														
Undiscounted Case Reserves	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Undiscounted IBNR	239,590	477,043	340,093	122,249	352,073	8,633	161,907	365,747	263,903	281,689	171,137	64,256	147,679	2,996,000
Impact of Discounting and Provision for Adverse Deviation	350,450	576,100	413,114	148,705	425,570	12,828	193,321	453,377	320,993	343,824	202,356	77,087	178,275	3,696,000
Prepaid Premium	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Premium Refund Payable	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Reinsurance Payable	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Accrued Expenses	0	62,247	52,711	20,113	45,515	0	18,293	48,289	30,170	33,811	20,200	7,109	15,865	354,325
Claims Payable	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Premium Taxes Payable	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Liabilities	590,041	1,115,390	805,918	291,067	823,159	21,461	373,521	867,414	615,066	659,324	393,693	148,452	341,819	7,046,325
SUBSCRIBERS' EQUITY														
Total Subscribers' Equity	1,186,121	738,529	1,594,832	785,378	1,554,708	648,474	314,658	2,700,725	34,864	1,238,034	747,293	84,504	129,814	11,757,933
Total Liabilities and Equity	1,776,162	1,853,919	2,400,750	1,076,445	2,377,867	669,935	688,179	3,568,138	649,930	1,897,358	1,140,986	232,956	471,633	18,804,258

CLLAS SUBSCRIBERS' ACCOUNTS
UNDERWRITING PERIODS CONSOLIDATED
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2013

Exhibit 1
Page 2

SUBSCRIBER	1	2	3	4	5	6	7	8	9	10	11	12	13	Total
Direct Written Premium	0	2,520,346	1,994,973	745,054	1,800,848	0	810,988	1,779,500	1,284,948	1,377,577	916,322	299,443	698,729	14,228,728
Contingency Reserve Adjustment	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Retroassessment	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross Written Premium	0	2,520,346	1,994,973	745,054	1,800,848	0	810,988	1,779,500	1,284,948	1,377,577	916,322	299,443	698,729	14,228,728
Reinsurance Ceded	0	1,926,562	1,524,965	569,522	1,376,575	0	619,922	1,360,256	982,219	1,053,025	700,440	228,895	534,111	10,876,493
Net Written Premium	0	593,784	470,008	175,532	424,273	0	191,066	419,244	302,729	324,552	215,882	70,548	164,618	3,352,235
Change in Unearned Premium	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Earned Premium	0	593,784	470,008	175,532	424,273	0	191,066	419,244	302,729	324,552	215,882	70,548	164,618	3,352,235
Claims Paid	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in Undiscounted Case Reserves	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in Undiscounted IBNR	-22,099	147,257	101,253	36,097	107,284	-2,927	53,361	92,438	78,286	80,811	58,955	20,570	45,715	797,000
Change in Impact of Discounting and Provision for Adverse Deviation	-32,040	94,174	64,076	22,808	67,655	-4,496	34,674	53,394	49,867	50,150	38,247	13,226	29,264	481,000
Incurred Claims	-54,138	241,431	165,329	58,905	174,939	-7,422	88,035	145,832	128,153	130,961	97,202	33,796	74,978	1,278,000
Operating Expenses	-22,218	352,633	298,796	114,255	259,262	623	104,102	273,424	169,207	191,670	115,204	40,199	90,146	1,987,303
Premium Tax	38,579	65,596	45,761	14,802	44,755	0	21,457	46,200	37,409	34,562	23,147	8,657	18,594	399,518
Total Expenses	16,361	418,229	344,556	129,057	304,017	623	125,559	319,624	206,616	226,232	138,351	48,855	108,741	2,386,821
Underwriting Gain (Loss)	37,777	-65,875	-39,877	-12,430	-54,683	6,800	-22,528	-46,213	-32,040	-32,641	-19,671	-12,103	-19,101	-312,586
Investment Income	217,252	303,387	254,349	98,294	254,111	26,909	101,741	305,717	156,573	205,257	118,724	39,070	89,194	2,170,579
Other Income	9,481	10,818	7,398	4,383	5,347	0	5,782	8,424	7,367	8,859	6,466	2,611	5,502	82,438
Net Gain (Loss)	264,510	248,330	221,870	90,248	204,775	33,709	84,994	267,928	131,900	181,476	105,519	29,578	75,595	1,940,431
Other Comprehensive Income	-256,444	-314,828	-260,181	-93,789	-236,804	0	-100,622	-229,669	-164,046	-197,710	-100,258	-35,406	-85,017	-2,074,774
Total Comprehensive Income	8,066	-66,498	-38,311	-3,542	-32,030	33,709	-15,627	38,259	-32,146	-16,235	5,261	-5,828	-9,422	-134,343



CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Business Plan Projected for the
Fiscal Year Ending December 31, 2014

Final Report
May 9, 2014



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 2014. 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 2014

The underwriting income and investment income for fiscal year 2014 are projected at \$25,000 and \$547,000 respectively, for a total net income of \$572,000. The surplus at December 31, 2014 is projected at \$13,784,000.

CLLAS is expected to meet the Alberta Maintenance of Reserves and Guarantee (“AMRGF”) Funds requirement with an excess margin of \$7,588,000 at December 31, 2014. The Minimum Capital Test (“MCT”) ratio at December 31, 2014 is projected at 322%, stable from the MCT ratio of 328% at December 31, 2013. The MCT ratio is expected to be comfortably above the fiscal year 2014 supervisory target of 150% and 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:

Mr. Patrick Mahoney
General Manager
Canadian Lawyers Liability Assurance Society
36 Toronto Street, Suite 510
Toronto, ON M5C 2C5
Phone: 416.408.5293
Fax: 1.855.529.9462

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, 2013, 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, 2013 to June 30, 2014, 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 2013

In 2013, CLLAS generated written premium volumes of \$13,770,000 and \$3,109,000 on gross and net of reinsurance bases respectively. \$10,661,000 of written premium volume was ceded to proportional and aggregate stop loss reinsurers.

The net operating gain was \$1,402,000 and the net subscribers' equity inclusive of accumulated other comprehensive income (loss) was \$13,212,000 at December 31, 2013.

At December 31, 2013, CLLAS held \$17,678,000 in invested assets comprised of cash and fixed-income securities. CLLAS' main liability was its net provision for unpaid claims in the amount of \$5,989,000.



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 are expected to be released in the summer of 2014. Starting on January 1, 2015, the target MCT ratio for reciprocals and other insurance entities regulated in Alberta is expected to increase from 150% to 210%.



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.

In addition, there is a certain degree of uncertainty with respect to the nature and extent of the solvency requirements CLLAS will face starting in 2015, since the final guidelines for the MCT calculation have not yet been published and the Superintendent has not yet confirmed the basis of the 210% target MCT ratio for Alberta-regulated reciprocals.

5. Short-Term Priorities and Initiatives

During 2014, 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 2014;
2. Determination of expected loss costs and premium rates for the policy year starting July 1, 2014;
3. Negotiation of reinsurance contracts and costs for the policy year starting July 1, 2014;
4. Periodic review of reinsurance concentration and risk;
5. Quarterly valuation of policy liabilities;
6. Development of a formal enterprise risk management policy;



7. Development of a formal equity management policy;
8. Development 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, 2013, CLLAS met this requirement with an excess margin of \$7,597,000.

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.

At December 31, 2013, CLLAS’s MCT ratio was 328%. CLLAS’ target MCT ratio is 210%.

For fiscal year 2014, the supervisory target MCT ratio is 150%.

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, 2013 and were completed in accordance with the directives of the Superintendent issued for the completion of the 2013 P&C-1 Annual Return filed by CLLAS.



Data

To develop the expected financial performance, we relied on the following information developed by CLLAS at December 31, 2013:

- The 2013 P&C-1 Annual Return filed by CLLAS with the Alberta Superintendent of Insurance;
- The 2013 Auditor's Report issued by Deloitte LLP; and
- The Report on the Valuation of the Policy Liabilities as at December 31, 2013 issued by Ms. Julie-Linda Laforce, the Appointed Actuary for CLLAS.

Projection of Premiums

Net premiums written in 2014 are expected to be \$3,310,000, up from \$3,109,000 in 2013. 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 2014 is \$547,000 (\$136,000 in 2013). For the majority of 2013, CLLAS held its invested assets in treasuries and short-term bonds. 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 maturities. The yield-to-maturity on invested assets at December 31, 2013 was 2.40% net of investment manager expenses. Given that a larger proportion of invested assets is expected to be invested in longer-term bonds over the course of 2014, the investment yield for 2014 was projected at 2.75%.

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, 2013 is maintained on renewal. Gross and net incurred losses for 2014 were projected in two steps:

a. Settlement of claim liabilities incurred on or prior to December 31, 2013

Paid claims during 2014 and undiscounted claim liabilities at December 31, 2014 were projected based on the Appointed Actuary's estimates at December 31, 2013 and CLLAS' historical claims settlement patterns. There is no expected gain or loss relative to the actuary's ultimate estimates at December 31, 2014.

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, 2013 actuarial valuation were used, with the exception of the discount rate which



was increased from 2.40% to 2.75% to reflect the expected change in the invested asset allocation during 2014. PfADs are assumed to be gradually released as losses are paid.

On a gross of reinsurance basis, CLLAS' expected payments in 2014 are \$10,200,000 and the claim liabilities on a discounted basis including PfAD at December 31, 2014 are expected to be \$62,820,000.

On a net of reinsurance basis, CLLAS' expected payments in 2014 are \$55,000 and the claim liabilities on a discounted basis including PfAD at December 31, 2014 are expected to be \$5,190,000.

b. Projected claims incurred after December 31, 2013 on policies in-force at December 31, 2013 and on policies expected to be renewed on July 1, 2014 under the new 2014/2015 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, 2013 with a 6.5% increase. These loss costs were then applied to the estimated in-force lawyers at December 31, 2013, 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 2014 are as listed in the following table.

Projected Loss Costs by Reinsured Layer for Fiscal Year 2014

Reinsurance Layers	Estimated loss cost for 1 st Half of 2014	Estimated loss cost for 2 nd Half of 2014
\$975,000 xs \$25,000	\$ 109	\$ 116
\$49,000,000 xs \$1,000,000	3,382	3,602
\$30,000,000 xs Umbrella	10	11
\$40,000,000 xs \$160,000,000	17	18
\$60,000,000 xs \$160,000,000	21	22

On a gross of reinsurance basis, CLLAS' expected payments in 2014 are \$510,000 and the claim liabilities on a discounted basis including PfAD at December 31, 2014 are expected to be \$14,590,000.

On a net of reinsurance basis, CLLAS' expected payments in 2014 are \$15,000 and the claim liabilities on a discounted basis including PfAD at December 31, 2014 are expected to be \$1,490,000.



Total Claims

Total net claim liabilities at December 31, 2014 were estimated at \$6,680,000, which represents an increase of \$691,000 over the December 31, 2013 net claim liabilities of \$5,989,000. Net paid losses were projected at \$70,000 during 2014.

Estimated incurred claims for fiscal year 2014 are estimated at \$761,000 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, 2014

Net Amounts	Occurrences on or prior to Dec. 31, 2013	Occurrences after Dec. 31, 2013	Total
(1) Net Payments during 2014	\$ 55,000	\$ 15,000	\$ 70,000
(2) Net Claim Liabilities at December 31, 2014 *	5,190,000	1,490,000	6,680,000
(3) Net Claim Liabilities at December 31, 2013 *	5,989,000	n/a	5,989,000
(4) Net Incurred Claims in 2014 [(1) + (2) – (3)]	\$ (744,000)	\$ 1,505,000	\$ 761,000

* Liabilities on a discounted basis including PfAD.

Projection of Operating Expenses

Operating expenses are projected at \$1,737,000 for general management fees, \$282,000 for reinsurance fees and \$397,000 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, 2014, the deferred policy acquisition cost asset is estimated at \$200,000.

Summary of Results

Based on the foregoing assumptions, the underwriting income and investment income for fiscal year 2014 are projected at \$25,000 and \$547,000 respectively, for a total net income of \$572,000 as shown in Exhibit 2. The surplus at December 31, 2014 is projected at \$13,784,000 as shown in Exhibit 1.

CLLAS is expected to meet the AMRGF requirement with an excess margin of \$7,588,000 at December 31, 2014, as shown in Exhibit 3.



CLLAS' MCT ratio at December 31, 2014 is projected at 322%, stable from the MCT ratio of 328% at December 31, 2013, as shown in Exhibit 4. The MCT ratio is expected to be comfortably above the fiscal year 2014 supervisory target of 150% and CLLAS' internal target of 210%.

EXHIBIT 1

CANADIAN LAWYERS' LIABILITY ASSURANCE SOCIETY
PROFORMA STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2014

	As at December 31, 2014 PROJECTED	As at December 31, 2013 ACTUAL
ASSETS		
Cash	\$ 1,500,000	\$ 4,349,462
Investments		
Short Term	8,427,000	10,535,050
Bonds	12,641,000	2,778,853
Interest income due and accrued	80,000	14,914
Premiums receivable	5,200,000	4,522,408
Unearned reinsurance premium ceded	5,630,000	5,292,272
Prepaid Expenses	130,000	139,500
Deferred policy acquisition costs	200,000	192,969
Reinsurance recoverable	0	120,021
Other receivable	0	0
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	70,730,000	67,092,000
Total Assets	104,538,000	95,037,449
LIABILITIES		
Provision for unpaid claims and adjustment expenses	77,410,000	73,081,000
Provision for unpaid premium liabilities	0	0
Premium Deficiency Liability	0	0
Unearned premium	7,280,000	6,834,148
Due to reinsurers	5,630,000	1,524,104
Accounts payable & accrued charges	460,000	351,814
Premium taxes payable	0	60,924
Total Liabilities	90,780,000	81,851,990
SUBSCRIBERS' EQUITY		
Surplus	13,784,000	13,211,686
Accumulated Other Comprehensive Income (Loss)	(26,000)	(26,227)
Total Subscribers' Equity	13,758,000	13,185,459
TOTAL LIABILITIES AND SUBSCRIBERS' EQUITY	104,538,000	95,037,449

EXHIBIT 2

CANADIAN LAWYERS' LIABILITY ASSURANCE SOCIETY
PROFORMA STATEMENT OF INCOME
FOR THE PERIOD ENDED DECEMBER 31, 2014

	Year to date Jan. 2014 to <u>Dec. 2014</u> PROJECTED	Previous year Jan. 2013 to <u>Dec. 2013</u> ACTUAL
Direct written premiums *	\$ 14,660,000	\$ 13,769,929
Gross Written Premiums	14,660,000	13,769,929
Less: Reinsurance Ceded **	11,350,000	10,660,620
Net Written Premiums	3,310,000	3,109,309
Change in Unearned Premiums	(108,000)	115,506
Earned Premiums	3,202,000	3,224,815
Claims Paid	70,000	0
Change in Reserves	691,000	(192,000)
Premium Deficiency Expense	0	0
Paid on Premium liability	0	0
Change in provision for Unpaid Premium liability	0	0
Incurred Claims	761,000	(192,000)
Management and Operating Expenses	1,737,000	1,528,399
Reinsurance Fees	282,000	282,000
Premium Taxes	397,000	340,728
Total Operating Expenses	2,416,000	2,151,127
Underwriting Gain (Loss)	25,000	1,265,688
Investment Income	547,000	136,250
Other Income	0	0
Net Income (Loss) for the year	572,000	1,401,938
Surplus - Beginning of Period	13,212,000	11,809,747
Less: Prior period adjustment	0	0
Surplus - End of Period	13,784,000	13,211,685

Notes:

* Assumes 6.5% rate increase on renewal on July 1st, 2014 (equal to expected trend in claim severity)

** 2014 projected based on current reinsurance structure

**CANADIAN LAWYERS' LIABILITY ASSURANCE SOCIETY
PROFORMA ALBERTA MAINTENANCE OF RESERVE AND GUARANTEE FUNDS REQUIREMENT
AS AT DECEMBER 31, 2014**

(All amounts in \$'000s)

	As at December 31, 2014 PROJECTED	As at December 31, 2013 ACTUAL
Reserve Fund		
(1) Premiums collected or credited having one year or less to run	14,660	13,770
(2) Less: Amount paid to licensed reinsurers	11,350	10,548
(3) Premiums collected with more than one year to run, less expired portion	0	0
(4) Less: Amount paid to reinsurers on premiums on line 3, less expired portion	0	0
(5) Subtotal [(1) - (2) + (3) - (4)]	3,310	3,222
(6) Reserve Fund Required [50% x (5)]	1,655	1,611
Guarantee Fund		
(7) Total Liabilities	90,780	81,852
(8) Less: Unearned Premiums	7,280	6,834
(9) Less: Recoverable from licensed reinsurers	70,225	66,613
(10) Plus: Statutory Margin	50	50
(11) Guarantee Fund Required [(7) - (8) - (9) + (10)]	13,325	8,455
(12) Total Reserve and Guarantee Fund Required [(6) + (11)]	14,980	10,066
(13) Cash & Approved Securities	22,568	17,663
(14) Excess of Cash & Securities over Reserve & Guarantee Fund [(13) - (12)]	7,588	7,597

CANADIAN LAWYERS' LIABILITY ASSURANCE SOCIETY
PROFORMA MINIMUM CAPITAL TEST
AS AT DECEMBER 31, 2014

MINIMUM CAPITAL TEST (per P&C-1)

(All amounts in \$'000s)

	As at December 31, 2014 PROJECTED	As at December 31, 2013 ACTUAL
Capital Available		
Total Equity less Accumulated Other Comprehensive Income	13,784	13,211
Add:		
Subordinated Indebtedness and Redeemable Preferred Shares	0	0
Accumulated Other Comprehensive Income (Loss) on:		
Available for Sale Equity Securities	0	0
Available for Sale Debt Securities	(26)	(26)
Foreign Currency (Net of Hedging Activities)	0	0
Share of Other Comprehensive Income of non-qualifying Subsidiaries, Associates and Joint Ventures	0	0
Remeasurements of Defined Benefit Plans	0	0
Revaluation Losses in Excess of Gains on Own Use Properties	0	0
Less:		
Accumulated net after-tax fair value gains (losses) arising from changes in the company's own credit risk	0	0
Unrealized Fair Value Gains (Losses) from Own Use Properties at Conversion	0	0
Shadow Accounting Impact	0	0
Assets with a Capital Requirement of 100% *	457	535
(1) Total Capital Available	13,301	12,650
Minimum Capital Required		
Balance Sheet Assets	782	644
Unearned Premiums/Unpaid Claims/Premium Deficiencies	2,737	2,583
Catastrophes	0	0
Reinsurance Ceded to Unregistered Insurers *	47	55
Interest Rate Risk	143	153
Capital Required reported by Regulated FI Subsidiaries	0	0
Structured Settlements, Letters of Credit, Derivatives and Other Exposures	424	424
(2) Minimum Capital Required	4,133	3,859
(3) Excess of Capital Available over Capital Required [(1) - (2)]	9,168	8,791
(4) Minimum Capital Test Ratio [(1) / (2)]	321.8%	327.8%

Notes:

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



Rate Setting Policy

Effective July 1, 2014

Purpose and Scope

The purpose of this policy is to document the process used to establish CLLAS' premiums. In order for CLLAS to sustain long-term operations, premium rates must be both adequate and competitive. Inadequate premiums could present significant solvency and reputational risks for CLLAS. Uncompetitive rates create the potential for member firms to explore alternatives to CLLAS.

This policy applies in the context of the annual rate setting exercise performed by the appointed actuary and the Office of the General Manager. Premium rates are submitted to the Advisory Board for approval.

Rate Setting Process

Indicated premium rates reflect the best estimate of all expected costs associated with the underwriting of policies for the prospective policy period, i.e. expected future claim costs, reinsurance costs, policy and administration expenses and premium taxes. Premium rates are calculated for each of the coverage layers offered (mandatory and optional).

Indicated premium rates consist of the sum of the following:

1. Expected Loss Costs

1.1. The appointed actuary determines the expected loss costs on an undiscounted basis for any losses retained by CLLAS for the prospective policy period with consideration of the following:

- Availability and relevance of available data;
- Credibility, or assumed predictive value, of available data;
- Changes in circumstances, such as the adoption of new underwriting or claims practices, changes in the provisions of insurance contracts or changes in legal precedents;
- Development of losses over time;
- Trending of losses over time; and
- Large or unusual losses, or lack thereof.

1.2. The appointed actuary may segment the portfolio of insured members in the determination of expected loss costs if appropriate. Segmentation allows for different premium rates to be established for insureds who present different expected loss potential. An example of a segmentation variable currently used by CLLAS is the provincial jurisdiction (Quebec vs. rest of Canada). It is not CLLAS' approach to segment based on historical loss experience; in general,



CLLAS' philosophy is not to segment insureds unless a material difference in the underlying exposure can be identified.

- 1.3. The appointed actuary discounts expected losses to reflect the investment income expected to be earned from the time the premium is collected to the time claims made during the policy period are paid.
- 1.4. Expected loss costs per lawyer are determined by coverage layer and by segment by dividing the total expected loss cost for that coverage layer and segment by the number of insured lawyers in that coverage layer and segment.

2. Reinsurance Costs

- 2.1. CLLAS' reinsurance structure is reviewed annually with consideration of CLLAS' risk appetite and then-prevailing reinsurance market conditions.
- 2.2. Reinsurance costs are negotiated annually prior to the date of effective coverage of the policy period and are known at the time premium rates are finalized.
- 2.3. Reinsurance costs by coverage layer are translated into a per-lawyer cost based on the estimated number of lawyers provided by CLLAS' member firms as of June 15th for a policy year incepting July 1st.

3. Expected Policy and Administration Expenses

- 3.1. Expected policy and administration expenses for the prospective policy period include management, actuarial, reinsurance, risk management, strategic, audit, investment and other operational expenses, including sales taxes.
- 3.2. These expenses by coverage layer are translated into a per-lawyer cost based on the estimated number of lawyers provided by CLLAS' member firms as of June 15th for a policy year incepting July 1st.

4. Premium Taxes

- 4.1. Premium taxes would be determined as a load on total premium rates.
- 4.2. Premium tax rates would be selected and applied in accordance with appropriate legislation by provincial jurisdiction.



Adopted premium rates may differ from indicated premium rates as they may reflect additional considerations, such as the following:

1. Contingency Margins

A contingency margin is a risk load applied to expected losses to increase the probability of premium adequacy. The contingency margin is reflective of risk appetite. The current contingency margin is 0%, meaning that net losses underlying premium rates are set at the mean level.

2. Surplus Contributions or Distributions

The equity management policy may dictate surplus contributions or distributions via premium assessments.

Non-Lawyer Professionals

CLLAS applies a different rate for each respective layer of coverage to certain non-lawyer professionals at the member firms:

- Non-lawyer patent and trademark agents: 25% of the lawyer rate;
- Other non-lawyer consultants/professionals:
 - Who have no client contact and provide no advice to clients: 0% of the lawyer rate;
 - Who advise clients but act under the supervision of a lawyer: 25% of the lawyer rate; and
 - Who advise clients and act on their own without the supervision of a lawyer: 100% of the lawyer rate.

Approval of Rates by the Advisory Board

The Advisory Board is responsible for the approval of premium rates. The Board meets annually in late June to review the reinsurance renewal and approve the rates for the policy year commencing July 1st.

Review of Adequacy of Premium Rates

The appointed actuary reviews ultimate loss estimates and claims development on a quarterly basis. Given the relative size of CLLAS' insurance portfolio and the volatile nature of professional liability losses, the adequacy of premium rates should be reviewed over a long-term horizon.

History of Modifications

The rate setting policy was first approved by the Advisory Board on June 25, 2014.



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

To: CLLAS Advisory Board

From: Patrick Mahoney

Re: CLLAS Risk Appetite Framework

Date: June 16, 2014

Background

In March 2013, the Alberta Superintendent of Insurance (“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 advised that it has flexibility and discretion in the application of these guidelines for reciprocals.

The adoption of these guidelines will involve the review or development and implementation of several governance policies, including Enterprise Risk Management, Equity Management, Investment, Outsourcing and Reinsurance Risk Management policies. In addition, CLLAS will need to develop an Own Risk and Solvency Assessment (“ORSA”), which is a qualitative and quantitative assessment of material risks and capital adequacy to support those risks under normal and stressed conditions. One important element of ORSA is developing an internal capital target based on its own risk appetite and risk profile, instead of through standard formulas such as the Minimum Capital Test (“MCT”).

The foundation for the ORSA and most governance policies is the definition of the entity’s risk appetite. Defining the risk appetite involves developing a high level direction for the amounts and types of risk that CLLAS is willing to accept in the context of its vision and overall business strategy.

The purpose of this memo is to provide the Advisory Board with guidance to define CLLAS’ risk appetite.



Definition of Key Terms¹

Enterprise risk management:	The discipline by which an organization in any industry assesses, controls, exploits, finances and monitors risks from all sources for the purpose of increasing the organization's short- and long-term value to its stakeholders.
Risk:	Potential of future losses or shortfalls from expectations due to deviation of actual results from expected results.
Risk appetite:	The level of aggregate risk that an organization chooses to take in pursuit of its objectives.
Risk limit:	A threshold used to monitor the actual risk exposure of a specific unit or units of the organization to ensure that the level of aggregate risk remains within the risk tolerance.
Risk metric:	A measure of risk.
Risk mitigation:	Action that reduces the frequency or severity of a risk.
Risk profile:	The nature and magnitude of risks to which an organization is exposed over a specified period of time.
Risk tolerance or risk capacity:	The risk-taking capacity of an organization.

Risk Appetite and Enterprise Risk Management Cycle

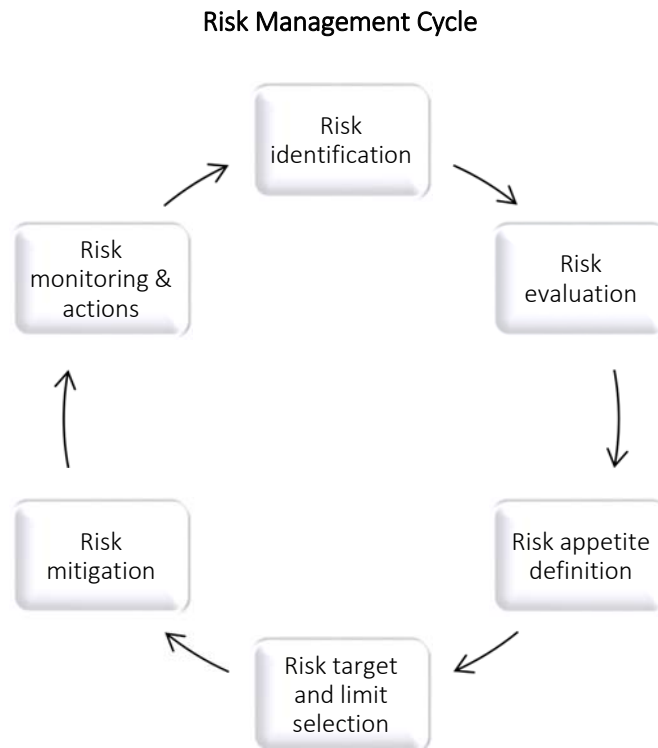
Risk management has multiple objectives, including the following:

- Avoid or mitigate risks that could materially impair the financial position;
- Accept risks that contribute to the business strategy;
- Manage risks in accordance with best practices and enhance strategic decision-making; and
- Promote a better understanding of the interrelationships between the risk profile and capital needs.

It must be recognized that enterprise risk management is a cycle, and that risk appetite is to be regularly reassessed as a step of the enterprise risk management 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.

¹ Acknowledgement: most definitions are taken from Actuarial Standards Board, Actuarial Standard of Practice No. 46: Risk Evaluation in Enterprise Risk Management.

The enterprise risk management cycle is as follows:



The enterprise risk management cycle involves identifying all material risks, and then evaluating their potential impact to determine the entity's risk profile. Based on the entity's risk profile and strategic vision, the risk appetite is defined as a high-level direction for the amounts and types of risks the entity wants to pursue. Based on the overall risk appetite, risk targets and limits are assigned to the various risks previously identified. Risk mitigation measures may be implemented by the Advisory Board and senior management in order to reduce the frequency or severity of risks. Risks are monitored and compared against targets and limits; the Advisory Board and senior management would consider implementing appropriate actions when a risk exceeds the established limit.

CLLAS Strategic Goals

Risk appetite should be intrinsically linked to the strategic vision and goals. CLLAS is a reciprocal insurance exchange formed to provide professional liability insurance to legal professionals from select Canadian law firms. The principal objectives of CLLAS are:

- to provide insurance at cost;
- to provide the highest limits that can be obtained at reasonable rates;
- to provide stability in rates;



- to maintain a greater degree of control over its rates by being in a position to retain a significant portion of the risks it underwrites (subject to appropriate aggregate protection) when insurance market conditions dictate;
- to provide a community of interest and support among its members with respect to professional liability matters in general and loss prevention in particular;
- to maintain long-term relationships with its reinsurers and other service providers; and
- to maintain its excellent reputation with insured members and business partners.

In addition, CLLAS is considering inviting one or two firms to join its subscriber base in the short- to medium-term.

Risk appetite statements and limits should be reflective of performance measures important to CLLAS and be mindful of regulatory requirements or constraints.

Important performance measures include the following:

- Cost effectiveness as measured relative to commercial market;
- Cost stability as measured by year-over-year change in premiums; and
- Satisfaction of subscribers as measured ultimately by subscriber retention/growth.

Regulatory requirements or constraints include the following:

- Alberta Maintenance of Reserve and Guarantee Fund (“AMRGF”) requirement;
- Minimum Capital Test (“MCT”): 210% starting in 2015;
- Limits on investments: 10% limit on real property and 25% limit on equities;
- Limitation on ownership of an unincorporated entity: 10% ownership;
- Substantial investment definition: 10% of voting rights or 25% of equity.

Material Risks

CLLAS is subject to multiple sources of risk, including the following:

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

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



- **Credit risk:**

Reinsurance default 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 Ltd. 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 Ltd. do not present a material off-balance sheet risk exposure for CLLAS given that amounts are held in cash or government bonds in Canadian denomination.

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.
- **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.
- **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.



- **Market risk:** Interest rate 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.

Equity 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.

Foreign exchange 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 as the investment policy does not allow for foreign investments.
- **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 environment². 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.
- **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 risks³.
- **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.

² OSFI Own Risk and Solvency Assessment Draft Guideline, January 2014.

³ OSFI Own Risk and Solvency Assessment Draft Guideline, January 2014.



- **Reputation risk:** Reputation risk arises when the confidence of insured members, creditors, reinsurers and other business partners leads to a negative impact on earnings, liquidity or capital position.
- **Concentration risk:** Concentration risk 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.

It is also important to keep in mind 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' communications and recoveries on professional liability losses with these same reinsurers may be delayed or compromised.

Risk Appetite Framework

The Risk Appetite Framework includes risk appetite statements and risk limits. Risk appetite statements would reflect the aggregate level and type of risk that CLLAS is willing to accept. They should:

- Be linked to the vision and overall strategy;
- Consider all risks material to CLLAS;
- State the risks CLLAS wants to take or avoid, and why;
- Describe measures of loss CLLAS is willing to accept;
- Consider normal and stressed scenarios; and
- Be within risk capacity and regulatory constraints.

Risk limits are the allocation of the risk appetite statement to specific risk categories or business units. They are often expressed as a deviation or a threshold above/below a specific measurable target.

We have prepared below some risk appetite statements and risk limits for the Advisory Board's consideration:

- CLLAS has an overall low to medium risk appetite;
- CLLAS wants balance the probability of retroassessment with the efficiency of operating with as little capital as is prudent and appropriate;
- CLLAS does not want to engage in risk-taking activities that could be detrimental to its reputation;
- CLLAS wants protection against extreme events that could compromise its solvency;
- CLLAS strives to maintain excellent long-term relationships with its reinsurance partners in order to continue accessing reinsurance markets at a reasonable cost;
- CLLAS strives to protect itself from strategic risk by having knowledgeable and stable Advisory Board and senior management;



- CLLAS reduces its operational risk by outsourcing operational functions to experts (accounting, claims management, actuarial, investments, etc.).

The following table shows the risk categories that can be monitored quantitatively. As these risks may challenge the ability to meet strategic objectives, risk targets and limits have been determined, above which management action could be taken:

Risk Category	Risk Metric	Risk Target	Risk Limit
Insurance	Prior year development	0%	5%
	3-year combined ratio before surplus adjustments	100%	125%
	Provincial distribution *		67%
Credit – Fixed Income	Credit rating Percentage per security *	AA to AAA	A 5%
Liquidity	Cash and short-term investments to gross liabilities	15%	10%
Market – Interest Rates	Interest rate risk per MCT formula at 1.25%	\$250,000	\$600,000
Market – Equity	Proportion of equities in investment portfolio	0%	0%
Market – Foreign Exchange	Percentage investments in foreign currency	0%	0%
Strategic	Annual Advisory Board turnover	2	4

* To assess concentration risk.

Reinsurance is a critical element of CLLAS' risk management framework. Reinsurer credit risk is managed by means of CLLAS' reinsurance security policy, pursuant to which CLLAS monitors its reinsurers' financial strength ratings and assesses its reinsurance concentration risk according to various metrics such as the actual claim liabilities by reinsurer and claim liability limit by reinsurer.

Other risk categories, such as strategic, operational, regulatory compliance, social inflation and reputation risks, are difficult to monitor quantitatively. Senior management would qualitatively monitor any trends or risk sources for these risk categories and report on them to the Board along with the above risk metrics.

Responsibility for Enterprise Risk Management

The Advisory Board is ultimately responsible for overseeing risk management and risk-taking activities. The Risk Management committee of the Board would annually review risk appetite and risk management activities.

The Board is responsible for the Risk Appetite Framework, including the review of risk appetite statements and the approval of risk limits. The Board is also responsible for overseeing and approving the ORSA and establishing internal targets.



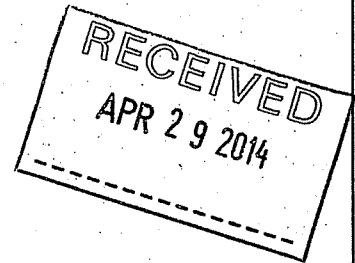
Senior management is responsible for the implementation of the Board-approved strategy and overall business performance. They monitor risks and assess the effectiveness of operations against risk appetite statements and risk limits. When risk limits are exceeded, senior management would consider developing appropriate action plans and ensure appropriate communication with the Board. They report to the Board on the risk profile and capital needs, including the ORSA.

Next Steps

The Risk Appetite Framework will guide strategic decision-making as well as the development of multiple governance policies. It will be an integral part of CLLAS' Enterprise Risk Management policy and ORSA.

Taking into account the Advisory Board discussions at the June meeting, the Office of the General Manager will develop a draft Enterprise Risk Management policy and a draft plan for the implementation of the ORSA for the Advisory Board's review at the September meeting. These draft documents will be amended with the Advisory Board's comments with the aim of adopting the final versions at the December meeting.

CLLAS Risk Appetite Memo - June 2014 Advisory Board.docx



CLLAS
CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

INVESTMENT REPORT
MARCH 31, 2014

MARTIN, LUCAS & SEAGRAM LTD.
INDEPENDENT INVESTMENT COUNSEL

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

Tel.: 416-363-6216
Fax: 416-363-4538
e-mail: info@mlsinvest.com

CLLAS
CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

COMMENTARY FOR THE QUARTER ENDING MARCH 31, 2014

Review of Market Yields

During the first quarter, yields at the short end of the curve dipped lower early in the period and then moved gradually higher to end the quarter practically unchanged. Yields on longer dated maturities also fell back during the first half of the period and then settled into a tight sideways pattern for the balance of the quarter. At the end of March, yields on 5 year maturities declined 24 basis points, while 10 year yields fell back 31 basis points.

As a result of these shifts, the yield curve flattened, and the yield advantage of 10 issues over Treasury Bills was reduced from 1.85% at year end to 1.56% at the end of March.

	Jan. 1/95	Sep. 30/13	Dec. 31/13	Mar. 31/14
3-Month Treasury Bills	6.80%	0.98%	0.91%	0.90%
5-year Canadas	8.99%	1.86%	1.95%	1.71%
10-year Canadas	9.09%	2.54%	2.77%	2.46%

During the quarter, in the Short Term Investment Fund, activity involved the roll-over of money market securities. Further activity involved the addition of \$4 million at the end of the period, which was invested in two Banker's Acceptances and a Treasury Bill issue.

In the Long Term Investment Fund, money market issues were also rolled over, and a portion of these funds was used to introduce a new Canada guaranteed issue to the list.

During the first quarter, the market value of the Long Term Investment Fund holdings increased \$37,048, or 0.5% on a capital basis.

At March 31, 2014, the average term to maturity of the Long Term Investment Fund stood at 3.4 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, 2014</i>	<i>Valuation</i>	<i>%</i>
Short Term Investment Fund	\$13,576,532	78.1%
Long Term Investment Fund	3,811,345	21.9%
TOTAL COMBINED VALUATION	\$17,385,186	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, 2014
- Security Purchases and Sales
- Cash Reconciliations
- External Individual Credit Rating Report

CLLAS

LONG TERM INVESTMENT FUND

TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIOD ENDING MARCH 31, 2014

	Since Inception Dec. 17/13	Last 3 months
<i>Long Term Investment Fund</i> <i>– Gross of Fees</i>	<i>0.92%</i>	<i>1.46%</i>
<i>Long Term Investment Fund</i> <i>– Net of Fees</i>	<i>0.83%</i>	<i>1.39%</i>
Benchmark Portfolio **	1.70%	1.92%

** The Benchmark Portfolio is based on the sum of the following total return indices:
60% DEX Short Bond Index
40% DEX Mid Bond Index

SHORT TERM INVESTMENT FUND

TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIOD ENDING MARCH 31, 2014

	Since Inception Oct. 1/08 *	Three Years*	Two Years *	One Year	Last 3 Months
<i>Short Term Investment Fund</i> <i>– Gross of Fees</i>	<i>0.83%</i>	<i>0.91%</i>	<i>0.91%</i>	<i>0.92%</i>	<i>0.19%</i>
<i>Short Term Investment Fund</i> <i>– Net of Fees</i>	<i>0.69%</i>	<i>0.79%</i>	<i>0.79%</i>	<i>0.81%</i>	<i>0.17%</i>
Benchmark Portfolio **	0.78%	0.91%	0.94%	0.95%	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	Dec. 31/13	Mar. 31/14
Bonds, Treasury Bills & Cash Less than 1 year term	100.0%	26.5%	19.5%
Canadas Greater than 1 year term		8.0%	14.5%
Provincials Greater than 1 year term		39.1%	39.4%
Corporates Greater than 1 year term		26.4%	26.6%
TOTAL PORTFOLIO	100.0%	100.0%	100.0%

LONG TERM INVESTMENT FUND

DISTRIBUTION OF SECURITIES BY MATURITY
(Based on Market Values)

	Dec. 31/13	Mar. 31/14
Under 1 year	26.5%	19.5%
1 - 3 years	21.4%	21.2%
3 - 5 years	28.4%	35.1%
5 - 7 years	5.3%	5.4%
7 - 10 years	18.5%	18.8%
TOTAL	100.0%	100.0%
Average Maturity (yrs)	3.54	3.65
Average Duration	3.24	3.37

SHORT TERM INVESTMENT FUND

	Mar. 31/13	Sep. 30/13	Dec. 31/13	Mar. 31/14
Short Term Average Duration	0.11	.09	0.08	0.13

CLLAS

COMPLIANCE WITH INVESTMENT POLICY STATEMENT

AT MARCH 31, 2014

	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	78.1%	Yes
Minimum Canada & Provincial Percentage	50%	50.4%	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	8.2 years	Yes
Maximum Percentage of Total Fund (Short & Long)	60% of Total	21.9%	Yes
Minimum Canada Percentage	20%	34.0%	Yes
Maximum Provincial Percentage	40%	39.3%	Yes
Minimum Canada & Provincial Percentage	60%	73.3%	Yes
Minimum Provincial Quality *	A	AA (low)	Yes
Maximum Corporate Percentage	40%	26.6%	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 12-31-13 to 03-31-14

Portfolio Value on 12-31-13	3,779,024
Accrued Interest	14,914
Contributions	0
Withdrawals	-22,380
Realized Gains	0
Unrealized Gains	37,048
Interest	17,653
Dividends	0
Change in Accrued Interest	621
Portfolio Value on 03-31-14	3,811,345
Accrued Interest	15,535
Average Capital	3,785,957
Total Gain before Fees	55,322
IRR for 0.25 Years	1.46%

CLLAS

BOND MARKET COMMENTARY AND FUTURE POLICY

The North American economic expansion lost some upward momentum over the past few months. After expanding at a 2.6% rate in the fourth quarter, most indicators suggest that growth in the U.S. will be considerably lower in the first quarter. This has been partly attributed to domestic disruptions caused by the unusually harsh winter across much of the country, along with less support from exports. These factors contributed to a series of disappointing results in the housing, retail, industrial and employment figures. Canada's expansion has also been weighed down by the difficult winter. While a rebound in aggregate demand in January recouped the weather-related drop experienced in December, the return of extreme winter conditions over the balance of the quarter is expected to reduce growth to below 2% versus 2.9% for the previous quarter.

On the international front, several major economies also started the New Year on a weaker note. China has experienced a slowdown in manufacturing, consumption and exports. This has renewed concerns surrounding the durability of their expansion and called into question the prospects for developing economies that are heavily dependent on demand from China. In Japan, aggregate growth has also been slowing since the middle of last year. Furthermore, recent statistics suggest the economy continued to lose momentum ahead of the recently enacted sales tax hike, which is expected to exacerbate the slowdown going forward. Meanwhile, the euro zone's expansion has remained intact, although the rate of improvement remains anaemic.

The deterioration in the macroeconomic backdrop early this year shook investor confidence and stock prices experienced a sharp downturn, while bond prices strengthened. However, the pullback in equity markets proved to be relatively short-lived and stock markets have since shown considerable resilience in the face of economic disappointments and unsettling geopolitical developments. Political tensions have been stoked by Russia's annexation of Ukraine's Crimea Peninsula. The ensuing capital flight from Russia has damaged their growth prospects and raised the possibility of wider economic fallout across Europe, particularly if there is an escalation in retaliatory sanctions. In the wake of these developments, market expectations for future short-term interest rates drifted lower during the first quarter and longer term yields were also pushed down. Concerns that ongoing pro-Russian protests across eastern Ukraine could provide the pretext for further military incursions by Russia have been supportive of bonds, due to their safe haven status.

Turning to the prospects for global growth, while the pace of recovery during the latest quarter has again fallen short of consensus expectations, the slowdown has been largely attributed to temporary factors. Most forecasters believe U.S. growth will reaccelerate over the balance of the year, which will more than offset weaker recoveries across some emerging markets. The most recent data out of the U.S. supports this favourable outlook and their pace of expansion is expected to be bolstered by a variety of factors. These include rising government expenditures and growth in the labour market, which will fuel incomes and personal consumption. This should also boost Canada's lagging export and business investment sectors, which will help counter any softening in consumer spending, which may be constrained by high debt levels.

CLLAS

Looking ahead, incremental improvements in global growth, led by a shift in leadership from developing regions to the developed economies, coupled with less fiscal restraint, are expected to be supportive of equity markets and put upward pressure on bond yields as the year progresses. However, the near term outlook for monetary policy is likely to keep short-term interest rates anchored near current levels. With inflation rates remaining well below most central banks' targets, the monetary authorities in Europe, Japan and China are contemplating new extraordinary measures if their economies show signs of faltering. In the U.S., despite earlier suggestions that administered interest rates could be raised shortly after the Fed's bond buying program is completed, there have been subsequent assurances that rates will be kept low for some time yet, given their concerns over high structural unemployment. Similarly, the Bank of Canada has indicated that rates will also remain low, perhaps longer than in the U.S., and that a rate cut remains a possibility if further stimulation seems warranted.

In view of the conflicting forces of a gradually improving macroeconomic outlook, against a backdrop of ongoing monetary stimulus, minimal inflation and heightened geopolitical uncertainty, we continue to believe that longer term yields will remain in a sideways trading range over the short term. Looking further ahead, we still expect the yield curve to gradually shift higher and believe the outlook warrants maintaining the Long Term Fund's laddered maturity structure and defensive duration of 3.4 years. With prevailing bond yields at the lower end of their year-to-date trading range, we believe there will be more favourable opportunities later this year to expand the Long Term Fund's bond list through the investment of its cash reserve and transfers from the Short Term Fund.

RWB/mab
April 25, 2014

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, 2014

<u>Quantity</u>	<u>Security</u>	<u>Unit Cost</u>	<u>Price</u>	<u>Market Value</u>	<u>Annual Income</u>
CASH					
	Cash Account			14,385	0
MONEY MARKET ISSUES					
1,010,000	Bank of Nova Scotia BA 1.01% due April 4, 2014	99.84	99.99	1,009,857	10,184
1,500,000	Bank of Nova Scotia BA 1.009% due April 17, 2014	99.76	99.94	1,499,153	15,099
1,500,000	Canada Treasury Bill .77% due April 24, 2014	99.82	99.94	1,499,117	11,530
1,520,000	Royal Bank BA .976% due May 6, 2014	99.85	99.89	1,518,337	14,813
1,735,000	Canada Treasury Bill .749% due May 8, 2014	99.83	99.91	1,733,385	12,973
1,615,000	Canada Treasury Bill .76% due May 22, 2014	99.88	99.87	1,612,954	12,260
2,000,000	Canada Treasury Bill .76% due June 5, 2014	99.86	99.84	1,996,786	15,179
700,000	CIBC BA 1.01% due June 17, 2014	99.75	99.76	698,326	7,053
1,000,000	CIBC BA 1.01% due June 27, 2014	99.76	99.71	997,117	10,075
1,000,000	TD Bank BA 1.01% due June 27, 2014	99.76	99.71	997,117	10,075
				<u>13,562,147</u>	<u>119,241</u>
TOTAL PORTFOLIO				13,576,532	119,241

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
From 01-01-14 To 03-31-14

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
PURCHASES					
01-15-14	01-16-14	700,000	CIBC BA .999% due March 20, 2014	99.83	698,793.90
01-15-14	01-16-14	600,000	Canada Treasury Bill .771% due March 27, 2014	99.85	599,114.40
01-17-14	01-20-14	1,500,000	Bank of Nova Scotia BA 1.009% due April 17, 2014	99.76	1,496,400.00
01-17-14	01-20-14	1,510,000	CIBC BA 1.00% due March 10, 2014	99.87	1,507,975.09
01-29-14	01-30-14	1,000,000	Canada Treasury Bill .74% due March 27, 2014	99.89	998,865.00
01-29-14	01-30-14	1,500,000	Canada Treasury Bill .77% due April 24, 2014	99.82	1,497,346.50
02-03-14	02-04-14	1,010,000	Bank of Nova Scotia BA 1.01% due April 4, 2014	99.84	1,008,353.70
02-12-14	02-13-14	1,735,000	Canada Treasury Bill .749% due May 8, 2014	99.83	1,732,010.60
03-11-14	03-12-14	1,520,000	Royal Bank BA .976% due May 6, 2014	99.85	1,517,765.60
03-19-14	03-20-14	700,000	CIBC BA 1.01% due June 17, 2014	99.75	698,280.10
03-26-14	03-27-14	1,615,000	Canada Treasury Bill .76% due May 22, 2014	99.88	1,613,118.53
03-31-14	03-31-14	1,000,000	CIBC BA 1.01% due June 27, 2014	99.76	997,571.00
03-31-14	03-31-14	2,000,000	Canada Treasury Bill .76% due June 5, 2014	99.86	1,997,256.00
03-31-14	03-31-14	1,000,000	TD Bank BA 1.01% due June 27, 2014	99.76	997,571.00
					17,360,421.42
SALES					
01-16-14	01-16-14	1,300,000	Canada Treasury Bill .81% due January 16, 2014	100.00	1,300,000.00
01-20-14	01-20-14	1,000,000	Bank of Nova Scotia BDN Dis. Note .999% due January 20, 2014	100.00	1,000,000.00
01-20-14	01-20-14	2,010,000	CIBC BA 1.022% due January 20, 2014	100.00	2,010,000.00
01-30-14	01-30-14	2,500,000	Canada Treasury Bill .78% due January 30, 2014	100.00	2,500,000.00
02-04-14	02-04-14	1,000,000	FirstBank BA 1.048% due February 4, 2014	100.00	1,000,000.00

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
From 01-01-14 To 03-31-14

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
02-13-14	02-13-14	715,000	Canada Treasury Bill .789% due February 13, 2014	100.00	715,000.00
02-13-14	02-13-14	1,020,000	Canada Treasury Bill .829% due February 13, 2014	100.00	1,020,000.00
03-10-14	03-10-14	1,510,000	CIBC BA 1.00% due March 10, 2014	100.00	1,510,000.00
03-20-14	03-20-14	700,000	CIBC BA .999% due March 20, 2014	100.00	700,000.00
03-27-14	03-27-14	1,000,000	Canada Treasury Bill .74% due March 27, 2014	100.00	1,000,000.00
03-27-14	03-27-14	600,000	Canada Treasury Bill .771% due March 27, 2014	100.00	600,000.00
					13,355,000.00

This page intentionally left blank.

Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - SHORT TERM INVESTMENT FUND
From 01-01-14 to 03-31-14

Cash Balance at January 1, 2014			4,553.58
ADD:	Capital Added	4,000,000.00	
	Proceeds from Sales	13,355,000.00	
	Transfer from Long Term Investment Fund	5,158.36	
	Bond Interest Credited (from Long Term Investment Fund)	17,222.00	
	Interest on Balance	<u>124.94</u>	<u>17,377,505.30</u>
			17,382,058.88
LESS:	Cost of Purchases	17,360,421.42	
	Investment Counsel Fees - Short Term Investment Fund	2,695.78	
	Investment Counsel Fees - Long Term Investment Fund	409.48	
	Trust Company Charges	<u>4,146.94</u>	<u>17,367,673.62</u>
Cash Balance at March 31, 2014			14,385.26

Martin, Lucas & Seagram Ltd.

EXTERNAL INDIVIDUAL CREDIT RATING REPORT - MARCH 31, 2014

CLLAS - SHORT TERM INVESTMENT FUND

[illegible]

Martin, Lucas & Seagram Ltd.

CLLAS - LONG TERM INVESTMENT FUND

Portfolio Holdings at March 31, 2014

<u>Quantity</u>	<u>Security</u>	<u>Unit Cost</u>	<u>Price</u>	<u>Market Value</u>	<u>Annual Income</u>
MONEY MARKET ISSUES					
745,000	Canada Treasury Bill .679% due April 10, 2014	99.95	99.97	744,809	5,056
GOVERNMENT BONDS					
300,000	Canada Housing Trust 1.85% Series 43 due December 15, 2016	101.30	101.27	303,798	5,550
250,000	Canada Housing Trust 1.75% due June 15, 2018	100.11	99.81	249,525	4,375
				<hr/> 553,323	<hr/> 9,925
PROVINCIAL BONDS					
300,000	Alberta 1.85% due September 1, 2016	101.35	101.44	304,323	5,550
330,000	Ontario 1.90% due September 8, 2017	100.18	100.72	332,363	6,270
350,000	Ontario 2.1% due September 8, 2018	99.57	100.34	351,180	7,350
250,000	British Columbia 3.25% due December 18, 2021	102.30	103.54	258,840	8,125
250,000	Ontario 3.15% due June 2, 2022	99.04	101.17	252,933	7,875
				<hr/> 1,499,638	<hr/> 35,170
CORPORATE BONDS					
200,000	Bank of Nova Scotia Dep. Note 2.1% due November 8, 2016	100.32	100.68	201,356	4,200
200,000	Toronto Dominion Bank Dep. Note 2.433% due August 15, 2017	100.73	101.49	202,976	4,866
200,000	Royal Bank Dep. Note 2.26% due March 12, 2018	99.28	100.24	200,472	4,520
200,000	Wells Fargo Canada 2.944% due July 25, 2019	100.02	101.65	203,308	5,888
200,000	Bank of Montreal 3.4% due April 23, 2021	100.65	102.73	205,464	6,800
				<hr/> 1,013,576	<hr/> 26,274
TOTAL PORTFOLIO				3,811,345	76,425

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - LONG TERM INVESTMENT FUND
From 01-01-14 To 03-31-14

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
PURCHASES					
01-15-14	01-16-14	1,000,000	Canada Treasury Bill .73% due February 13, 2014	99.94	999,440.00
02-12-14	02-13-14	1,000,000	Canada Treasury Bill .719% due March 13, 2014	99.94	999,448.00
03-11-14	03-14-14	250,000	Canada Housing Trust 1.75% due June 15, 2018	100.11	250,275.00
03-12-14	03-13-14	745,000	Canada Treasury Bill .679% due April 10, 2014	99.95	744,611.86
					2,993,774.86
SALES					
01-16-14	01-16-14	1,000,000	Canada Treasury Bill .81% due January 16, 2014	100.00	1,000,000.00
02-13-14	02-13-14	1,000,000	Canada Treasury Bill .73% due February 13, 2014	100.00	1,000,000.00
03-13-14	03-13-14	1,000,000	Canada Treasury Bill .719% due March 13, 2014	100.00	1,000,000.00
					3,000,000.00

Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - LONG TERM INVESTMENT FUND
From 01-01-14 to 03-31-14

Cash Balance at January 1, 2014			0.00
ADD: Proceeds from Sales			<u>3,000,000.00</u>
			3,000,000.00
LESS: Cost of Purchases	2,993,774.86		
Accrued Bond Interest on Purchase	1,066.78		
Transfer to Short Term Investment Fund	<u>5,158.36</u>		<u>3,000,000.00</u>
Cash Balance at March 31, 2014			<u>0.00</u>

Martin, Lucas & Seagram Ltd.
DATE TO DATE GAINS AND LOSSES
CLLAS - LONG TERM INVESTMENT FUND
From 12-31-13 to 03-31-14

Security	12-31-13 Market Value	Additions Withdrawals	03-31-14 Market Value	03-31-14 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
CASH								
Cash Account	0	0	0	0				
MONEY MARKET ISSUES								
Canada Treasury Bill .81% due January 16, 2014	999,614	-1,000,000	0	0	0	0	0	0
Canada Treasury Bill .73% due February 13, 2014	0	-560	0	0	0	0	0	0
Canada Treasury Bill .719% due March 13, 2014	0	-552	0	0	0	0	0	0
Canada Treasury Bill .679% due April 10, 2014	0	744,612	744,809	744,612	0	0	197	197
MONEY MARKET ISSUES Total	<u>999,614</u>		<u>744,809</u>	<u>744,612</u>	<u>0</u>	<u>0</u>	<u>197</u>	<u>197</u>
GOVERNMENT BONDS								
Canada Housing Trust 1.85% Series 43 due December 15, 2016	303,579	0	303,798	303,900	0	0	-102	219
Canada Housing Trust 1.75% due June 15, 2018	0	251,342	249,525	250,275	0	0	-750	-750
GOVERNMENT BONDS Total	<u>303,579</u>		<u>553,323</u>	<u>554,175</u>	<u>0</u>	<u>0</u>	<u>-852</u>	<u>-531</u>
PROVINCIAL BONDS								
Alberta 1.85% due September 1, 2016	303,888	-2,775	304,323	304,050	0	0	273	435
Ontario 1.90% due September 8, 2017	329,267	-3,135	332,363	330,594	0	0	1,769	3,095
Ontario 2.1% due September 8, 2018	346,227	-3,675	351,180	348,495	0	0	2,685	4,953
British Columbia 3.25% due December 18, 2021	253,468	0	258,840	255,750	0	0	3,090	5,373
Ontario 3.15% due June 2, 2022	245,908	0	252,933	247,600	0	0	5,333	7,025
PROVINCIAL BONDS Total	<u>1,478,757</u>		<u>1,499,638</u>	<u>1,486,489</u>	<u>0</u>	<u>0</u>	<u>13,149</u>	<u>20,880</u>
CORPORATE BONDS								
Bank of Nova Scotia Dep. Note 2.1% due November 8, 2016	200,546	0	201,356	200,640	0	0	716	810
Toronto Dominion Bank Dep. Note 2.433% due August 15, 2017	200,756	-2,433	202,976	201,460	0	0	1,516	2,220
Royal Bank Dep. Note 2.26% due March 12, 2018	197,266	-2,260	200,472	198,560	0	0	1,912	3,206
Wells Fargo Canada 2.944% due July 25, 2019	198,794	-2,944	203,308	200,040	0	0	3,268	4,514
Bank of Montreal 3.4% due April 23, 2021	199,712	0	205,464	201,300	0	0	4,164	5,752
CORPORATE BONDS Total	<u>997,074</u>		<u>1,013,576</u>	<u>1,002,000</u>	<u>0</u>	<u>0</u>	<u>11,576</u>	<u>16,502</u>
TOTAL PORTFOLIO	3,779,024		3,811,345	3,787,276	0	0	24,069	37,048
TOTAL DATE TO DATE GAIN OR LOSS								37,048
% CHANGE DURING PERIOD								0.98

Martin, Lucas & Seagram Ltd.

EXTERNAL INDIVIDUAL CREDIT RATING REPORT - MARCH 31, 2014

CLLAS - LONG TERM INVESTMENT FUND

GLS - LONG TERM INVESTMENT PORTFOLIO									
Quantity	Security		Rating	Unit	Total	Price	Market	Pct.	
				Cost	Cost		Value	Assets	
MONEY MARKET ISSUES									
745,000	Canada Treasury Bill .679%	due April 10, 2014	R-1 (high)	99.95	744,612	99.97	744,809	19.5	
					744,612		744,809	19.5	
GOVERNMENT BONDS									
300,000	Canada Housing Trust 1.85% Series 43	due December 15, 2016	AAA	101.30	303,900	101.27	303,798	8	
250,000	Canada Housing Trust 1.75%	due June 15, 2018	AAA	100.11	250,275	99.81	249,525	6.5	
					554,175		553,323	14.5	
PROVINCIAL BONDS									
300,000	Alberta 1.85%	due September 1, 2016	AAA	101.35	304,050	101.44	304,323	8	
330,000	Ontario 1.90%	due September 8, 2017	AA (high)	100.18	330,594	100.72	332,363	8.7	
350,000	Ontario 2.1%	due September 8, 2018	AA (low)	99.57	348,495	100.34	351,180	9.2	
250,000	British Columbia 3.25%	due December 18, 2021	AA (low)	102.30	255,750	103.54	258,840	6.8	
250,000	Ontario 3.15%	due June 2, 2022	AA (low)	99.04	247,600	101.17	252,933	6.6	
					1,486,489		1,499,638	39.3	
CORPORATE BONDS									
200,000	Bank of Nova Scotia Dep. Note 2.1%	due November 8, 2016	AA	100.32	200,640	100.68	201,356	5.3	
200,000	Toronto Dominion Bank Dep. Note 2.433%	due August 15, 2017	AA	100.73	201,460	101.49	202,976	5.3	
200,000	Royal Bank Dep. Note 2.26%	due March 12, 2018	AA	99.28	198,560	100.24	200,472	5.3	
200,000	Wells Fargo Canada 2.944%	due July 25, 2019	AA	100.02	200,040	101.65	203,308	5.3	
200,000	Bank of Montreal 3.4%	due April 23, 2021	AA	100.65	201,300	102.73	205,464	5.4	
					1,002,000		1,013,576	26.6	
TOTAL PORTFOLIO									
					3,787,276		3,811,345	100	